BayernLB

Financing progress.

BayernLB 2020 Annual Report and Accounts

Consolidated financial statements

Finanzgruppe

BayernLB Group at a glance

Income statement (IFRS)

EUR million	1 Jan–31 Dec 2020	1 Jan–31 Dec 2019	Change in %
Net interest income	1,772	1,726	2.7
Risk provisions	(142)	251	–
Net interest income after risk provisions	**1,631**	**1,978**	**(17.5)**
Net commission income	331	287	15.2
Gains or losses on fair value measurement	62	(2)	–
Gains or losses on hedge accounting	11	(13)	–
Gains or losses on derecognised financial assets[1]	(14)	4	–
Gains or losses on financial investments	68	40	70.7
Administrative expenses	(1,520)	(1,446)	5.2
Expenses for the bank levy and deposit guarantee scheme	(161)	(134)	20.0
Other income and expenses	75	159	(53.1)
Gains or losses on restructuring	(287)	(217)	32.2
Profit/loss before taxes	**195**	**656**	**(70.3)**
Income taxes	37	(187)	–
Profit/loss after taxes	**232**	**469**	**(50.6)**
Cost/income ratio (CIR)	66.0%	65.7%	0.3 pp[2]
Return on equity (RoE)	1.9%	6.7%	(4.8) pp[2]

Balance sheet (IFRS)

EUR million	31 Dec 2020	31 Dec 2019	Change in %
Total assets	256,271	225,965	13.4
Business volume	302,142	269,368	12.2
Credit volume	219,825	187,571	17.2
Total deposits	185,774	150,588	23.4
Securitised liabilities	43,037	44,570	(3.4)
Subordinated capital	1,685	2,107	(20.0)
Equity	11,576	11,537	0.3

Banking supervisory capital and ratios under CRR/CRD IV (as per consolidated financial statements)

EUR million	31 Dec 2020	31 Dec 2019	Change in %
Common Equity Tier 1 capital (CET1 capital)	10,301	10,264	0.4
Own funds	11,993	11,821	1.5
Total RWAs	64,974	64,604	0.6
Common Equity Tier 1 (CET1) capital ratio	15.9%	15.9%	0.0 pp[2]
Total capital ratio	18.5%	18.3%	0.2 pp[2]

Employees

	31 Dec 2020	31 Dec 2019	Change in %
Number of employees	8,532	8,316	2.6

Current ratings

	Issuer rating	Short term, unsecured	Pfandbriefs[3]
Fitch Ratings	A– (negative)	F1	AAA
Moody's Investors Service	Aa3 (stable)	P–1	Aaa

1 For financial assets measured at amortised cost.

2 Percentage points.

3 Applies to public Pfandbriefs (Fitch and Moody's) and mortgage Pfandbriefs (Moody's).

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Foreword by the Board of Management

Dear customers and business partners,
ladies and gentlemen,

BayernLB posted a profit before taxes of EUR 195 million in financial year 2020. We are particularly pleased that, despite the huge challenges posed by the global pandemic, we continued to serve our customers' needs as a reliable partner and hold our business steady, while also growing our operating earnings potential and increasing the combined net interest and net commission income to around EUR 2.1 billion.

Although profits were significantly down on the previous year, this was due for the most part to recognising general provisions for the expected risks in relation to the pandemic and restructuring expenses of EUR 287 million. However, this amount includes all the charges we expect in connection with our Fokus 2024 transformation programme.

We focused our efforts primarily on shoring up the financial stability of the Group, along with bolstering customer business and ensuring operational stability. The outcome was that our capital base was solid as at the close of 2020 and stood at 15.9 percent (CET1 ratio), which is on par with the previous year. This puts us in a position to share our financial success with our owners, the Free State of Bavaria and the Bavarian savings banks, and pay them a dividend of EUR 75 million.

It is not just the solid operating earnings in financial year 2020 that are gratifying. At the same time we made good progress with BayernLB's transformation, which is advancing on schedule.

At the beginning of the pandemic, we took action to protect our employees from infection by very quickly bringing in a comprehensive package of measures and switching over to new and mobile working models within a short period of time. Since then, over 90 percent of BayernLB's workforce has been provided with the technical infrastructure to work remotely outside the Bank and they make regular use of this opportunity. All this means we are making an active contribution to stemming the tide of infection and also to helping our employees cope with the specific challenges of the pandemic that have been very demanding, particularly for families.

To ensure our customers are provided with liquidity, including during the coronavirus crisis, we simplified our credit processes and increased consulting capacity, especially for the subsidy programmes offered by the state development banks, while simplifying and speeding up decision-making processes. This meant we could process over 10,000 applications for subsidies from the coronavirus programme alone with a volume of around EUR 2.9 billion in 2020, all the time working closely with the Bavarian savings banks as we have successfully done for many years.

In the second quarter, we examined in detail the long-term impact of the coronavirus pandemic on our new strategic vision. This review confirmed the business strategy of the BayernLB Group and its segments that was approved in December 2019 and means we have taken the right decision to shed BayernLB's universal bank-like business model and create a streamlined, efficient, customer bank, with DKB as an innovative online bank under the Group umbrella.

Despite the operational challenges posed by the pandemic, we are forging ahead with our extensive Fokus 2024 transformation programme, which will span several years. And it is thanks to this that we achieved some key milestones in 2020. For example, we launched IT investment projects in the Group which will have a volume of more than EUR 700 million by 2025, including consolidating and modernising trading IT and IT bank management at the core Bank and stepping up digitalisation at DKB. In addition, we set growth initiatives in motion at the core Bank and DKB and, for example, boosted the number of retail customers at DKB by around 300,000 to approximately 4.6 million and increased the financing volume in the core Bank's real estate business by EUR 1.7 billion to EUR 24.0 billion.

Furthermore, the core Bank reduced operating costs by eight percent, saving about EUR 60 million, thanks to strict implementation of cost-cutting measures and continued efficiency improvements. The reduction to the workforce at the core Bank is progressing as planned. By the end of 2020, around one third of the planned job cuts communicated in 2020 had been contractually agreed.

Alongside this, we have made good progress in making some fundamental changes to the organisation and infrastructure, including setting up the new master credit process, putting the new Credit Portfolio Management unit into operation and launching the new sector-based teamwork approach in the Corporates segment. To this end, the Bank has set up dedicated teams for the focus sectors – energy, mobility, technology, manufacturing & engineering and construction & basic resources. These teams bring together experts from customer, project, analysis and research units on a cross-functional basis to support customers with their financing needs by providing in-depth sector knowledge and major structuring expertise. This cross-functional cooperation also reduces interfaces, shortens decision-making channels and allows us as a Bank to react more quickly to our customers.

We have incorporated our new strategic focus into a claim, which BayernLB has been using in its market presence since November 2020: "Financing progress." This claim expresses in a nutshell our strategy as a streamlined specialised bank and investment lender. We are also making this a solid part of who are by making innovations accessible, perceptible and usable. In our corporate clients business we do this by supporting innovative sectors in Germany and abroad by financing forward-looking investments. As a partner to the real estate sector, savings banks, financial institutions and the public sector, we also offer products that help customers to implement innovative solutions and do business sustainably.

In 2020, to take even greater account of the increasing strategic importance of sustainability issues we set up an executive unit for sustainability, which reports directly to the CEO. We have steadily built on BayernLB's strengths here as well. The leading ESG rating agencies have already confirmed that BayernLB's commitment to sustainable development is above average when compared with the industry as a whole. BayernLB is therefore ranked among the top 10 in ISS-ESG's sustainability ratings from among a total of 95 international banks rated and has been awarded the renowned oekom Prime status as a result. DKB is assessed separately by ISS-ESG and has a rating of B- in the Financials/Public & Regional Banks sector. This means it is classed as an Industry Leader. Our development bank BayernLabo is rated separately as well and also qualifies for Prime status.

We will press resolutely ahead with our transformation programme over the next few years to ensure we remain one of Germany's independent and sustainably successful banks. But none of this would be possible without motivated and dedicated employees. We would like to thank them most warmly for their hard work and very valuable contribution over the past year, and know that we can continue to rely on their commitment going forward to steer BayernLB safely through these stormy waters and ensure it will continue to be a financier of progress.

We would also like to thank you, our customers and business partners, for the trust you have placed in BayernLB and very much look forward to continuing working with you in the future.

Sincerely,

Stephan Winkelmeier Dr Edgar Zoller

Marcus Kramer Michael Bücker Dr Markus Wiegelmann

Report by the Supervisory Board

Ladies and gentlemen,

The heavy toll taken by the coronavirus pandemic over the past year also hit the entire banking sector. The uncertainty about its future course and the measures taken to contain it continue to pose enormous challenges for all banks. All our efforts over the past financial year were therefore directed at ensuring both the stability of our Group's business operations and serving our customers to the best of our ability.

Against this background, we advised the Board of Management in its management of the company and continually monitored its management activities over the past financial year.

BayernLB's Board of Management kept the Supervisory Board and its committees informed of key developments at the Bank and within the Group at regular intervals, both promptly and comprehensively, in writing and orally, during the course of 2020. This included its supervisory duty to disclose deficiencies detected by the Internal Audit Department.

We held detailed discussions with the Board of Management on BayernLB's business policy and performance, as well as on fundamental issues relating to corporate planning, especially in its financial, investment and personnel aspects. One of the principles on which these discussions were based was BayernLB's strategic realignment with a focus on high-growth future-oriented areas – which was agreed at the end of 2019 – and the simultaneous reduction of its cost base. The focus of the evaluation was to take a detailed look at the impact of the coronavirus pandemic on our Group's risk situation and the progress and pandemic-related adjustments to the agreed transformation programme needed to achieve the strategic vision. With this in mind, we were also briefed about the Group's earnings, expenses, liquidity and capital status, profitability, legal and business relationships, material events and business transactions.

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

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

As in previous years, meetings were once again held in financial year 2020 between the Joint Supervisory Team from the ECB and national supervisory authorities on the one hand, in addition to the Supervisory Board and committee chairs on the other to discuss the main issues pertaining to the respective body. These focused on strategic, business policy and regulatory matters, committee affairs, governance and BayernLB's risk situation.

In view of the restrictions on meeting people during the pandemic, the majority of the meetings of the Supervisory Board and its committees and numerous discussions between members of the Supervisory Board and Board of Management took place via electronic media and, in particular, in the form of video meetings. Despite some initial misgivings, these functioned perfectly once a routine had become established and thanks to the disciplined approach taken by all parties.

Supervisory Board meetings

In the reporting year, the Supervisory Board held a total of eight meetings which were also attended by representatives of legal supervisory authorities.

The main purpose of all the scheduled Supervisory Board meetings was the Board of Management's status reports on the ongoing "Fokus24" transformation programme. These were the subject of continuing discussions, including in the form of special meetings. These took account of the impact of the coronavirus pandemic, especially on our risk situation, and were incorporated into the regular reporting on BayernLB's current financial position and performance. We continued to pay particularly close attention to the challenges and progress achieved in updating and developing Group IT in this regard. In addition to receiving the detailed reports of the various committee chairpersons, information on regulatory and supervisory topics were regularly the subject of Supervisory Board meetings. The Board of Management also regularly informed us of current business strategy issues, including current developments with regard to the Savings Bank Finance Group deposit guarantee scheme and the various issues relating to pension obligations. We subjected the Board of Management's reports to the Supervisory Board to critical scrutiny and requested additional information in some cases, which was always immediately provided in full.

Over several meetings, after prior consultation in the relevant committees, we dealt with Board of Management and Supervisory Board matters. In September, the Supervisory Board appointed Mr Gero Bergmann to the Board of Management of BayernLB to succeed Dr Edgar Zoller. After 12 successful years serving the Board of Management, Dr Zoller will retire when his contract expires at the end of April 2021. Mr Johannes Anschott was also appointed to the Board of Management in December. He will assume responsibility for BayernLB's corporates and capital markets business from 1 April 2021. Mr Anschott succeeds Mr Michael Bücker, who after successfully developing and launching BayernLB's new corporate customers strategy will leave the Bank on 31 March 2021 on the best of terms and by mutual agreement to take on new professional challenges.

The Board of Management and Supervisory Board issues that the Supervisory Board dealt with included assessing both these bodies in accordance with legal and regulatory requirements and matters relating to HR, remuneration and business strategy, including various issues relating to the resolution of the last legacy issues. We also set the targets for the Board of Management for 2020 and agreed the feedback on target achievement to the members of the Board of Management for the past financial year.

Further details regarding the meetings of the Supervisory Board:

The main purpose of a special meeting held in January was personnel changes at second management level that needed to be referred to the Supervisory Board for regulatory reasons.

In our March meeting, we also looked in detail at the update of key planning parameters and their impact on the medium-term planning for 2020–2024 undertaken by the Board of Management as a consequence of the impact of the coronavirus pandemic on BayernLB. The Supervisory Board and Board of Management also took into consideration developments in the Bank's project portfolio and Group IT-related issues, as well as taking note of the HR and outsourcing reports.

The focus of the meeting in April 2020 was on the Board of Management's Report for financial year 2019, the adoption of the annual financial statements and the approval of the consolidated financial statements. The resolution was based on the recommendations of the Audit Committee and a subsequent detailed discussion with the auditors PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC). In accordance with a proposal by the Audit Committee, the Supervisory Board recommended to the Annual General Meeting that the auditing firm PwC be reappointed to audit the 2020 annual financial statements of BayernLB and the Group, which the General Meeting agreed to. We also addressed the combined separate non-financial report of the BayernLB Group for 2019 in detail. PwC performed an assurance engagement on the combined separate non-financial report of the BayernLB Group for 2019 and expressed a limited assurance conclusion. We also followed the Audit Committee's recommendation on the appropriation of the distributable profits and duly submitted a proposal to the Annual General Meeting. The Supervisory Board therefore recommended postponing the decision on the appropriation of the distributable profits to a later date. This was prompted by the European Central Bank's recommendation to postpone dividend payments for financial year 2019 until 1 October 2020 at the earliest due to the coronavirus pandemic. We also proposed to the Annual General Meeting that the Board of Management for financial year 2019 be discharged. In addition, we dealt with remuneration policy matters and also discussed Group Audit's annual report.

Our special meeting in May was devoted to a further detailed discussion of the impact of the coronavirus pandemic on BayernLB. We also looked at issues relating to the capital of the Group.

The other main items on the agenda of our meeting in July 2020 included a further update of key planning parameters and their impact on the medium-term planning. In addition, we examined tax and remuneration issues and also discussed with the Board of Management the current state of affairs in relation to strategic business considerations within the Landesbank sector. We took note of the investment report and the remuneration monitoring report of the remuneration officers.

Among the other topics discussed at our September meeting were a number of governance matters, primarily relating to the implementation of the guidelines issued by the European Banking Authority (EBA). The Supervisory Board was also informed about the current status of the preparations for Brexit and BayernLB's new brand positioning.

An additional key focus of the December meeting was to discuss and approve the Group's medium-term planning for 2021–2025. We also took another look at a recommendation on the appropriation of the distributable profit for the 2019 financial year. Based on the statements of the ECB banking supervisory authority, we recommended to the Annual General Meeting that the distributable profit for the 2019 financial year amounting to EUR 150 million be allocated to the retained earnings. We also discussed with the Board of Management the ECB's decision to create supervisory requirements (SREP decision) and were briefed on the update of the recovery plan pursuant to the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz (SAG)). We approved the appointments of the new remuneration officers and their deputies proposed by the Board of Management and also discussed various organisational committee affairs and our internal guidelines on the various issues relating to sustainability with the Board of Management

Supervisory Board committees – an overview

In a total of six meetings, the **Risk Committee** dealt with all the key issues relating to the Risk Strategy agreed by the Board of Management and all aspects of BayernLB's risk situation at both Group and Bank level. A focus of all the meetings, including the special meetings, was discussing the impact of the coronavirus pandemic on individual risk types in particular and on BayernLB's business and sector portfolios. With this in mind, the committee also discussed the Board of Management's reports on risk-bearing capacity. The committee also approved individual loans requiring authorisation, reviewed whether the terms and conditions in the customer business were in line with the Bank's business model and risk structure, and discussed the Group-wide risk strategies, which must be updated at least once a year, and selected risk-relevant individual credit exposures. The Risk Committee acknowledged the Internal Audit Department's audit planning.

Together with the Board of Management, the Risk Committee regularly deliberated on geopolitical, macroeconomic and regulatory issues and associated risks. The Committee was also informed of the various issues relating to the prevention of money laundering in this regard.

The **Compensation Committee** carried out its legally mandated duties in a total of five meetings. It discussed in particular the Board of Management's reports on the structure of the remuneration systems for employees/(focusing partly on their relationship to the Business and Risk Strategy), monitored their suitability and received regular updates on specific issues. It evaluated the impact of the remuneration systems on the Bank's and BayernLB Group's risk, capital and liquidity situation and discussed the size and distribution of a total bonus pool. The Compensation Committee monitored the process for identifying risk takers and Group risk takers and considered the remuneration officers' report on the suitability of the remuneration systems for employees. Under its area of responsibility, the Compensation Committee also provided advice on matters related to Board of Management remuneration and prepared decisions by the Supervisory Board.

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

The Executive and **Nominating Committee** met ten times in the reporting period. Its discussions centred in particular on preparations for Supervisory Board meetings, particularly in connection with the strategy and transformation project and business and corporate policy considerations. The committee also prepared decisions on Board of Management matters for the plenary session in accordance with its legally mandated duties. Another focus of the committee's work in 2020 was on evaluating the Board of Management and the Supervisory Board in accordance with the German Banking Act and the ESMA's/EBA's guidelines on assessing the suitability of members of the management body and holders of key positions.

In a total of four sessions, the **Audit Committee** dealt with the monitoring of the accounting process and the effectiveness of the risk management system, particularly the internal control system and the internal Audit Division. The Committee also oversaw the implementation of the audit of the annual financial statements and of the consolidated financial statements, particularly with regard to the independence of the auditors and the services they provided, including any necessary approvals of non-audit services. The Audit Committee also discussed the combined separate non-financial report of the BayernLB Group for 2019 and the findings of the audit undertaken by PwC. Another issue the Committee looked at in detail was the Board of Management's reports on BayernLB's current financial position and performance and on Group IT-related topics. In 2020, the internal Audit Division and Group Compliance reported to the Audit Committee on their work and audit findings and other matters. The Committee deliberated on the reporting and conferred with the auditors PwC on what the audit of the 2020 annual financial statements should focus on. With the collapse of the Wirecard Group in mind, the Committee conducted detailed discussions to ascertain the extent to which business processes, internal control functions and auditing are suited to effectively impeding concerted attempts to commit fraudulent acts. These deliberations proved to be constructive and useful.

In its three meetings, in accordance with its legal duties, the **BayernLabo Committee** dealt with all matters in respect of BayernLabo on behalf of the Supervisory Board and passed resolutions concerning BayernLabo's affairs for which the Supervisory Board is responsible. It also discussed the Business and Risk Strategy, the medium-term planning for 2020–2024, the results of audits and HR planning with both the Board of Management's segment head and BayernLabo's senior management. The Board of Management's segment head and senior management also reported to the committee on BayernLabo's business performance, the implementation status of Baukindergeld Plus and Home Ownership Subsidy, the project status of the service portal and the low interest rate environment in the municipal loan business.

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

Additional specialist training

Specialists from the Bank and representatives from auditing companies held seminars for the Supervisory Board at a training event. These discussions covered current regulatory developments in regard to regulations, IT/cyber security and sustainability, and major challenges resulting from these for banks and their supervisory bodies with a focus on BayernLB.

The members of the Supervisory Board also completed the courses and advanced training required for their tasks and took advantage in particular of the external training offered by auditing companies on current topics in the banking sector.

Corporate governance

The BayernLB Corporate Governance Principles set out the provisions on corporate management and corporate supervision that apply to BayernLB on the basis of binding and in-house regulations. The Supervisory Board discussed compliance with these Corporate Governance Principles in 2020 in its meeting on 25 March 2021. The Board of Management, Supervisory Board and Annual General Meeting agreed that they were aware of no evidence to indicate these principles had not been observed in financial year 2020.

Changes to the Supervisory Board

Mr Henning Sohn stepped down from the Supervisory Board on 20 October 2020 and was succeeded in the post by Mr Christian Wiglinghaus on the same day.

Consolidated financial statements and combined separate non-financial report

The Bank and Group auditor PwC conducted the audit of the Bank's annual financial statements, consolidated financial statements and combined management report for the 2020 financial year and issued an unqualified audit opinion. PwC also audited the annual financial statements and management report of BayernLabo, a legally dependent institution of the Bank and also issued an unqualified audit opinion.

The non-financial statement stipulated in sections 289b and 315b of the German Commercial Code (HGB) was published by the Bank in the form of a combined separate non-financial report that is included in this annual report. Within the framework of its auditing obligations, the Supervisory Board took advantage of the option of having the contents of the non-financial declaration externally audited by PwC as a separate mandate.

The Supervisory Board and BayernLB's BayernLabo Committee each verified the independence of PwC. The financial statements documentation and audit reports were duly presented to all Supervisory Board members.

The BayernLabo Committee and the Audit Committee examined each of the documents forming part of the annual and consolidated financial statements in conjunction with the auditors' audit report and discussed them in detail with the auditors. Each committee chair reported to the Supervisory Board on this matter.

In its meeting of 19 March 2021, the BayernLabo Committee adopted BayernLabo's submitted annual financial statements and approved the management report to BayernLabo's accounts.

On the recommendation of the Audit Committee, and after examining the auditors' reports and the annual and consolidated financial statements documentation and the non-financial reporting documentation, and discussing these in detail with the auditors, the Supervisory Board in its meeting yesterday approved the findings of the audit and concluded that it had no reservations following the conclusion of the audits.

In its meeting yesterday, the Supervisory Board adopted the annual accounts of the Bank as submitted by the Board of Management and also approved the consolidated financial statements and combined management report.

Furthermore, the Supervisory Board proposed to the Annual General Meeting that the Board of Management be discharged and that the reported distributable profits of EUR 75 million be distributed to the shareholders. The Annual General Meeting gave its approval to both proposals in its meeting today.

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

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

Munich, 25 March 2021

On behalf of the Supervisory Board

Dr Wolf Schumacher
Chairman

BayernLB Group's combined management report

Combined management report

In financial year 2020, Bayerische Landesbank Anstalt des öffentlichen Rechts, Munich (hereinafter also BayernLB or Bank) made use for the first time of the option under section 315 para. 5 of the German Commercial Code (HGB) in conjunction with section 298 para. 2 HGB and combined the management report of BayernLB and the BayernLB Group (hereinafter Group) (combined management report). With the switchover to a combined report, changes were made to the structure to improve clarity. The information on BayernLB is provided in a separate section in the report on the economic position, which includes disclosures under HGB.

Pursuant to section 315e HGB, BayernLB's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as they are required to be applied in the European Union. With the exception of the HGB disclosures in the section on BayernLB's business performance, all the financial figures in this combined management report, including the comparison figures for the previous year, are reported under IFRS.

BayernLB's separate annual financial statements and consolidated financial statements (including the combined management report) are submitted to the operator of the German Federal Gazette (Bundesanzeiger) and published in the German Federal Gazette.

BayernLB's separate annual financial statements and consolidated financial statements are also available online at www.bayernlb.de. The information provided in the combined management report generally relates to the BayernLB Group; if there are material differences with respect to BayernLB, that information is provided separately.

Foundations of the BayernLB Group

Group structure

BayernLB is the parent company of the BayernLB Group. It is also the parent company to the Group subsidiaries Deutsche Kreditbank Aktiengesellschaft, Berlin (hereinafter DKB), BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich (hereinafter BayernInvest), Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich (hereinafter Real I.S.) and other companies. DKB is also the parent company of a group.

Bayerische Landesbodenkreditanstalt Anstalt des öffentlichen Rechts, Munich (hereinafter BayernLabo) is a legally dependent institution established under public law of BayernLB that is organisationally and financially independent.

BayernLB has a nominal capital of EUR 2,800,000,000. The nominal capital belongs to BayernLB Holding AG, Munich, the entity entrusted with ownership. Its indirect owners (shareholders) are the Free State of Bavaria, which holds around 75 percent, and the Association of Bavarian Savings Banks, which holds around 25 percent.

The BayernLB Group's business activities are focused on Germany, but it also operates in selected foreign markets.BayernLB's registered office is in Munich. The BayernLB Group also has offices in other locations (Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Leipzig and Stuttgart) and a branch (Nuremberg). Outside of Germany, it has several branches (New York, London, Paris and Milan) and a representative office (Moscow).

Business model and Group strategy

As a streamlined specialised bank, BayernLB is a major investment lender to the Bavarian and German economy. As a commercial bank, central bank to the regional savings banks and development bank, it is a reliable partner to its customers – companies, savings banks, retail and institutional investors and the public sector.

BayernLB's subsidised loan business for the Free State of Bavaria is assigned to BayernLabo. BayernLabo has a public mandate to provide financial support, as part of government housing policy and in conformity with the state aid provisions of the European Community, for measures aimed at improving and strengthening Bavaria's housing and settlement structure. As a municipal bank of the Free State of Bavaria, it also provides financing to Bavarian local authorities and public-sector special purpose associations.

The BayernLB Group's operating business segments

The BayernLB Group comprises BayernLB's subsidiaries, which BayernLB can exercise influence over, whether directly or indirectly. BayernLB is in charge of managing the Group, which is divided into the following operating business segments:

- Corporates & Markets
- Real Estate & Savings Banks/Financial Institutions, including BayernLabo and the subsidaries Real I.S. AG and BayernInvest
- DKB – comprises the DKB sub-group and the BayernLB subsidiary, Bayern Card-Services GmbH – S-Finanzgruppe, Munich (BCS)

Corporates & Markets segment[1]

Corporates handles business with large German and selected international companies and the Mittelstand corporate customer business in Germany, Austria and Switzerland. BayernLB's core competencies include traditional and structured credit financing, comprising working capital, capex and trade financing, project and export financing, lease financing and transportation finance. In addition, BayernLB helps its customers tap capital markets for their financing needs, especially through traditional bonds or German Schuldschein note loans.

Financial Markets significantly increased its focus on a smaller range of services as a result of the Group's new strategic direction agreed at the end of 2019, part of which involves winding down the unprofitable areas of the capital markets business. In future it will mainly handle the money, interest rate, forex and capital market product groups. Its main customers include the savings banks, banks, German and international corporate and Mittelstand customers, real estate customers and institutional customers, which are served in the respective business areas.

Real Estate & Savings Banks/Financial Institutions segment

BayernLB's real estate business concentrates on commercial real estate financing and services, with a regional focus on Germany and established and stable international markets. In commercial real estate, products include financing for existing real estate assets, project development, housing developers and real estate portfolios. In terms of asset classes, the focus is on offices, residential property, retail, and managed real estate in the areas of logistics, hotels and social care. To serve customers more comprehensively under one roof, the Bank makes extensive use of its close working relationship with subsidiaries and affiliates, such as Real I.S., Bayerische Landesbank Immobilien-Beteiligungs-Gesellschaft mbH & Co. KG, Munich (BayernImmo), LB Immobilienbewertungsgesellschaft mbH, Munich (LB ImmoWert), Bayerngrund Grundstückbeschaffungs- und -erschließungs GmbH (BayernGrund) and Bayern Facility Management GmbH, Munich (BayernFM).

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1 *On 16 August 2019, the BayernLB Group merged its Financial Markets and Corporates & Mittelstand operating business segments to form a new Corporates & Markets operating business segment. The changes to the segment report took place on 1 January 2020.*

BayernLB performs the central tasks for its most important group of customers and sales partners: the savings banks (especially those from Bavaria), and, as part of its Association business, provides them with specialised products and services. The focus of the relationship is on supplying the savings banks with a range of complementary products and services for both their own business and their end-customers, including payment services, capital markets business, international business, syndicated business, subsidised loan business, and foreign notes and coins/precious metal activities. Funding from the savings banks is an important source of refinancing for BayernLB, while also strengthening the common liquidity pool. BayernLB also acts as a lender and service provider to the public sector, and to public-law and non-profit institutions. Bayerische Landesbodenkreditanstalt, Munich (BayernLabo) fulfils the public mandate by carrying out the state-subsidised loan business for BayernLB. Securities asset management for BayernLB is handled by the subsidiary BayernInvest. This asset management company focuses mainly on advisory services and managing securities investment funds for institutional and private investors.

DKB segment

DKB, an integral part of the BayernLB Group, complements the business model. Its business activities are focused primarily on Germany, with some lines of business in Austria and Switzerland. In retail banking, DKB operates as an online bank with a steadily growing customer base and mainly offers account packages, construction financing, private loans and investment products. It is also a corporate banking specialist in corporate customers and infrastructure, which mainly includes business with customers in local authorities, social infrastructure, energy and utilities, residential property and administration. Its expertise includes in particular financing and investment products in selected and, for the most part, sustainable sectors in Germany: renewable energy, health, social care, education, agriculture and residential property.

BCS is a subsidiary of BayernLB and operates as a centre of expertise for the whole credit card business for the BayernLB Group and for the savings banks.

Strategic focus and objectives

BayernLB has regularly posted solid earnings in recent years in a tough market environment. Due to the huge, persistent challenges the whole banking sector has been facing for years, BayernLB completed a comprehensive strategic project in 2019 and, based on its findings, agreed in December 2019 that the Group should strike a new strategic direction. The main elements are to focus on areas of the business with strong growth prospects, while cutting the cost base. The plan is to complete these objectives by 2024. Consequently, the year 2020 was dominated, not just by the coronavirus pandemic and the need to manage its impact, but also by the initiation and implementation of the Group-wide “Fokus 2024” transformation programme, which will see BayernLB realigned into its target structure through numerous, heavily networked implementation projects.

The following overarching strategic goals were pursued in 2020:

- Clearly focussing business activities on the challenges of tomorrow and optimising the customer experience by building up product and consulting expertise along the value chain
- Achieving target growth in the high-margin core business within the existing risk guidelines, especially in the asset-based and structured financing and real estate businesses
- Improving profitability by systematically leveraging efficiencies in the operating model, increasing cost awareness and making targeted investments in the Bank's infrastructure
- Promoting and improving cooperative and collaborative working and selectively digitalising distribution channels, the range of services offered and the operating model

Following the heavy impact of the coronavirus pandemic on the BayernLB Group's general economic health and development and operating business in 2020, BayernLB initiated a Group-wide review of its strategy in the second quarter of that year and very closely examined the potential impact of the pandemic on the strategic realignment agreed in 2019. The 2024 strategic objective for the BayernLB Group and its segments were then confirmed in principle.

The overarching aim of the BayernLB Group's strategic realignment is to achieve lasting profitable growth by building on its own strengths while also focusing on its customers, for whom real added value can be created, primarily through financing and consulting. The strategic objectives set by the Bank's Sales units include reducing dependency on the traditional lending business (especially given persistently low interest rates) by building on certain areas of consulting expertise, improving customer benefits and retaining and deepening long-term customer relationships. Others are to increase regional earnings and risk diversification, and exploit growth opportunities in promising sectors in high-margin and high-growth foreign markets. As a focused specialised bank in the financial business, BayernLB will specifically concentrate its lending business on five promising sectors of the Bavarian and German economies. Another priority will be commercial real estate finance in Germany and selected foreign markets. The Bank will at the same time remain a central bank and reliable partner to the Bavarian savings banks. It will also continue to do business with financial Institutions and the public sector, especially as the principal bank for the Free State of Bavaria.

Implementing the transformation

The BayernLB Group will be transformed in a multi-year process that will conclude in 2024. The Group-wide "Fokus 2024" transformation programme coordinates and manages numerous, heavily networked implementation projects, which will drive forward structural changes within the organisational units and also in respect of the cross-value chain processes and the themes pursued by the Bank. The focus is on key levers, such as a new efficient teamwork model for working on the future five sectors the Bank will be concentrating on, reducing the complexity of the product range, in particular by significantly downsizing the low-profit capital market business and improving IT infrastructure and internal processes.

The transformation was implemented according to plan in the first year despite numerous challenges, first and foremost that of the ongoing coronavirus pandemic. In fact, the Bank even slightly exceeded its 2020 operating savings target of EUR 49 million by rigorously implementing cost-cutting measures and making steady improvements to efficiency. Headcount reductions in the core Bank are also proceeding as scheduled, with around one-third of the announced downsizing achieved by the end of 2020. The Bank was also on track with the major changes to the organisation and incremental improvements to infrastructure, such as introducing the new master credit process and the new sector-based teamwork model in the Corporates business area, the go-live of the new Credit Portfolio Management unit and the fleshing out and initial implementation of the target (IT) structure.

Sustainability management

The BayernLB Group is very much strategically focused on sustainability and is a key driver of its subsidiaries' business models. The business and sustainability strategies are also closely entwined. The Group sustainability strategy lays down the principles for establishing a common risk policy in order to achieve appropriate returns, with clearly defined responsibilities.

On 1 July 2020, BayernLB set up a sustainability support unit that reports directly to the relevant Board of Management member. Its purpose is to take greater account of the increasing strategic importance of this issue through Group-wide coordination.

The success of efforts to achieve sustainable banking activities and the corresponding range of financial solutions is regularly analysed and evaluated by independent sustainability rating agencies. These sustainability ratings are based on comprehensive lists of criteria relating to environmental, social and governance – i.e. responsible corporate management (ESG) – aspects which regularly cover the aspects referred to in CSR-RUG.

The BayernLB Group, BayernLabo and DKB all continue to hold the prime rating from ISS ESG. DKB's B- rating in the "Financials/Public & Regional Banks" sector corresponds to the Rank 1 decile and a classification as an "Industry Leader". BayernInvest has been ESG "Platinum Leader" since May 2020 according to independent rating agency Telos.

Changes to the scope of consolidation

As at the reporting date, the scope of consolidation for the consolidated financial statements comprised, besides the parent company, 14 fully consolidated subsidiaries.

In the financial year, the three sustainability funds EUROPA AL, Klimaschutz AL and SDG AL, all based in Luxembourg and in which Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) holds a majority shareholding, were incorporated into the DKB sub-group. This had no material impact on BayernLB's consolidated financial statements.

Group management

Internal Group management system

The BayernLB Group's internal management system is based on managing the inter-related variables of profitability, risk, capital and liquidity. One of the main goals of the internal management system is to continuously optimise the resources employed while simultaneously ensuring that the Group's capital and liquidity base is adequate.

The monthly report includes a comprehensive analysis of these performance indicators and informs management as to whether the Group is within the target bands of its operational and strategic goals. Operations are managed at segment level in particular, as part of the management cycle. This is a continuous process of carrying out annual medium-term planning, producing intra-year detailed target versus actual comparisons and making projections to the year-end.

The Group is managed using sets of indicators based on IFRS accounting.

The table below provides an overview of the most important performance indicators.

Indicators	Contents
Profit/loss before taxes	As reported in the income statement (IFRS).
Return on equity (RoE)	Ratio of profit before taxes to economic capital, as calculated according to regulatory requirements. The average Common Equity Tier 1 (CET1) capital available over the financial year is used to calculate the return on equity. For all management levels below this, the average economic capital employed in the financial year is derived from the risk-weightings of the underlying individual transactions (RWAs) specified by regulatory authorities.
Cost/income ratio (CIR)	Ratio of administrative expenses to gross earnings as an indicator of cost efficiency. Gross earnings comprise 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.
Common Equity Tier 1 (CET1) ratio	Ratio of Common Equity Tier 1 (CET1) to total risk-weighted assets (RWAs). Common Equity Tier 1 capital comprises subscribed capital plus reserves, the capital contribution of BayernLabo and various supervisory adjustments and deductions.
Leverage ratio (LR under Capital Requirements Regulation CRR II/CRD V)	Ratio of core capital to total exposure (leverage exposure in accordance with CRR) as a non-risk-based metric for indebtedness. Directly applicable as at 30 June 2021 and therefore a compulsory minimum of 3.0% of the capital buffer.

Indicators	Contents
Utilisation of economic capital	Percentage of available capital (economic risk capital) utilised to cover unexpected risks.
Liquidity coverage ratio (LCR under CRR/CRD IV)	The LCR is calculated by comparing available highly liquid assets with the net cash outflows for the following 30 days.
Net Stable Funding Ratio (NSFR under CRR/CRD IV)	The ratio of the amount of stable funding available to the amount of stable funding required. The amount of stable funding available is the proportion of own and borrowed funds that can be expected to represent a reliable source of funding over a time horizon of one year under persistent stress conditions. The required amount is calculated by aggregating the value of the assets held and off-balance sheet liabilities weighted by one of the factors reflecting the liquidity characteristics. The Group's NSFR ratio is based on the methodology of the quarterly short-term exercise (STE).
For information purposes:	
Profit after tax (HGB)	Net income under German accounting standards (HGB) before appropriation of profits

For a detailed description of compliance with the main risk management indicators for monitoring risk-bearing capacity and ensuring BayernLB is solvent and able to refinance at all times, please refer to the risk report.

Internal control system with regard to accounting processes

The internal control system (ICS) with regard to accounting processes in the BayernLB Group is tasked with ensuring the accounts have been properly prepared and are reliable. BayernLB's Board of Management has full responsibility for operating a proper business organisation.

When the Bank designed the components of the ICS, it took account of internationally recognised frameworks for internal control systems. The system comprises

- Group-wide guidelines on accounting
- controls integrated into processes and IT systems
- principles for separating functions as an organisational measures and
- process-independent monitoring measures

The ICS is continually improved and regularly evaluated for how well it is functioning through central and decentral process analyses, and analyses of data in the finance systems and auditing activities. The most important features of the ICS in terms of the accounting process are shown below.

The consolidated financial statements of the BayernLB Group must be prepared in accordance with International Financial Reporting Standards (IFRS), as they are required to be applied in the European Union, and in accordance with the provisions under commercial law set out in section 315e para. 1 HGB, which must be observed in addition. The ICS as applied to accounting processes is also designed to ensure that BayernLB's annual financial statements and the combined management report are prepared in accordance with HGB.

The Finance Division manages the accounting process and the preparation of the management report. All employees have online access to accounting, measurement and account assignment

policies. Laws, accounting standards and other pronouncements are continually analysed to determine whether and to what extent they are relevant and what their impact on the accounting process is. The relevant requirements are set out and communicated in the (HGB and IFRS) manuals and used, together with the Group-wide instructions for preparing the annual accounts, as the basis for the preparation process. In addition, supplementary procedural instructions are in place to support the process of preparing uniform and consolidated financial statements. These cover areas such as standardised reporting formats, IT systems and IT-supported reporting and consolidation processes. If necessary external service providers are brought in, e.g. to value the BayernLB Group's pension obligations. The Finance Division ensures these requirements are complied with Group-wide.

Controls are integrated into the accounting and consolidated financial statement processes. They follow the principle that duties must be separated. Controls are integrated into the most important IT systems relevant for the accounting process. The reasons for this include preventing false entry of transactions, ensuring transactions are fully recognised or are measured in line with accounting policies, and determining whether items have been properly consolidated.

Among the measures to improve the IT system for accounting processes, these controls are being adapted to new requirements and the greater options available from information technology.

Clear rules have been laid out for assigning responsibilities for ensuring the effectiveness of the ICS in the processes for producing the financial statements and consolidated financial statements. These have been assigned to designated managers and process owners. The latter file an annual report detailing their assessments and how effective they consider the ICS to be in the accounting process. This assessment is also based on the results provided by the internal Audit Division. In connection with this, the Group units involved in the process confirm how effective the ICS is in the accounting process. Various tools are used to collect findings and document them. Weaknesses in the controlling system are also determined, taking account of their potential impact on the accounting process. The Board of Management and Audit Committee are updated every year on the assessment of how effective the ICS is in the accounting process. If there are material changes in the effectiveness of the ICS, a report is immediately sent to the Board of Management and, if necessary, to the Supervisory Board.

Combined separate non-financial Group report

The BayernLB Group firmly believes that it will be more successful if all of its own business processes are guided by the principles of sustainability. Sustainability is very much a part of all of the BayernLB Group's business activities. It is considered when designing business relationships with customers and suppliers, developing products and services, dealing with employees, determining how to make operations more environmentally friendly and when engaging in corporate citizenship.

The BayernLB Group goes into greater detail about the sustainability themes and aspects identified as important for the company in the combined separate non-financial report of the BayernLB Group, which does not form part of the combined management report.

The combined separate non-financial report of the BayernLB Group contains BayernLB's non-financial declaration and the BayernLB Group's non-financial declaration pursuant to section 315b para. 3 HGB in conjunction with section 289b para. 3 sentence 2 HGB. The BayernLB Group's combined separate non-financial report for 2020 will be submitted to the operator of the Federal Gazette along with the consolidated financial statements and the Group management report of the BayernLB Group for financial year 2020, and published in the German Federal Gazette. BayernLB's annual financial statements and the BayernLB Group's annual report can also be viewed online at www.bayernlb.de.

Human resources

Changes in the workforce

2020 was dominated by the coronavirus pandemic. Human Resources was focused on finding solutions to the problems caused by the pandemic in everyday working life, which had been massively impacted as a result, and providing ongoing support. Another key area was to provide input and support in the ongoing transformation process, which is partly aimed at significantly reducing the size of the workforce.

Headcount

	BayernLB Group		BayernLB	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Employees	8,532	8,316	3,317	3,491
Proportion of women	4,278	4,200	1,511	1,588
Proportion of men	4,254	4,116	1,806	1,903
Part-time employees	2,206	2,255	948	1,020
Full-time employees	6,326	6,061	2,369	2,471
Trainees including students on integrated degree programmes	87	90	69	71

Headcount at the BayernLB Group increased by 216 people. This was partly due to the strategy to achieve targeted growth at DKB by taking on more employees as part of the transformation process, which more than offset the reductions in the workforce at BayernLB and some subsidiaries.

"Fokus 2024" transformation programme

Following the progress made over the course of 2020 in implementing the transformation programme and the increasing numbers of refinements made to the target vision for 2024, the plan to reduce the workforce at BayernLB in connection with the reorganisation of the capital market business by a total of 400 FTEs, which was first agreed in 2019, was amended so that the figure has been significantly increased to around 940 FTEs. The reductions in headcount will be effected in stages up to 31 December 2023, using the personnel tools agreed.

Report on the economic position

Macroeconomic environment

Economy, inflation and monetary policy

Germany's economic performance was completely overshadowed by the coronavirus pandemic in 2020. Originally confined to the Wuhan region in China at the end of 2019/start of 2020, the virus reached Germany at the end of January 2020. Because the infectious disease was spreading around the globe, the German government decided in March 2020 to place significant limits on business and private travel, before imposing heavy restrictions on social life and business activity within the country (lockdown). To alleviate the severity of the impact on the economy and population, a comprehensive state support programme was put in place and certain provisions of the law determining when companies should file for insolvency were suspended. Once infection rates went back down, the government was able to begin easing the lockdown in stages from the end of April. After case numbers started to rise again, a second "light" lockdown was imposed from the start of November, which was then tightened to become a full lockdown at the end of the year.

The global environment was also rocked by the pandemic. Economies all over the world were plunged into a short but deep recession of historic proportions. Europe was the hardest hit, especially the UK and the EU countries in the southern part of Europe. In some countries, economic output averaged out over the year dived by almost double digits.[2] One of Germany's main trading partners, the USA, which elected the Democrat Joseph Biden in the November presidential elections, was also laid low by a big wave of infections. However, the lockdowns there were limited to certain regions with the result that gross domestic product (GDP) contracted by only 5 percent[3] after adjusting for inflation. Asia emerged the most unscathed from the pandemic as it was able to effectively suppress the spread of the virus after the first wave in spring by digitally tracking and tracing chains of infection and imposing an uncompromising quarantine policy. China, another of Germany's key trading partners, even increased its GDP in 2020, despite the major slump at the start of the year.[4]

The pandemic had a huge impact on Germany's economic output.[5] Gross domestic product in real terms slumped by 5.3 percent in 2020 (adjusted for working days, year on year), which was, however, only fractionally below the contraction of 5.6 percent that took place following the financial crisis of 2009. Economic performance mirrored the progression of the pandemic: after a very negative second quarter, a strong, albeit unequal recovery set in in the second half of the year. In spite of the massive ramping up of state spending and support measures for businesses, the crisis throttled capital expenditure. The investment climate was also soured by the trade dispute between the USA and China, and Brexit. Exports, which are long-term drivers of capital expenditure, made a significant negative contribution to growth and were far more negatively affected than imports due to the disruption to international transport routes, and Germany's specialisation in high-price capital goods and the cyclical automotive industry. Only investment

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2 *See Eurostat Database, Annual national accounts, accessed on 3 February 2021.*

3 *See Bureau of Economic Analysis 2021, press release BEA 21-02*

4 *See National Bureau of Statistics of China 2021, http://www.stats.gov.cn/english/PressRelease/202101/t20210120_1812680.html*

5 *See German Federal Statistical Office 2021, press release no. 020.*

in construction proved resilient and significantly increased. The main reasons for this were that building activity was not so restricted and property prices continued to rise in many segments. The pandemic also took a heavy toll on private consumption. Even though disposable incomes remained fairly stable, the spread of coronavirus increased savings rates and dampened consumption. Social distancing restrictions hit the bricks-and-mortar retail, hospitality and tourism sectors particularly hard, while online retail and logistics even experienced a mini-boom. The extensive use of short-time working by companies prevented the state of the labour market from significantly deteriorating. However, the rate of unemployment rose over the course of the year to a seasonally adjusted 6.1 percent.[6]

In spite of higher infection rates, a more restrictive coronavirus policy by the Bavarian government and a clear focus on the automotive industry, which is sensitive to the performance of the economy, Bavaria's economy contracted only slightly more than the average.[7] The Free State of Bavaria benefited from the fact that a high share of its exports[8] are to economically robust foreign markets such as China and eastern Europe. The regional government's additional support package to soften the impact of the pandemic on small and medium-sized enterprises also helped. On the labour market front, Bavaria retained its top ranking in Germany, with an unemployment rate of 3.6 percent.[9]

Markets

Pressure on prices eased markedly as a result of the deep recession in Germany. Consumer prices in 2020 were up only 0.5 percent on the previous year's level.[10] One major factor that kept the lid on inflation was the price of Brent crude oil, a commodity heavily affected by the global recession and which in March was trading at under USD 20 per barrel.[11] Added to the mix were one-off effects such as the three percentage-point cut in VAT, which was brought in at the start of July and ran until the end of 2020.[12] The pandemic may well cause prices to rise as delivery chains become more regionalised and production capacity in some sectors is permanently reduced. However, in the short term inflation has been largely subdued and the ECB's inflation target undershot by a large margin as a result.[13] The central bank responded to the pandemic in 2020 by expanding its arsenal of monetary policy measures to stimulate the economy. Although the ECB left its key interest rates untouched over the course of 2020, in March it expanded its asset purchase programme (APP), which had been brought in at the end of 2019 and earmarked to purchase EUR 20 billion of bonds every month until further notice. This expansion provided for

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6 *See Federal Employment Agency, monthly report December*
7 *See German federal and state statistics offices 2020, http://www.statistikportal.de/de/vgrdl/ergebnisse-laenderebene/bruttoinlandsprodukt-bruttowertschoepfung*
8 *See Bayerisches Landesamt für Statistik 2020, https://www.statistikdaten.bayern.de/genesis/online?language=de&sequenz=tabelleErgebnis&selectionname=51000-003*
9 *See Federal Employment Agency, monthly report December 2020*
10 *See German Federal Statistical Office 2021, press release no. 006.*
11 *See Brent oil price, taken from Refinitiv Datastream on 8 December 2020*
12 *See the economic package provided by the German government on 29 June 2020, https://www.bundesregierung.de/breg-de/aktuelles/corona-steuerhilfegesetz-1759296*
13 *See German Federal Statistical Office 2021, https://www.destatis.de/DE/Themen/Wirtschaft/Konjunkturindikatoren/Basisdaten/vpi001j.html*

the purchase of an additional EUR 120 billion in 2020.[14] It also introduced the Pandemic Emergency Purchase Programme (PEPP), which after several top-ups now has a volume totalling EUR 1,850 billion to run until spring 2022[15] to also purchase bonds issued by private and public borrowers. It does not have to take so much account of the ECB's capital key when selecting securities. It is hoped this will particularly help the southern European countries which have been affected the most by the pandemic. The ECB also introduced additional liquidity facilities, Targeted Longer-Term Refinancing Operations (TLTRO III), which will benefit banks, in particular by helping them to maintain lending to households and companies through discounted interest rates. Besides monetary policy, the ECB initiated an open project to create a digital euro, which could transform economic life and the banking system. In the USA, the Fed expanded its QE programme on an unprecedented scale (QE Infinity[16]) in the wake of the coronavirus crisis in 2020 and even started buying corporate bonds.[17] It also brought interest rates down to almost zero in March.[18] In August, it changed its monetary policy (by setting an average inflation rate target).[19]

In 2020, low or falling interest rates caused major ripples on bond markets in the eurozone and the USA. Benchmark rate cuts and the US Federal Reserve's decision to expand bond purchases in response to the coronavirus pandemic caused 10-year Treasury yields to tumble from 1.9 percent at the start of the year to 0.5 percent in March 2020.[20] From April 2020, the 10-year US Treasury yield then hovered in a range from 0.5 percent to just under 1.0 percent. As at the end of the year, this was more to the upper end of this range due to the prospects for higher fiscal spending. In the eurozone, the start of the coronavirus pandemic in March 2020 led to some very pronounced volatility in spreads. The yield on the 10-year German government bond fluctuated between –0.9 percent and –0.1 percent after starting the year at –0.19 percent.[21] Over the rest of 2020, yields were kept low largely as a result of the extensive bond purchases by the ECB through the PEPP and topped-up APP, with 10-year Bunds closing the year with a yield of – 0.57 percent.[22] The ECB's doveish policy and the EU's recovery fund caused risk premiums on sovereign bonds issued by the euro periphery to tighten significantly in the remainder of the year after a period of high volatility in March.

In coronavirus-hit 2020, the German real estate market fell into two very different halves. Although the prices of residential property continued to rise in 2020, the negative economic impact of the crisis on the commercial real estate market, which is sensitive to trends in the economy, was very evident. It is true that long-term low interest rates and the merely slight increase in unemployment bolstered the real estate market from bigger falls in prices, there were major downside risks in bricks-and-mortar non-food retail, which is undergoing an accelerated structural

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14 See European Central Bank, press release, 12 March 2020, https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200312~8d3aec3ff2.en.html
15 See European Central Bank, press release, 10 December 2020, https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp201210~8c2778b843.en.html
16 https://www.federalreserve.gov/monetarypolicy/smccf.htm
17 https://www.federalreserve.gov/newsevents/pressreleases/monetary20200323b.htm
18 https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm
19 https://www.federalreserve.gov/newsevents/pressreleases/monetary20200827a.htm
20 See 10-year Treasury yield, taken from Bloomberg on 11 January 2021
21 See 10-year Treasury yield, taken from Bloomberg on 11 January 2021
22 See 10-year Treasury yield, taken from Bloomberg on 11 January 2021

change, and in the hotel and hospitality sectors. In the case of office properties, the drop in demand caused by the lockdown and state of the economy was offset by the meagre supply of office space, especially in cities, so that office prices even rose slightly in 2020, despite the jump in working from home.[23]

Following a considerable widening of risk premiums on Pfandbriefs and covered bonds by an average of 35 bp[24] in the first quarter as a result of the coronavirus outbreak, they then tightened back to their position at the start of the year. The main factor causing a wave of spread compression was the measures taken by the ECB. Demand was supported by the third covered bond purchase programme (CBPP3), which kept purchase volumes of covered bonds high and will run until further notice, while the generous long-term refinancing measures for banks (TLTRO III) made it unappealing for banks to issue covered bonds, and kept supply low. At EUR 95 billion, the volume of new euro benchmark issues (> EUR 500 million) was therefore extremely low in 2020 and 30 percent below the previous year's level.[25]

Over a one-year's time horizon, credit spreads on investment-grade bonds were ultimately unchanged, with an asset swap spread of 70 bp.[26] After narrowing at the start of the year, spreads widened as a result of the pandemic to 192 bp by March. Once the ECB announced additional and expanded purchase programmes, spreads began to narrow again. This was also the case on the primary market, where, following a three-week window when markets were closed at the end of February/start of March 2020, companies placed nearly EUR 500 billion of bonds over the rest of the year (FY 2019: EUR 424 billion).[27] The ECB's influence in this market segment could be seen in the record issue volumes with markedly worse conditions at a macro and micro level despite the significant tightening of spreads.

The EUR/USD exchange rate was heavily affected by the coronavirus pandemic in 2020 and the level of risk aversion on markets. Against this backdrop, the greenback strengthened, benefiting from its role as a safe haven during strong risk-off periods until around April 2020. After May/June 2020, the dollar depreciated again when risk aversion first declined (in summer) as lockdowns were eased and later on (in November/December 2020) when major progress was made in developing vaccines. As the risk-off phase loosened its grip and the Fed wound down interest rates, the USD weakened considerably. However, the dollar was given a breather in September/October 2020 when it was given temporary support from economic indicators for the USA, which proved more favourable than those of the eurozone and expectations of a landslide victory by the Democrats in the US elections (including a Senate majority) materialised coupled with an implied extensive package of measures to support the economy. Overall, the dollar shed 9 percent against the euro up to the start of December 2020, to settle at EUR-USD 1.221.[28] As

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23 See vdp Research, https://www.pfandbrief.de/site/de/vdp/immobilie/finanzierung_und_markt/vdp-immobilienpreisindex.html

24 See Index iBoxx Euro Covered, taken from Markit on 11 January 2021

25 See primary issues of covered bonds, taken from Bloomberg on 11 January 2021

26 See Index iBoxx Euro Corporates, taken from Refinitiv Datastream on 11 January 2021

27 See primary issues of corporate bonds, taken from Bloomberg on 11 January 2021

28 See EUR-USD Exchange Rate, taken from Refinitiv Datastream on 11 January 2021

forecast by BayernLB, the pound sterling remained weak given the tough Brexit negotiations between the UK and the EU, with the currency trading on average at around EUR-GBP 0.89.[29] However, the Swiss franc performed more strongly than the Bank had been expecting and traded on average at around EUR-CHF 1.07 as a result of its safe-haven status.[30]

Stock markets experienced an unprecedented collapse in prices between the end of February and the middle of March 2020, as coronavirus spread and lockdowns were imposed. During this period, the German stock exchange (DAX) slid from a high for the year of 13,789 to below 8,300.[31] Supported by extensive monetary and fiscal measures to stimulate the economy, equity markets quickly roared back during the spring and summer months. From September, the DAX ran into a more volatile period and trended sideways, closing the year up by 3.5 percent and at 13,719 (including dividends). The EURO STOXX 50 (a price index), which covers large caps in the eurozone, was well behind, closing the year down 5.1 percent.[32] Including dividends, it lost a mere 2.6 percent.[33] By contrast, the US S&P 500, which has a sizeable weighting of technology firms, performed much better than its European counterparts. This index closed the year with a gain of 16.3 percent (total return including dividends was 18.4 percent).[34]

Sector-related conditions

The coronavirus pandemic temporarily shifted the focus of the banking sector. Prior to coronavirus, the most important strategic areas of activity for European banks were the focus of their business models, programmes to boost profitability and efforts to digitalise. After the pandemic erupted, however, they again turned their attention back to asset quality and risk provisioning. The monetary and fiscal support measures mentioned and far-reaching regulatory changes averted an escalating situation in the banking market. Given the potential increase in non-performing loans, banks increased their risk provisions for expected loan defaults. As they had much better levels of capital and liquidity than before the last major financial crisis, they were able to play their part in dealing with the economic problems.

At the end of September 2020, the CET1 ratio and the leverage ratio (both fully loaded) EU-wide were at 15.1 percent and 5.5 percent respectively. Liquidity as measured by the liquidity coverage ratio (LCR) was at 171 percent.[35]

Although the competitive situation among lenders in Europe and in Germany in particular (owing to the highly fragmented nature of the sector there) was still tough, some degree of consolidation in the form of mergers and acquisitions took place in a few eurozone countries. In Germany, low levels of profitability led to a new round of programmes to cut costs and downsize workforces.

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29 See EUR-GBP Exchange Rate, taken from Refinitiv Datastream on 11 January 2021
30 See EUR-CHF Exchange Rate, taken from Refinitiv Datastream on 11 January 2021
31 See Deutsche Börse: DAX 30 performance, taken from Refinitiv Datastream 11 January 2021
32 See STOXX: EURO STOXX 50, taken from Refinitiv Datastream 11 January 2021
33 See STOXX: EURO STOXX 50, taken from Refinitiv Datastream 11 January 2021
34 See S&P Down Jones Indices: S&P 500, taken from Refinitiv Datastream 11 January 2021
35 See https://www.eba.europa.eu/sites/default/files/document_library/Risk%20Analysis%20and%20Data/Risk%20dashboard/Q3%202020/961888/EBA%20Dashboard%20-%20Q3%202020.pdf

The corporate sector bolstered its liquidity buffers after the pandemic began and this contributed to increase lending growth to 4.7 percent[36] in 2020. The low interest-rate environment, the end-point of which has been pushed further into the future as a result of the pandemic, weighed on net interest income, although this has been alleviated to some extent by the ECB providing cheaper refinancing options.

Regulatory environment

The regulatory environment was also heavily affected by the coronavirus pandemic in 2020. To safeguard the provision of credit to the economy, the EBA, ECB and BaFin carried out various measures to enable banks caught in the crisis situation to continue their business operations with as little disruption as possible.

In March, the ECB took the decision to temporarily allow banks to operate with lower levels of capital than they are normally required to hold in accordance with Pillar-2 guidance and the capital conservation buffer. BaFin also opted not to introduce an anti-cyclical capital buffer in the middle of 2020 as planned. The ECB brought forward by one year to 2020 a concession to banks that allows them to meet some of their Pillar-2 requirements with other types of capital (additional Tier 1 and Tier 2) instead of Common Equity Tier 1 capital. In another measure to ease the capital requirements rules, BaFin recalibrated the buffer for national systemically important banks at the end of 2020. This was not connected with the coronavirus crisis. The supervisory authorities also provided a relief on liquidity requirements, specifically related to the liquidity coverage ratio (LCR).

The EBA, ECB and BaFin issued guidelines, recommendations and clarifications on how to treat deferrals and payment moratoria and define defaults during the crisis.

In 2020, the ECB opted to take a pragmatic approach with the Supervisory Review and Evaluation Process (SREP): instead of a comprehensive process, the existing SREP definitions of Pillar-2 requirements and guidance were simply extended for the 2020 SREP cycle.

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36 See https://www.ecb.europa.eu/press/pr/stats/md/html/ecb.md2012~cbd6f9f354.en.html

To safeguard banks' capital during the crisis, in March the EBA and the ECB issued an initial recommendation on dividends for the financial year 2019. This was then supplemented later on in the year with other media releases, which also addressed financial year 2020. Banks were asked to suspend dividends or be very restrictive in the amount they paid out and do so in agreement with the relevant supervisory authority. BayernLB followed all the recommendations, working closely with its shareholders and the supervisory authorities.

Besides these capital measures, in March the ECB announced other actions designed to take the strain off banks' operating business. For example, the EBA's stress test, which had already been started, was postponed to 2021. The authority also provided flexibility as to when on-site audits could be carried out and when findings identified by the auditors had to be remedied by.

The Basel Committee also responded to the crisis by deferring the implementation of the finalisation of Basel III by one year to 1 January 2023 and cancelling the impact study which it had planned to carry out using data as at 30 June 2020. No draft legislation was published in 2020 to transpose the finalisation of Basel III into EU law (CRR III). This is expected in the first half of 2021.

To create the necessary legal framework for other short-term, crisis-related adjustments, the European Commission published the CRR "quick fix" in June 2020. This resulted in a number of changes, including bringing forward the reliefs envisaged in CRR II in respect of the capital requirements on Mittelstand corporate clients and qualifying infrastructure financing and also allowing banks to exclude central bank deposits from their leverage exposure.

At the same time, banks were made subject to additional reporting and disclosure requirements in connection with coronavirus-related measures and impacts.

In response to the steady warming of the climate, bank regulators increasingly turned their attention in 2020 to the issue of sustainability. The ECB published guidelines which should help banks identify their climate and environmental risks to ultimately make them a part of their existing risk management frameworks.

Project TRIM (Targeted Review of Internal Models) was also completed over this period. Initiated in 2016, it was used by the ECB and national supervisors to set out guidelines for the targeted review of internal models so that the internal models used in the banking sector can be harmonised.

When the revised EU bank resolution legislation comes into effect, new rules will apply to bail-in capital in the event of a resolution, which should help a distressed bank to become viable again. To ensure banks have sufficient bail-in capital under the Minimum Requirement for Own Funds and Eligible Liabilities (MREL), the criteria on eligibility were tightened at the end of 2020 so that these requirements can only be met with own funds and subordinated liabilities.

The supervisory priorities of the Single Supervisory Mechanism (SSM) in 2020, which were originally to reduce NPLs by creating uniform requirements on providing cover, eliminating deficiencies identified when conducting targeted reviews of internal models (TRIM) and better integrating ICAAP and ILAAP into SREP, faded into the background during the crisis. However, the SSM is likely to pay greater attention to them in 2021.

BayernLB is a member of the guarantee scheme for banks managed by the German Savings Bank Association (Deutscher Sparkassen- und Giroverbands e.V., Berlin (DSGV)). In 2020, following a review of the guarantee system of the Savings Banks Finance Group, the ECB and BaFin communicated to the DSGV certain expectations they have as to how the guarantee system should be fine tuned and updated. The German Savings Bank Association is currently in discussions with the ECB and BaFin. The Savings Banks Finance Group is expected to make whatever changes to the guarantee scheme that are needed, in agreement with the ECB and BaFin.

The BayernLB Group's business performance

Statement by the Board of Management on business performance in 2020

Functioning business continuity management during the coronavirus pandemic

The BayernLB Group has a well-established business continuity management (BCM) system in place. Consequently, after the pandemic began in the first quarter of 2020 the Bank was able to ensure business operations ran smoothly with virtually no disruption. It also set up an interdisciplinary coronavirus working group to coordinate other measures.

Besides maintaining business operations, these measures were focused on protecting employees. The most important ones in terms of crisis prevention management were:

- Ensuring that all employees could work from home
- Establishing a "split organisation" so that employees could alternate on a rolling basis
- Setting up a reporting system and communication paths to all relevant stakeholders (Board of Management, employees, Supervisory Board and the supervisory authorities)
- Drafting rules for business trips and events/meetings
- Implementing health and safety at work regulations with regard to coronavirus

To manage these tasks, the Bank conducted a range of measures under its existing BCM, including setting up an interdisciplinary coronavirus working group. The necessary measures were communicated and implemented through this working group.

All measures were coordinated within the BayernLB Group on an ongoing basis and BayernLB kept in regular contact with key service providers.

Thanks to the way this emergency and crisis management system worked, the Bank was able to ensure stability in its processes.

Coronavirus guidelines for the credit business

The BayernLB Group conducted a detailed study at an early stage to determine how viable companies that had (or potentially could) run into difficulties as a result of the pandemic could be given better financial assistance, while at the same time protecting the Group from any negative impact on its credit risk. For example, the Bank carried out an extensive Group-wide screening of all credit portfolios and conducted a review of risk appetite based on the economic forecast. The process for obtaining subsidised loans was made easier to take account of the unprecedented global situation, while ensuring that loans would continue to be granted on a due diligence basis only ,even during a crisis. Except for the legal moratorium for consumers introduced in Germany, the BayernLB Group did not apply any other EBA-compliant, general (payment) moratoria. For details of the impact of the coronavirus pandemic on the BayernLB Group's business volumes, refer to the risk report in the combined management report.

Satisfactory profit before taxes despite the coronavirus pandemic and costs incurred in the transformation process

The BayernLB Group performed well and posted satisfactory earnings in financial year 2020, despite the challenging conditions brought about by the coronavirus pandemic.

Profit before taxes amounted to EUR 195 million (FY 2019: EUR 656 million). This was largely due to the net loss on restructuring activities and a net increase in risk provisions.

Net interest income amounted to EUR 1,772 million (FY 2019: EUR 1,726 million), which was a slight increase of 2.7 percent on the previous year. The Group generated a 15.2 percent increase in net commission income, taking this figure to EUR 331 million (FY 2019: EUR 287 million). Overall, all operating business segments of the Group contributed to the higher net interest and net commission income.

Gains or losses on fair value measurement came in at EUR 62 million in the reporting period. This compares with EUR –2 million in the previous year period. Most of this was due to the price volatility triggered by the pandemic on financial markets.

Risk provisions produced a loss of EUR 142 million, compared with a gain of EUR 251 million the previous year. The main cause was the coronavirus pandemic, which led to a deterioration in the macroeconomic outlook, in turn resulting in higher risk provisions in the credit business. To prepare itself for potential future credit defaults as a result of the coronavirus crisis, the BayernLB Group set aside an additional risk provision of EUR 266 million (post model adjustment).

Administrative expenses grew by 5.2 percent to EUR 1,520 million (FY 2019: EUR 1,446 million). Part of this was due to the increase in staff costs driven largely by the strategy to grow DKB. These rose by 11 percent to EUR 856 million (FY 2019: EUR 771 million). Thanks to rigorous cost management, general expenses (other administrative expenses plus depreciation of property, plant and equipment and amortisation of intangible assets) fell by 1.5 percent to EUR 665 million (FY 2019: EUR 675 million).

The mandatory contributions for the European bank levy and to both private commercial banks' and statutory deposit guarantee systems increased as a result of changes to the calculation parameters by around 20 percent to EUR 161 million (FY 2019: EUR 134 million).

As at 31 December 2020, the Group reported restructuring expenses of EUR 287 million (FY 2019: EUR 217 million). Of this amount, EUR 286 million related to the costs for the restructuring measures agreed in 2020 to achieve the target structure for 2024.

Unlike in the previous year, the Group posted an income tax gain of EUR 37 million (FY 2019: expense of EUR 187 million). The largest earnings component was the deferred tax income from the anticipated sustained growth of the BayernLB Group in the period under review.

The consolidated net income was EUR 228 million compared with EUR 466 million the year before.

The lending business continued to account for a major part of the BayernLB Group's net assets. To support the credit business by continuing to offer favourable financing conditions to customers during pandemic-induced periods of stress and to safeguard liquidity, the BayernLB Group took part in the ECB's TLTRO III programme, borrowing EUR 27 billion from this facility. This resulted in an increase in total assets, as well as business and credit volumes.

EUR billion	31 Dec 2020	31 Dec 2019	Change in %
Total assets	256.3	226.0	13.4
Business volume[1]	302.1	269.4	12.2
Credit volume[2]	219.8	187.6[3]	17.2

1 Total assets plus contingent liabilities and other commitments.
2 Due from banks and customers plus contingent liabilities from guarantees and indemnity agreements.
3 Previous year's figures restated; see note 2 in the notes to the consolidated financial statements.

As at 31 December 2020, the Bank recorded an increase in loans and advances to banks and liabilities to banks of EUR 25.1 billion and EUR 25.8 billion respectively, primarily as a result of borrowing funds from the ECB's TLTRO III programme.

Provisions were sharply down as at the end of the year, falling by 39.7 percent to EUR 2.9 billion (FY 2019: EUR 4.8 billion). The main decrease was in provisions for pensions and similar obligations, largely as a result of the hedging of pension commitments using earmarked assets. These sank to around EUR 2 billion (FY 2019: around 4 billion). BayernLB had already begun making changes to the way its pension obligations are managed by implementing a CTA structure in 2019. This involved setting up an association (BayernLB Treuhand e.V., Munich), with which BayernLB has entered into a contractual trust agreement (CTA). Through this CTA, the Bank has been building up an insolvency-protected pool of assets (contractual investment fund) since financial year 2020, which will provide an additional layer of protection for the pension obligations should the Bank ever become insolvent. The new structure gives BayernLB leeway to invest in a targeted manner, utilising a wide range of types of investment, while taking account of risk-reward aspects, so it can generate enough assets to cover its pension obligations. On the balance sheet, the assets held in the trust association qualify as plan assets, which are offset against the existing pension obligations. As at 31 December 2020, the fair value of the CTA assets stood at EUR 2.4 billion and was therefore close to the target volume.

As commercial banks, both BayernLB and DKB help their customers sign up to KfW programmes, the subsidy programmes of Germany's states and the surety banks for the purpose of ensuring debt is serviced and operating costs are covered.

Strong capital base, solid liquidity and low NPL ratio

Despite the market ructions caused by the coronavirus pandemic, the BayernLB Group had a very solid and therefore strong capital base. The Common Equity Tier 1 ratio (CET1 ratio) was 15.9 percent (FY 2019: 15.9 percent), with RWAs virtually on par with the previous year at EUR 65 billion. It also comfortably exceeded its MREL (Minimum Requirement for Own Funds and Eligible Liabilities).

The BayernLB Group's liquidity position was comfortable at all times during the period under review. Cash outflows due to the coronavirus crisis were manageable at all times. The significantly further improved liquidity situation as at 31 December 2020 was in part due to the BayernLB Group's participation in the ECB tenders (TLTRO III). Furthermore, the Group subsidiary DKB bolstered its already strong position in the retail business through a surge in customer deposits and lending activities.

The liquidity coverage ratio (LCR) rose to 245 percent (FY 2019: 168 percent) and was therefore above the 100 percent threshold required by the regulator.

The risk profile of the BayernLB Group remained stable in the financial year. The BayernLB Group had adequate risk-bearing capacity at all times in the financial year and as at 31 December 2020, despite the impact of the coronavirus pandemic. Risk provisions took appropriate account of known risks.

The BayernLB Group's non-performing loan ratio fell during the reporting period to 0.6 percent (FY 2019: 0.7 percent). While BayernLB saw a slight improvement to 0.6 percent (FY 2019: 0.7 percent), DKB posted a fall from 0.8 percent to 0.5 percent. The increase in business volume with the Deutsche Bundesbank had no significant impact on the NPL ratio within the BayernLB Group.

Progress in the transformation of the BayernLB Group

It will take several years to complete the process of transforming the BayernLB Group, with most of the changes expected to be in place by 2024. In December 2019, as one of the measures to achieve the strategic target structure BayernLB agreed to significantly resize its capital market business. At the start of 2020, it set up the comprehensive, Group-wide "Fokus 2024" transformation programme, which comprises numerous projects, including the "Corporate strategy" project for DKB. As a consequence of the coronavirus pandemic, the BayernLB Group's long-term strategic target structure was reviewed and confirmed by the Supervisory Board in July 2020.

Almost all projects have reached the milestones set and are operationally on target so far. The Bank slightly exceeded its 2020 operating savings target of EUR 49 million by rigorously implementing cost-cutting measures and making steady improvements to efficiency.

The human resources tools to downsize and restructure the workforce in a socially responsible manner, which were agreed between the Board of Management and BayernLB's General Staff Council in 2019, were well received by employees in 2020. Around one-third of the announced reduction in headcount has been carried out so that BayernLB was on schedule as at the end of 2020. Overall, around 300 termination agreements were concluded, 70 percent of which with employees outside the collective agreement. In addition, by filling a number of advertised posts internally, the Bank succeeded in placing a number of employees whose roles would have become redundant as a result of BayernLB's strategic realignment and thereby secure their continued employment.

To streamline its product range in the capital market business, BayernLB concluded a contractual agreement in July 2020 to discontinue its interest rate, currency and commodities management business for savings banks' corporate customers on 31 December 2020 and to transfer the existing portfolio in full and at its market value, subject to the approval of the customers and savings banks, to Landesbank Baden-Württemberg, Stuttgart (LBBW) by 31 December 2021. As at 31 December 2020, the transfer ratio stood at 29 percent. In addition, BayernLB also shut down its commodities derivatives trading unit in the direct customer business as one of the measures to restructure its capital markets business on 30 June 2020.

To strengthen DKB for its strategic growth trajectory (corporate strategy "UK"), a capital increase of EUR 200 million was agreed and carried out in 2020.

The BayernLB Group therefore attained a number of milestones in 2020 as it continues the process of transforming itself. It also fleshed out other restructuring measures and targets in several different projects within the "Fokus 2024" transformation programme, particularly those involving the downsizing of personnel levels at both BayernLB and DKB. As a result of the agreed package of measures, as at 31 December 2020 there were additional provisions for the (staff and general) costs of transforming the Group of EUR 286 million (FY 2019: EUR 201 million).

Report on the BayernLB Group's net assets, financial position and results of operations

Overall Group performance meets expectations

As the coronavirus pandemic began at the time the consolidated financial statements were being prepared, it was difficult to forecast the severity, length and extent of its impact on the profitability of the BayernLB Group and its performance indicators. The estimates and assumptions relevant for the financial statements that were made or imputed at the time of the planning were based on the knowledge at hand and best available information at the time.

Comparison of the 2019 forecasts for the financial performance indicators for 2020 against actual business performance

	2019 outlook for 2020	Net profit for 2020
Profit/loss before taxes	EUR 200 million – EUR 400 million	EUR 195 million
Return on equity (RoE)	Low mid-single-digit range	1.9% (adjusted 4.8%[2])
Cost/income ratio (CIR)	Slightly higher than 2019	66.0%
Common Equity Tier 1 (CET1) ratio	>14%	15.9%
Risk-weighted assets (RWAs)[1]	EUR 68 billion	EUR 65 billion

1 From 2020, no longer used as a forecasting financial performance indicato, as included in the CET1 ratio.
2 Adjusted for the restructuring expenses of the financial year.

Despite the challenging conditions brought about by the coronavirus crisis and the resultant difficulties forecasting business performance, the forecast-actual comparison presents a picture at the end of 2020 that is in line with expectations.

In the financial year 2020, profit before taxes fell sharply year on year to EUR 195 million, which was still within the expected range. After producing a comparatively high profit before taxes in 2019 and in the expectation of generating regular operating earnings, setting aside the normal volume of risk provisions and increasing administrative expenses in line with strategy, the Group forecast significantly lower profits in 2020 in its planning.

In conjunction with its decision to strategically realign the Group, it had already made a significant allowance for the future costs of resizing the capital markets business in the previous year by creating restructuring provisions. In 2020, it achieved key milestones in the transformation process while also targeting measures more precisely in the operating segments, which, as expected, resulted in additional restructuring costs at the end of 2020.

As at 31 December 2020, the Group reported a loss under the risk provisions line item of EUR 142 million. The figure includes EUR 266 million from a post model adjustment made in the wake of the pandemic.

The big drop in RoE was largely the result of the changes in risk provisions and the loss produced as a result of restructuring activities. Excluding restructuring expenses in the financial year (which are not assigned to operating business activities due to their non-recurring nature), the Group's adjusted RoE as at 31 December 2020 was 4.8 percent (FY 2019: 8.9 percent) and therefore in line with expectations.

The CIR was 66 percent (FY 2019: 65.8 percent) and therefore in line with expectations.

For 2020, based on medium-term planning the Group forecast RWAs of around EUR 68 billion and a CET1 ratio of 15 percent (>14 percent). In 2020, a year marked above all by the coronavirus crisis, its RWAs were unchanged year-on-year at EUR 65 billion. Growth in the business in line with strategy and a moderate increase as a result of rating changes were offset by the CRR "quick fix" and more intensive RWA management so that the RWA target was undershot. The reason for the CET1 ratio significantly exceeding the Group's target was the lower volume of RWAs.

The BayernLB Group's results of operations

EUR million	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019	Change in %
Net interest income	1,772	1,726[1]	2.7
Risk provisions	(142)	251	–
Net interest income after risk provisions	**1,631**	**1,978**	**(17.5)**
Net commission income	331	287	15.2
Gains or losses on fair value measurement	62	(2)	–
Gains or losses on hedge accounting	11	(13)[1]	–
Gains or losses on derecognised financial assets	(14)	4	–
Gains or losses on financial investments	68	40	70.7
Administrative expenses	(1,520)	(1,446)	5.2
Expenses for the bank levy and deposit guarantee scheme	(161)	(134)	20.0
Other income and expenses	75	159[1]	(53.1)
Gains or losses on restructuring	(287)	(217)	32.2
Profit/loss before taxes	**195**	**656**	**(70.3)**
Income taxes	37	(187)	–
Profit/loss after taxes	**232**	**469**	**(50.6)**
Profit/loss attributable to non-controlling interests	(3)	(3)	(6.5)
Consolidated profit/loss	**228**	**466**	**(50.9)**

Rounding differences may occur in the tables.
More detailed information can be found in the notes.
1 Previous year's figures restated; see note 2 in the notes to the consolidated financial statements.

Net interest income

EUR million	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019	Change in %
Interest income	**5,258**	**5,929**	**(11.3)**
of which:			
Credit and money market transactions	2,815	3,298[1]	(14.6)
Financial investments	179	259	(30.9)
Hedge accounting derivatives and derivatives in economic hedges	1,654	1,894[1]	(12.7)
Negative interest	608	475	28.0
Other interest income	2	3	(44.3)
Interest expenses	**(3,486)**	**(4,203)**	**(17.1)**
of which:			
From liabilities to banks and customers	(983)	(1,277)	(23.0)
For securitised liabilities	(343)	(486)	(29.4)
For subordinated capital	(71)	(94)	(25.0)
From hedge accounting derivatives and derivatives in economic hedges	(1,448)	(1,746)	(17.1)
From negative interest	(576)	(478)	20.5
Other interest expenses	(64)	(121)	(46.9)
Net interest income	**1,772**	**1,726**	**2.7**

1 Previous year's figures restated; see note 2 in the notes to the consolidated financial statements.

In 2020, net interest income stood at EUR 1,772 million compared with EUR 1,726 in 2019, which represents a year-on-year increase of EUR 46 million. The primary reason for this increase was the EUR 32.2 billion (17.2 percent) growth in credit volumes Significant factors in this line item were the higher volume of deposits at central banks bearing negative interest and the growth in new business in line with strategy. The BayernLB Group produced net interest income of EUR 13 million in 2020 as a result of the TLTRO III and reinvesting funds.

Risk provisions

EUR million	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019	Change in %
Additions	(1,241)	(1,066)	16.4
Direct writedowns	(14)	(15)	6.7
Releases	919	899	2.2
Recoveries on written down receivables	182	327	44.5
From the write-up of purchased or originated credit-impaired financial assets	13	106	87.9
Risk provisions	**(142)**	**251**	**36.9**

Compared with the previous year, the BayernLB Group reported a significant increase in additions to provisions, resulting in a loss under the risk provisions line item of EUR 142 million (FY 2019: gain of EUR 251 million from net releases). This was mainly due to the need to set aside a large provision for potential credit defaults as a result of coronavirus. Given the difficult market conditions triggered by the coronavirus pandemic and due to the changed macroeconomic and political environment in financial year 2020, the Group made a change to the economic scenarios and parameters used to calculate provisions for the credit business. As a result of this adjustment, an additional risk provision of EUR 266 million was created (FY 2019: EUR 16 million).

Repayments of problem loans had a significant positive impact on the risk provisions line item. Recoveries on written down receivables produced a gain for the BayernLB Group of EUR 182 million (FY 2019: EUR 327 million). Most of this amount came from receipts from the resolution of HETA Asset Resolution AG, Vienna.

Net commission income

EUR million	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019	Change in %
Credit business	122	108	13.4
Fund business	106	105	1.2
Securities business	49	34	43.0
Card business	39	55	(29.4)
Payments	(16)	(31)	(50.7)
Other net commission income	31	17	79.6
Net commission income	**331**	**287**	**15.2**

The Group posted net commission income of EUR 331 million in financial year 2020 (2019: EUR 287 million). This was largely thanks to the high-commission credit and securities businesses. The credit business' performance was boosted mainly by greater demand for financial products as a result of the coronavirus support programmes. The improved net commission income in the securities business was the outcome largely of a higher level of customer activity in the securities business. Net commission income from the fund business was virtually unchanged on the previous year, with most of the commission coming from the asset management businesses Real I.S. and BayernInvest.

Net commission income was boosted partly by falling expenses in the payments business as a result of the travel restrictions introduced at the start of the coronavirus crisis. This also impacted income from the credit card business, which declined by EUR 16 million to EUR 39 million (FY 2019: EUR 55 million).

Gains or losses on fair value measurement

EUR million	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019	Change in %
Net trading income	144	(115)	–
Gains or losses on financial assets in the FVPLM category[1] not held for trading	(55)	122	–
Gains or losses on the fair value option category	(27)	(9)	>100.0
Gains or losses on fair value measurement	**62**	**(2)**	**–**

1 FVPLM – Financial assets mandatorily measured at fair value through profit or loss.

The gains or losses on fair value measurement line item produced a gain of EUR 62 million (FY 2019: loss of EUR 2 million). Prices were impacted by the pandemic-induced higher volatility on financial markets, investor behaviour and the Bank's strategic focus on standardised trading products. Overall, the BayernLB Group's net trading income rose by EUR 259 million to EUR 144 million (FY 2019: loss of EUR 115 million), with the biggest contributing factor being the tightening in credit spreads towards the end of the year. Interest-related and equity/index-related transactions produced a gain of EUR 60 million (FY 2019: loss of EUR 179 million), while the precious metals business generated net income of EUR 49 million (FY 2019: loss of EUR 13 million). Fair value adjustments to derivatives resulted in a gain of EUR 23 million (FY 2019: loss of EUR 34 million), which reflected the tighter credit spreads as at the end of the year. Net trading income was weighed on by a net loss on financial instruments mandatorily measured at fair value. This was mainly due to a measurement loss on an equity interest. The measurement gains on the corresponding hedges were also booked to the net trading income item.

Gains or losses on hedge accounting

The gains or losses on hedge accounting line item produced a gain of EUR 11 million in the reporting year (FY 2019: loss of EUR 13 million). This line item was influenced by the interest-rate induced effects within hedge accounting of the interest-rate derivatives concluded for hedging purposes and their hedged items.

Gains or losses on derecognised financial assets

The gains or losses on derecognised financial assets line item produced a loss of EUR 14 million in 2020 (FY 2019: gain of EUR 4 million). The main factor in this line item was the loss realised from the part sale of a credit exposure in the financial year.

Gains or losses on financial investments

The gains or losses on financial investments line item produced a gain of EUR 68 million, which was EUR 28 million higher year on year (FY 2019: gain of EUR 40 million).

Administrative expenses

EUR million	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019	Change in %
Staff costs	(856)	(771)	11.0
Other administrative expenses	(587)	(612)	(4.1)
Amortisation and depreciation of property, plant and equipment and intangible assets (not including goodwill)	(78)	(63)	24.4
Administrative expenses	**(1,520)**	**(1,446)**	**5.2**

Administrative expenses rose overall by EUR 74 million to EUR 1,520 million (FY 2019: EUR 1,446 million). Staff costs rose by EUR 85 million year-on-year to EUR 856 million (FY 2019: EUR 771 million). The main factors in this increase were the strategy being followed to increase headcount at DKB as part of the transformation process to achieve the planned growth, measurement effects from adjusting pension provisions due to human resources policy and the resolution of legacy issues at BayernLB. However, general expenses (other administrative expenses plus depreciation of property, plant and equipment and amortisation of intangible assets) came in at EUR 665 million, which was down year on year (FY 2019: EUR 675 million). Although general expenses fell by EUR 57 million to EUR 304 million (FY 2019: EUR 361 million), particularly as a result of rigorous cost management at BayernLB in the transformation process, DKB posted an increase of EUR 44 million to EUR 309 million (FY 2019: EUR 265 million). The lower figure at BayernLB was partly due to a drop in consulting and marketing costs and a fall in business trip expenses. Costs at DKB rose in line with strategy due to higher investment in IT and processes.

Expenses for the bank levy and deposit guarantee scheme

Expenses for the bank levy and deposit guarantee scheme comprised a total charge of EUR 161 million (FY 2019: EUR 134 million). The costs included EUR 67 million for the bank levy (FY 2019: EUR 56 million) and EUR 94 million for the mandatory contribution to the deposit guarantee scheme (FY 2019: EUR 79 million), with BayernLB paying around two-thirds of each of these amounts. The bank levy was higher partly as a result of an adjustment made by the Single Resolution Board to the measurement principles. The increase in the deposit guarantee was because of the growth in deposits at DKB, which are attributable to BayernLB.

Other income and expenses

Other income and expenses amounted to EUR 75 million (FY 2019: EUR 159 million). In the previous year, this item had included high income from interest on tax receivables, while in financial year 2020, releases of provisions and compensation payments from an insurance case made a positive contribution at BayernLB level.

Gains or losses on restructuring

The gains or losses on restructuring line item produced a loss of EUR 287 million (FY 2019: loss of EUR 217 million). The significant increase was related to the "Fokus 2024" transformation programme and projects connected with it. Expenses from the creation of restructuring provisions in the amount of EUR 286 million (FY 2019: EUR 201 million) were included in this item. Of this, EUR 268 million (FY 2019: EUR 192 million) related to staff costs for the headcount reductions that were initiated, predominantly at BayernLB.

Income taxes

In the reporting year, the Group reported tax income of EUR 37 million (FY 2019: tax expenses of EUR 187 million). The item comprised expenses of EUR 42 million (FY 2019: expenses of EUR 80 million) from the netting of current tax income and expenses, and income of EUR 79 million (FY 2019: expenses of EUR 107 million) from the netting of deferred tax income and expenses. The main factor producing deferred tax income was the increase in the value of deferred taxes at the BayernLB Group.

Segments

The segment report is based on the monthly internal management report to the Board of Management and reflects the profitability of the BayernLB Group's segments.

Changes on the previous year

The 2019 segment structure of the BayernLB Group was reorganised and reduced to three business segments at the start of financial year 2020 as a consequence of the strategic realignment of the business model and decision to focus on the high-growth areas of the future.

In accordance with the new business strategy, the following strategic segments existed as at 31 December 2020:

- Real Estate & Savings Banks/Financial Institutions
- Corporates & Markets
- DKB

The BayernLB Group also includes the Central Areas & Other segment, which includes consolidation entries not allocated to any other segment.

As of 2020, the former Financial Markets segment no longer operates as an independent segment. Transactions with financial institutions and consolidated subsidiary BayernInvest Kapitalverwaltungsgesellschaft mbH Munich (BayernInvest), which were previously reported under Financial Markets, were assigned to the Real Estate & Savings Banks/Financial Institutions segment.

As of 2020, the former Corporates & Mittelstand segment and the capital markets business of the former Financial Markets segment form part of the Corporates & Markets segment.

The Group Treasury Division, which in 2019 was also still part of the Financial Markets segment, is now reported, together with the management of money market activities, under the Central Areas & Others (including Consolidation) segment.

The contributions of the individual segments to the profit before taxes of EUR 195 million (FY 2019: EUR 656 million) are shown below:

EUR million	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019	Change in %
Real Estate & Savings Banks/Financial Institutions	175	314	(44.3)
Corporates & Markets	(58)	(30)	(93.4)
DKB	264	301	(12.3)
Central Areas & Others (including Consolidation)	(187)	70	>100.0

Real Estate & Savings Banks/Financial Institutions segment

- Real Estate Division again reports rising operating earnings and an uptick in new business
- Significant improvement in operating profit in the Savings Banks & Financial Institutions Division thanks to buoyant performance by the precious metals and subsidised loans businesses
- BayernLabos earnings down on previous year partly as a result of measurement losses due to fluctuations in interest rates on the market and a project-related increase in administrative expenses

The Real Estate & Savings Banks/Financial Institutions segments profit before taxes was EUR 175 million (FY 2019: EUR 314 million), which was much lower than in the previous year.

The Real Estate Division again made a significant contribution to the segments earnings with a profit before taxes of EUR 103 million (FY 2019: EUR 246 million). The noticeable fall on the previous year was due to a loss of EUR 50 million under the risk provisions line item. This was partly due to the need to set aside additional provisions to cover anticipated losses as a result of the coronavirus crisis. In the previous year, there was a gain of EUR 116 million from the risk provision line item, which was due to high releases of risk provisions. Net interest and commission income went up to EUR 239 million (FY 2019: EUR 208 million) as a result of volume and margin growth since the previous year.

The Savings Banks & Financial Institutions Division turned in a considerably higher profit before taxes of EUR 14 million (FY 2019: loss of EUR 8 million) compared with the previous year. Earnings from net interest and commission income came in at EUR 126 million (FY 2019: EUR 123 million), only slightly down on the previous year despite growth in the subsidised loan business due to lower earnings on capital market products. The precious metals business, on the other hand, put in an excellent performance, significantly boosting gains or losses on fair value measurement to EUR 70 million (FY 2019: EUR 50 million).

BayernLabo posted profit before taxes of EUR 33 million (FY 2019: EUR 51 million). The steep fall was due to measurement losses caused by fluctuations in interest rates on the market and a rise in administrative expenses, partly as a result of project work (Serviceportal).

Profit before taxes at Real I.S. amounted to EUR 19 million, which was above the previous year (FY 2019: EUR 16 million). The higher administrative expenses as a result of strategic investments were partly offset by improved net commission income from the fees taken on assets under management.

BayernInvest posted a profit before taxes of EUR 5 million, which was lower than its previous years figure of EUR 8 million. Besides the volatile market situation in 2020, earnings were impacted by investment on IT infrastructure.

Corporates & Markets segment

- Net interest and commission income above previous year due to growth in margins and signing up of high-commission new business at Corporates
- Year-over-year jump in risk provisions largely due to the need to cover anticipated losses in connection with the coronavirus crisis
- Decline in administrative expenses reflects the initial results of the decision to focus on a narrower range of products and services in the capital markets business

The Corporates & Markets segment generated a loss before taxes of EUR 58 million (FY 2019: loss before taxes of EUR 30 million). The principal reason for this higher loss was the increase in the loss produced by the risk provisions line item to EUR 169 million (FY 2019: loss of EUR 81 million), most of which was needed to cover anticipated losses from the coronavirus crisis. The segment increased its net interest and commission income to EUR 398 million (FY 2019: EUR 371 million), partly as a result of a growth in margins and signing up of high-commission new business in the Corporates Business Area. The segments earnings were also lifted by Markets interest-rate derivatives and forex business.

Administrative expenses eased back to EUR 327 million (FY 2019: EUR 365 million) due to a fall in expenses in connection with the coronavirus pandemic and the initial results of the policy to focus on a narrower range of products and services in the capital market business.

DKB segment

- Decline in DKB segments profits in line with expectations due primarily to strategic investments in sales and digitalisation and the rising costs of the bank levy and deposit guarantee scheme
- Number of retail customers around 4.6 million
- Stable operating earnings at BCS

The DKB segments profit before taxes amounted to EUR 264 million, falling short of the previous years good performance of EUR 301 million in line with expectations.

The majority of the profit before taxes was accounted for by the DKB sub-group with EUR 254 million (FY 2019: EUR 296 million). Net interest and commission income came in slightly higher year on year at EUR 934 million (FY 2019: EUR 919 million). This was due to moderate growth in commission income, including at the Infrastructure segment. Earnings were also bolstered by measurement gains on the DKB sustainability funds and equity interests.

Although there was a loss under the risk provision line item, this was lower than in the previous year (EUR 44 million versus EUR 58 million) despite further additions for potential future credit defaults in connection with the coronavirus crisis. This was due to further improvements in portfolio quality.

DKBs status as Germanys second-largest online bank was further cemented by an increase in retail customer numbers to around 4.6 million (FY 2019: around 4.3 million). To safeguard DKBs market position in the future, it made widescale investments in sales and digitalisation in the financial year, which increased administrative expenses from EUR 546 million in 2019 to EUR 621 million. In addition, provisions in the amount of around EUR 38 million were set aside for transformation and restructuring measures.

There was also an increase in expenses for the bank levy and the deposit guarantee scheme, with the total amount reaching EUR 57 million (FY 2019: EUR 47 million).

BCS's profit before taxes retreated to EUR 7 million (FY 2019: EUR 10 million) due to lower positive one-off effects. Earnings from business operations remained stable. The number of cards served rose by about 4 percent on the previous year to 11.3 million.

Central Areas & Others segment

- Segment profits strongly dented by charges for the bank levy and deposit guarantee scheme and additions to restructuring provisions
- Partly offset by high positive contribution to profits from recoveries on written down receivables, although boost to profitability lower than in the previous year
- Higher profits in Group Treasury Division partly due to good performance of money market and securities businesses

The Central Areas & Others segment produced a loss before taxes of EUR 187 million (FY 2019: profit before taxes of EUR 71 million). This was again mainly due to a charge totalling EUR 104 million (FY 2019: EUR 87 million) for the bank levy and deposit guarantee scheme, not including DKBs share. Profits also took a pounding from the addition to the restructuring provisions triggered by BayernLB’s strategic focusing and other restructuring costs in the total amount of EUR 248 million (FY 2019: EUR 217 million).

The segment also benefited much less from one-off positive effects than in the previous year. This included recoveries on written down receivables that were lower than in the previous year.

Administrative expenses rose on the previous year to EUR 123 million (FY 2019: EUR 99 million) as a result of one-off costs due to the resolution of the final legacy issues and staff restructuring.

The Group Treasury Division increased profit before taxes to EUR 49 million (FY 2019: EUR 5 million). Key drivers of this positive trend were the earnings from the money market and securities businesses.

The net figures reported in the Consolidation column amounting to EUR 4 million (FY 2019: EUR 5 million) were generated by measurement differences.

The BayernLB Group's net assets

Assets

EUR million	31 Dec 2020	31 Dec 2019	Change in %
Cash reserves	9,342	8,512	9.8
Loans and advances to banks	56,177	31,106	80.6
Loans and advances to customers	152,376	144,997	5.1
Risk provisions	(1.084)	(973)	11.4
Portfolio hedge adjustment assets	1,014	765	32.5
Assets held for trading	12,110	13,925	(13.0)
Positive fair values from derivative financial instruments (hedge accounting)	876	706	24.0
Financial investments	21,881	23,561	(7.1)
Investment property	28	28	(1.3)
Property, plant and equipment	489	544	(10.2)
Intangible assets	144	102	41.3
Tax assets	780	786	(0.7)
Non-current assets or disposal groups classified as held for sale	26	–	–
Other assets	2,113	1,905	10.9
Total assets	**256,271**	**225,965**	**13.4**

Cash reserves and loans and advances to banks

Cash reserves, central bank deposits and bank deposits increased by EUR 25.9 billion as at the end of the year, mainly due to the receipt of funding from the third series of the ECB's long-term refinancing programme (TLTRO III), which is reported under liabilities to banks. BayernLB and DKB drew EUR 13 billion and EUR 14 billion of funding respectively from the TLTRO III in the reporting year.

Loans and advances to customers

Loans and advances to customers increased by EUR 7.4 billion to EUR 152.4 billion (FY 2019: EUR 145 billion). The two main reasons for this were the growth in the credit business with domestic retail customers and greater volumes of loans and credit granted by DKB to the public sector.

Risk provisions

Risk provisions rose year on year by EUR 111 million to EUR 1.1 billion (FY 2019: EUR 1 billion). The BayernLB Group managed to maintain a very high quality portfolio as demonstrated by a slight fall in the NPL ratio and a small increase in the investment grade share. In the portfolio, there was a sharp rise in the very good rating categories, largely as a result of the higher credit volume with the Deutsche Bundesbank and the winding down of business in line with strategy, for example in the real estate business. However, there was an increase in the business volume

in the non-investment-grade range in the sub-portfolios as a result of the deterioration in creditworthiness in existing exposure. This provided the first clear evidence of the negative impact of the coronavirus pandemic on creditworthiness.

Portfolio hedge adjustment

The portfolio hedge adjustment arose from the creation of a fair value hedge of interest-rate risks at portfolio level at DKB. The change in the portfolio hedge adjustment corresponded to the changes in the fair values of derivative financial instruments (hedge accounting).

Assets held for trading

As at the reporting date, assets held for trading stood at EUR 12.1 billion, a fall of EUR 1.8 billion on the previous year, mainly due to a reduction in the positive fair values from derivative financial instruments.

Property, plant and equipment

The decline in property, plant and equipment of EUR 55 million to EUR 489 million (FY 2019: EUR 544 million) was principally due to the assessment of the rental portfolio at DKB level and the resulting adjustment to the values of capitalised right-of-use assets.

Intangible assets

Intangible assets posted a EUR 42 million increase to reach EUR 144 million at the end of the year. Most of this jump can be attributed to investments made in IT and processes at DKB.

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

As at 31 December 2020, the BayernLB Group held non-current assets or disposal groups classified as held for sale in the amount of EUR 26 million (FY 2019: EUR 0 million). Of this, EUR 14 million related to the transfer of the interest-rate derivatives portfolio to LBBW, which has been contractually agreed to take place in 2021, and EUR 12 million to the winding down of the commodities derivatives business in the direct customer business, which has also been arranged for 2021.

Liabilities

EUR million	31 Dec 2020	31 Dec 2019	Change in %
Liabilities to banks	75,995	50,152	51.5
Liabilities to customers	109,779	100,436	9.3
Securitised liabilities	43,037	44,570	(3.4)
Liabilities held for trading	9,374	10,312	(9.1)
Negative fair values from derivative financial instruments (hedge accounting)	1,178	1,224	(3.7)
Provisions	2,895	4,801	(39.7)
Tax liabilities	162	241[1]	(32.8)
Liabilities of disposal groups	6	–	–
Other liabilities	584	583	0.2
Subordinated capital	1,685	2,107	(20.0)
Equity	11,576	11,537	0.3
Total liabilities	**256,271**	**225,965**	**13.4**

1 Previous year's figures restated; see note 2 in the notes to the consolidated financial statements.

Liabilities to banks

On the liabilities side, liabilities to banks stood at just under EUR 76 billion, a EUR 25.8 billion increase versus the position as at the end of the previous year. The reason for this was a jump in the borrowing of funds, especially as a result of the Groups participation in the ECB's TLTRO III programme.

Liabilities to customers

Liabilities to customers increased by EUR 9.4 billion to EUR 109.8 billion (FY 2019: EUR 100.4 billion). This was related to an increase in deposits by domestic retail customers, especially at DKB.

Liabilities held for trading

Liabilities held for trading amounted to EUR 9.4 billion, EUR 0.9 billion less than as at year-end 2019. The decline was the result of negative fair values from derivative financial instruments, especially from interest rate-related derivatives transactions.

Provisions

To cover the pension obligations, the first transfer of funds in the amount of EUR 2.4 billion was made to BayernLB Treuhand e. V., Munich in financial year 2020 under a contractual trust arrangement (CTA). The plan assets were netted against the covered liabilities. Where the assets exceeded the liabilities that needed to be covered, the resulting surplus was reported as a net asset amount under other assets.

Compared with the figure as at the end of 2019, pension provisions after pension liabilities (EUR 4.7 billion) had been netted against plan assets (EUR 2.7 billion) fell to around EUR 4 billion (FY 2019: around EUR 2 billion).

Other provisions were higher year on year, mainly due to an EUR 286 million addition to provisions for restructuring measures in connection with the transformation process. As at 31 December 2020, the Group made a provision for future restructuring measures under the strategic "Fokus 2024" transformation in the amount of around EUR 479 million, of which EUR 453 million was for human resources measures.

Liabilities of disposal groups

Liabilities of disposal groups related to the sale of the interest rate, current and commodities management business to LBBW and the winding down of products in the capital markets business that will no longer be sold in line with the strategy. For more details, refer to the information provided on the non-current assets or disposal groups classified as held for sale line item.

Equity

EUR million	31 Dec 2020	31 Dec 2019	Change in %
Subscribed capital	3,412	3,412	–
Capital surplus	2,182	2,182	–
Retained earnings	5,719	5,667	0.9
Revaluation surplus	165	109	52.4
Foreign currency translation reserve	5	2	<100.0
Consolidated profit/loss	228	150	(50.0)
Non-controlling interests	18	16	6.7
Equity	11,576	11,537	0.3

1 Previous year's figures restated; see note 2 in the notes to the consolidated financial statements.

The Groups equity as at 31 December 2020 was EUR 39 million higher than in the previous year. The factors behind this were the unrealised gains on the financial assets measured at fair value through changes in equity not recognised through the income statement in the amount of EUR 57 million after taxes and the decision taken in the reporting year to carry forward the 2019 profits in the amount of EUR 150 million. The increase in equity was partly offset by losses from the remeasurement of defined benefit obligation pension commitments in the amount of EUR 238 million after taxes.

Banking supervisory capital and ratios under CRR/CRD IV (as per consolidated financial statements)

The banking supervisory capital under CRR/CRD IV as per the prepared consolidated financial statements as at 31 December 2020 comprised:

EUR million	31 Dec 2020	31 Dec 2019	Change in %
Common Equity Tier 1 capital (CET1 capital)	10,301	10,264	0.4
Own funds	11,993	11,821	1.5
Total RWAs	64,974	64,604	0.6
Common Equity Tier 1 (core tier 1 ratio) in percent	15.9	15.9	0.0 pp[1]
Total capital ratio (%)	18.5	18.3	0.2 pp[1]

1 FVPLM – Financial assets mandatorily measured at fair value through profit or loss.

After a financial year buffeted by the coronavirus crisis, RWAs stood at around EUR 65 billion as at 31 December 2020, on par with the previous year. As a result the CET1 ratio was unchanged at 15.9 percent.

The CET1 ratio was stable at EUR 10.3 billion, which was close to target and on par with the previous year. Due to the crisis, there was no increase in the discount rate for pensions, which the Group compensated for by making a larger contribution to retained earnings, including the amount envisaged for the 2019 dividend which had not been paid out.

The return on capital pursuant to section 26a para. 1 KWG[37] was 0.1 percent (FY 2019: 0.2 percent). Details on country by country reporting, which is also governed by section 26a para. 1 sentence 4 KWG, can be found after the Auditors Report as an appendix to these annual financial statements.

The BayernLB Group's financial position

Liquidity

During financial year 2020, it was ensured that liquidity reserves at the BayernLB Group were always adequate, even in stress situations. Further information on refinancing and the liquidity situation is provided in the risk report.

[37] Ratio of consolidated net income/loss to consolidated total assets.

Ratings

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

	Moodys	Fitch
Issuer rating	Aa3 (stable)	A– (negative)
Long term, preferred senior unsecured	Aa3 (stable)	A–
Long term, non-preferred senior unsecured	A2	A–
Short term, unsecured	P– 1	F1
Public Pfandbriefs	Aaa	AAA
Mortgage Pfandbriefs	Aaa	–

Overall assessment of the BayernLB Group's net assets, financial position and results of operations

The Groups results of operations in 2020 were satisfactory in spite of the impact of the coronavirus pandemic. The BayernLB Group's net assets and financial position were solid in financial year 2020. The Group had comfortable levels of liquidity throughout the reporting period.

BayernLB's annual financial statements under HGB

BayernLB prepares its annual financial statements in accordance with the provisions of the German Commercial Code (HGB), the Ordinance Regulating the Accounting Requirements for Financial Institutions and Financial Service Providers (RechKredV), the provisions of the Pfandbrief Act (PfandBG), the supplementing regulations of the Bayerische Landesbank Act, and the Banks Statutes.

Statement by the Board of Management on BayernLB's business performance in 2020

The macroeconomic and sector-specific conditions for BayernLB were largely aligned with those of the BayernLB Group and are described in the report on the economic position in the combined management report.

Excluding non-recurring effects from negative interest rates and recoveries on written down receivables, BayernLB's results of operations were weighed on by the challenging market environment during the coronavirus pandemic and persistently low interest rates.

BayernLB (Bank)s business performance is described below.

BayernLB's results of operations

EUR million	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019	Change in %
Net interest income	1,032	1,112	(7.2)
Net commission income	213	187	13.5
Gross profit	**1,245**	**1,299**	**(4.2)**
Staff costs	(697)	(567)	22.9
Operating expenses	(408)	(448)	(9.0)
Administrative expenses	**(1,105)**	**(1,015)**	**8.8**
Net income or net expenses of the trading portfolio	19	(26)	–
Other operating profit/loss	(15)	110	–
Risk provisions	97	102	(4.4)
Gains or losses on measurement	(1)	42	–
Operating profit/loss	**240**	**512**	**(53.2)**
Gains or losses from extraordinary items	(245)	(210)	16.6
Income taxes	43	(8)	–
Net profit	**38**	**295**	**(87.0)**
Profit brought forward from previous year	150	–	–
Withdrawals from retained earnings	37	–	–
Allocations to retained earnings	(150)	(145)	3.5
Distributable profits	**75**	**150**	**(50.0)**

Rounding differences may occur in the tables.

Net interest income

Net interest income, the difference between interest income and interest expenses – including current income on equities and other non-fixed income securities, equity interests, shares in affiliated companies and profit transfers – fell by EUR 80 million to EUR 1,032 million (FY 2019: EUR 1,112 million). The fall was due to lower income from profit transfers from subsidiaries, which at EUR 155 million (FY 2019: EUR 263 million) was markedly lower. This was due to DKBs contribution to earnings coming in year-on-year lower at EUR 132 million (FY 2019: EUR 231 million). Net interest income from credit and money market transactions and from securities rose by EUR 28 million to EUR 866 million (FY 2019: EUR 838 million), in particular due to growth in volume and margins in the Real Estate and Corporates business areas.

Net commission income

The Bank reported improved commission business, with profits rising EUR 25 million to EUR 213 million (FY 2019: EUR 187 million). The biggest contribution came from net commission income from the credit business, which saw an increase of EUR 19 million to EUR 148 million (FY 2019: EUR 129 million). This was partly attributable to the state-subsidised loan business, which experienced growth as a result of the rising demand for financing products from the government support programmes during the coronavirus pandemic.

However, net commission income in the securities business deteriorated by EUR 6 million to EUR 26 million (FY 2019: EUR: 32 million). The Schuldschein note business was particularly affected, as the coronavirus pandemic in 2020 not only influenced customers investment behaviour but also put the Schuldschein note loan market under significant strain. However, profits were lifted by a realised gain of EUR 8 million when a contract concluded with LBBW in July 2020 was fulfilled.

Administrative expenses

Administrative expenses went up compared with the previous year to EUR 1,105 million (FY 2019: EUR 1,015 million). This comprised staff costs of EUR 697 million (FY 2019: EUR 567 million) and operating expenses of EUR 408 million (FY 2019: EUR 448 million). Although salaries and wages came in unchanged at EUR 337 million (FY 2019: EUR 337 million), the Bank reported a significant increase in expenses for pensions and other employee benefits of EUR 130 million to EUR 360 million (FY 2019: EUR 230 million). This was due to an adjustment to actuarial parameters for measuring pension obligations and the resolution of legacy issues. The first positive results of the strict adherence to cost targets could be seen in the fall in operating expenses. Expenses for the bank levy and deposit guarantee scheme rose by EUR 17 million to EUR 104 million (FY 2019: EUR 87 million), while other general expenses fell by around EUR 60 million. The increase in the mandatory contribution to the bank levy of EUR 10 million to EUR 44 million (FY 2019: EUR 34 million) was mainly due to the increased annual target payment to the Single Resolution Fund required by the supervisory authorities and an increase in total assets compared with the position as at 31 December 2018. The higher mandatory contribution to the deposit guarantee scheme of EUR 60 million (FY 2019: EUR 53 million) was due to the inclusion at BayernLB of the growth in deposits at the subsidiary DKB.

Net income or net expenses of the trading portfolio

Net income or net expenses of the trading portfolio was mostly impacted by the pandemic-induced high volatility on markets, investor behaviour and the Banks strategic focus on standardised trading products. For 2020, BayernLB produced a net income from the trading portfolio of EUR 19 million (FY 2019: net expense of EUR 26 million). Of this, EUR 14 million was attributable to positive changes in the market value of trading transactions (FY 2019: negative changes in market value of EUR 36 million). A further EUR 5 million (FY 2019: EUR 10 million) arose from positive risk premiums on derivative trading transactions. One key boost to trading profits during the coronavirus crisis period came from the precious metals business, where earnings rose to EUR 49 million (FY 2019: EUR 13 million). The changes in the counterparty-specific risk premiums were due to a marked widening in credit spreads at the start of the coronavirus crisis in March 2020, followed at the end of the year by a significant tightening in credit spreads. As at 31 December 2020, an allocation of EUR 2 million (FY 2019: no change) was made as a result to the fund for general bank risks pursuant to Section 340g HGB.

Other operating profit/loss

After netting other operating expenses, income and other taxes, the Bank posted an other operating loss of EUR 15 million (FY 2019: profit of EUR 110 million). The previous years figure was mostly impacted by a positive one-off effect from the receipt of high interest payments on tax receivables from a concluded legal dispute.

Risk provisions and gains or losses on revaluation

As at 31 December 2020, risk provisions and gains or losses on measurement comprised:

EUR million	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019
Gains or losses on credit business	51	76
Gains or losses on liquidity reserve securities	46	26
Risk provisions	**97**	**102**
Gains or losses on the measurement of fixed asset securities and hedging derivatives	–	36
Gains or losses on participations/equity interests	(1)	6
Gains or losses on measurement	**(1)**	**42**

Changes within the risk provisions line item produced a gain after netting of EUR 97 million (FY 2019: EUR 102 million). Of this, EUR 51 million related to risk provisions in the credit business (FY 2019: EUR 76 million), with this gain, in turn, the result of net additions in the credit business in the amount of EUR 132 million (FY 2019: EUR 258 million) being more than offset by other income of EUR 184 million (FY 2019: EUR 334 million). The other income of EUR 163 million (FY 2019: EUR 309 million) comprised recoveries on written down receivables. Most of this amount came from receipts from the resolution of HETA Asset Resolution AG, Vienna. In addition, triggered by the difficult market environment caused by the coronavirus crisis and changes in economic conditions, a further adjustment was made to the parameters used to calculate the risk provisions in the credit business. As a result of this adjustment, additional expenses of EUR 91 million were created (FY 2019: EUR 0.4 million).

Valuation gains on securities in the liquidity reserve stood at EUR 46 million (FY 2019: EUR 26 million). This was almost exclusively the result of proceeds from the sale of bonds.

There were only very small gains on the measurement of fixed asset securities in the financial year. The previous years figure was boosted by a positive one-off effect from price gains in the amount of EUR 36 million.

For financial year 2020, the Bank reported a measurement loss on participations/equity interests and shares in affiliated companies of EUR 1 million (FY 2019: gain of EUR 6 million). Most of the impact on this line item came from expenses from loss transfers and writedowns of investments in the total amount of EUR 5 million (FY 2019: EUR 5 million), which offset sales proceeds and reversals in the amount of EUR 4 million (FY 2019: EUR 11 million).

Operating profit/loss

The operating profit before taxes amounted to EUR 240 million (FY 2019: EUR 512 million).

Gains or losses from extraordinary items

The Bank reported a loss from extraordinary items of EUR 245 million (2019: loss of EUR 210 million). This line item comprised expenses from establishing restructuring provisions for the agreed reductions in headcount as part of the "Fokus 2024" transformation programme in the amount of EUR 224 million and a further EUR 17 million for non-recurring charges in the IT Division.

Gains or losses on income taxes

Income tax income of EUR 43 million (FY 2019: expenses of EUR 8 million) was generated under this line item, and this included the tax expenses for the current year of EUR 29 million (FY 2019: EUR tax expenses of EUR 83 million) and tax income for previous years of EUR 72 million (FY 2019: EUR 75 million). The tax expenses were mostly the outcome of the current tax calculation for financial year 2020. The tax income generated in previous years was mostly from the tax refunds received for the New York branch.

Distributable profits

Following the recommendations of the EBA and ECB issued in March 2020, the Bank decided to carry forward rather than pay out the distributable profits for 2019. In the course of the reporting year, the Annual General Meeting voted to add these profits to the retained earnings. Taking into account a net profit of EUR 38 million (FY 2019: EUR 295 million) and withdrawals from retained earnings, BayernLB reported distributable profits of EUR 75 million as at 31 December 2020 (FY 2019: EUR 150 million).

BayernLB's net assets

Total assets and business and credit volumes as at 31 December 2020 were higher than in the previous year.

EUR billion	31 Dec 2020	31 Dec 2019	Change in %
Total assets	151.9	143.0	6.3
Business volume[1]	186.3	176.1	5.8
Credit volume[2]	127.5	114.6	11.3

1 Total assets plus contingent liabilities and loan commitments.
2 Loans and advances to banks and customers plus contingent liabilities from guarantees and indemnity agreements.

Assets

EUR million	31 Dec 2020	31 Dec 2019	Change in %
Cash reserves	566	3,682	(84.6)
Debt instruments issued by public entities and bills of exchange eligible for refinancing with central banks	–	397	>100.0
Loans and advances to banks	44,311	30,054	47.4
Loans and advances to customers	72,824	72,799	–
Bonds and other non-fixed income securities	15,219	16,378	(7.1)
Equities and other non-fixed income securities	109	75	44.3
Trading portfolio	7,484	9,234	(19.0)
Participations/equity interests	240	314	(23.7)
Shares in affiliated companies	2,457	2,255	9.0
Assets held in trust	5,531	5,083	8.8
Intangible assets	77	65	18.7
Property, plant and equipment	306	315	(2.8)
Other assets	2,125	1,767	20.3
Deferred income	438	540	(18.8)
Positive difference from asset offsetting	232	–	–
Total assets	**151,919**	**142,958**	**6.3**

Cash reserves

One outcome of the ongoing optimising of the Banks financing structure was a reduction in cash reserves of EUR 3.1 billion to EUR 0.6 billion (FY 2019: EUR 3.7 billion). This fall was due to the Banks liquidity management, which reduced surplus liquidity and transferred liquidity reserves of cash to central bank facilities.

Debt instruments issued by public entities

As at the end of financial year 2020, the US Treasury Bills Program was no longer being utilised by the New York branch. As a result, the holdings of debt instruments issued by public entities and bills of exchange eligible for refinancing with central banks were reduced to zero.

Loans and advances to banks

Loans and advances to banks rose by EUR 14.3 billion, primarily due to the receipt of funding from the third series of the ECB's long-term refinancing programme (TLTRO III). The funds were held as overnight deposits within the Deutsche Bundesbank's deposit facility.

Loans and advances to customers

The volume of loans and advances to customers stood at EUR 72.8 billion (FY 2019: EUR 72.8 billion), which was on par with the previous year. An increase in loans and advances to customers in Germany of EUR 0.8 billion was offset by a decrease in loans and advances to customers outside of Germany of EUR 0.8 billion.

Securities

The volume of securities fell by EUR 1.2 billion to EUR 15.3 billion (FY 2019: EUR 16.5 billion). At EUR 15.2 billion (FY 2019: EUR 16.4 billion), most of these holdings were in bonds, notes and other fixed-income securities. At EUR 0.1 billion, there was a slight fall in equities and other non-fixed income securities compared with their position as at 31 December 2019.

Trading portfolio (assets)

Besides the turbulent market conditions, the reorganisation of the capital markets business agreed in 2019, coupled with a winding down of non-strategic products was the biggest driver of the contraction in the trading portfolio (assets). As at the reporting date, the volume of the trading portfolio (assets) was EUR 1.7 billion lower at EUR 7.5 billion (FY 2019: EUR 9.2 billion). The most important changes took place in receivables held for trading, which fell by EUR 0.7 billion and bonds, notes and other fixed-income securities, which dropped by EUR 0.5 billion.

Participations/equity interests and shares in affiliated companies

The value of the equity interests held by the Bank decreased to EUR 240 million (FY 2019: EUR 314 million), largely due to a retrospective change in a carrying amount in connection with a hedge within a valuation unit.

To strengthen DKB in its implementation of its corporate strategy, EUR 200 million was paid into the capital surplus in the reporting year. The value of the shares in affiliated companies line item rose as a result to EUR 2.5 billion (FY 2019: EUR 2.3 billion).

Assets held in trust

Assets held in trust rose by EUR 448 million to EUR 5.5 billion in the reporting year (FY 2019: EUR 5.1 billion). The reason for the increase was the uptake in the use of government subsidies since the coronavirus pandemic began. Of this increase, EUR 293 million related to the passing on of KfW loans by BayernLB.

Other assets

Compared with the previous year, other assets rose by EUR 358 million to EUR 2.1 billion (FY 2019: EUR 1.8 billion). The main factor behind this was the jump in the price for CO_2 certificates to EUR 32 per tonne (FY 2019: EUR 24 per tonne). The impact of this was to increase the carrying amount of emissions certificates by EUR 300 million to EUR 1.3 billion (FY 2019: EUR 1 billion) despite the numbers remaining almost unchanged.

Positive difference from asset offsetting

As at 31 December 2020, a positive difference from asset offsetting arose for the first time. This was due to the transfer of EUR 2.4 billion in funds to BayernLB Treuhand e. V., Munich in the reporting year. The assets held in trust by the association are used to cover pension liabilities and meet the rules for capitalising offsettable plan assets. Surplus assets of EUR 232 million were left offsetting the fair value of the plan assets against the pension obligation. Of this amount, EUR 179 million related to BayernLB and EUR 53 million to BayernLabo.

Liabilities

EUR million	31 Dec 2020	31 Dec 2019	Change in %
Liabilities to banks	54,185	39,021	38.9
Liabilities to customers	36,715	38,839	(5.5)
Securitised liabilities	38,223	39,303	(2.7)
Trading portfolio	3,974	4,629	(14.1)
Liabilities held in trust	5,531	5,083	8.8
Other liabilities	539	819	(34.3)
Deferred income	365	540	(32.4)
Provisions	1,862	3,839	(51.5)
Subordinated liabilities	1,526	1,551	(1.6)
Profit participation certificates	–	385	(100.0)
Fund for general banking risks	1,086	1,050	3.5
Equity	7,913	7,901	0.2
Total liabilities	**151,919**	**142,958**	**6.3**

Liabilities to banks

Liabilities to banks rose by EUR 15.2 billion, primarily due to the receipt of funding from the third series of the ECB's long-term refinancing programme (TLTRO III). The Bank utilised EUR 13 billion from the ECB's TLTRO III facility.

Liabilities to customers

Liabilities to customers decreased by EUR 2.1 billion to EUR 36.7 billion (FY 2019: EUR 38.8 billion). Both liabilities to domestic and foreign customer fell back by around EUR 1 billion each.

Securitised liabilities

Securitised liabilities fell overall by EUR 1.1 billion to EUR 38.2 billion (FY 2019: EUR 39.3 billion). Money market instruments made up the biggest proportion, falling by EUR 1.8 billion to EUR 3.5 billion (FY 2019: EUR 5.2 billion). As it had sound levels of liquidity, the Bank did not issue any short-term money market instruments in 2020. However, the Bank's holdings of issued bond and notes rose slightly by EUR 0.5 billion to EUR 34.6 billion (FY 2019: EUR 34.1 billion).

Trading portfolio (liabilities)

The value of the trading portfolio (liabilities) stood at EUR 4 billion, which was down on the previous year's figure of EUR 4.6 billion. Its key components were negative fair values of derivatives held for trading, valued at EUR 2.9 billion (FY 2019: EUR 2.5 billion), and liabilities held for trading, valued at EUR 1 billion (FY 2019: EUR 2.1 billion).

Liabilities held in trust

Liabilities held in trust rose in line with the trust assets by EUR 448 million to EUR 5.5 billion (FY 2019: EUR 5.1 billion).

Provisions

To cover the pension obligations, in financial year 2020 the first transfer of funds in the amount of EUR 2.4 billion was made to BayernLB Treuhand e. V., Munich under a contractual trust arrangement (CTA). The plan assets were netted against the covered liabilities. Where the assets exceeded the liabilities that needed to be covered, the resulting surplus was reported as a positive difference from asset offsetting.

Provisions for pensions declined by EUR 2.9 billion to around EUR 1 billion after pension obligations were offset against plan assets.

Other provisions were higher year on year, mainly due to an addition to provisions for restructuring measures in connection with the "Fokus 2024" transformation programme. As at 31 December 2020, the Bank made a provision for future restructuring measures under the "Fokus 2024" transformation of around EUR 428 million, of which EUR 402 million had been set aside for human resources measures.

Profit participation certificates

Due to the expiry of profit participation rights, there were no profit participation certificates in the reporting year (FY 2019: EUR 385 million).

Fund for general banking risks

The fund for general banking risks was valued at around EUR 1 billion. This was slightly higher than in the previous year, which was due to a transfer payment to it of EUR 36 million (FY 2019: EUR 30 million). A special item pursuant to section 340e para. 4 HGB in the amount of EUR 59 million (FY 2019: EUR 57 million) was reported under the fund for general banking risks.

Equity

As at 31 December 2020, the Bank's equity as reported on the balance sheet comprised:

EUR million	31 Dec 2020	31 Dec 2019	Change in %
Subscribed capital	3,413	3,439	(0.7)
Capital surplus	2,182	2,182	–
Retained earnings	2,243	2,130	5.3
Distributable profits	75	150	(50)
Equity	**7,913**	**7,901**	**0.2**

The lower figure for subscribed capital was due to the full repayment of silent partner contributions in the amount of EUR 25 million. Statutory nominal capital remained unchanged at EUR 2.8 billion (FY 2019: EUR 2.8 billion). There was no year-on-year change in the capital surplus, which stood at EUR 2.2 billion (FY 2019: EUR 2.2 billion). EUR 150 million was allocated to retained earnings in the reporting year (2019: EUR 0 million). Subject to the approval of the Annual General Meeting, the distributable profits of EUR 75 million will be paid to BayernLB's shareholders.

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

The banking supervisory capital under CRR/CRD IV as per the prepared consolidated financial statements as at 31 December 2020 comprised:

EUR billion	31 Dec 2020	31 Dec 2019	Change in %
Total RWAs	44.4	42.7	4.0
Own funds	10.0	10.2	(2.0)
Core capital	8.5	8.6	(1.2)
Common Equity Tier 1 capital (CET1 capital)	8.5	8.6	(1.2)
Total capital ratio (%)	22.6	23.8	(5.0)
Common Equity Tier 1 (core tier 1 ratio) in percent	19.0	20.1	(5.5)

As at 31 December 2020, the return on capital employed as defined in section 26a para. 1 sentence 4 of the German Banking Act (KWG)[38] was 0.0 percent (FY 2019: 0.2 percent).

BayernLB's financial position

During financial year 2020, it was ensured that liquidity reserves at BayernLB were always adequate, even in stress situations. For further details, refer to the risk report in the combined management report.

Overall assessment of BayernLB's net assets, financial position and results of operations

BayernLB's results of operations were mostly satisfactory in 2020. BayernLB's net assets and financial position were solid in financial year 2020. The Bank's liquidity was good throughout the reporting period.

[38] *Ratio of net profit for the year and total assets.*

Risk report

Principles

This risk report sets out the risk situation of the BayernLB Group and BayernLB as at 31 December 2020. The following explanations refer primarily to risk management in the BayernLB Group. The BayernLB key figures at the individual bank level are shown in addition to those at Group level. A separate explanation is provided where procedures and processes differ.

This risk report is prepared in accordance with the requirements of IFRS 7.31 et seq. on the reporting of risks arising from financial instruments and risks to which the BayernLB Group was exposed at the end of the reporting period. Presentation of the risks is principally based on information supplied as a basis for risk management and monitoring to the Board of Management and the Risk Committee of the Supervisory Board (management approach).

For information on the inclusion of forbearance exposures in risk-based management, please refer to the intensive support, problem loan handling and forbearance section of the report. The relevant quantitative data is to be found in the portfolio overview in accordance with IFRS 7.34 a (Management Approach) section.

The risk report further contains information required in accordance with German Accounting Standard GAS 20.

Regulatory developments

EU sustainable finance regulation and, in particular, climate and environmental risk

BayernLB Group has been addressing the topic of sustainability for many years. Sustainability is a priority in DKB's business model in particular and the topic is also being accorded greater importance by BayernLB in its lending and treasury measures. Comprehensive additional measures were adopted in the Guide on climate and environmental risks published by the ECB in 2020, which focused on organisation and strategy and also adapted many aspects of governance. For example, the requirements of the EU Taxonomy Regulation were incorporated into the processes when taking account of the EU regulations on sustainable finance.

Key developments in 2020

- Largely stable risk profile
- Further growth of new business
- Risk-bearing capacity maintained at all times
- Liquidity position remained healthy

The risk profile of the BayernLB Group remained largely stable in the 2020 financial year, despite business growth and the outbreak of the coronavirus crisis, due to stricter risk guidelines and proactive risk management.

Gross credit volume rose significantly by around EUR 33.7 billion to EUR 313.4 billion.

The increase is mainly the result of participation in the ECB's TLTRO III programme. In line with strategy, new business came in particular from commercial real estate. Growth in the Financial

Institutions sub-portfolio mainly stemmed from the increase in demand for government subsidy programmes associated with the coronavirus pandemic.

The portfolio quality remains high overall, even taking into account the clear negative impact of the coronavirus pandemic in the Corporates sub-portfolio in particular and without taking into consideration the effects of the significant increase in business volume with the Deutsche Bundesbank as a result of investing the liquidity obtained under the TLTRO III programme.

Despite the impact of coronavirus, risk-bearing capacity was maintained throughout the financial year as the provision of capital was solid at all times. In addition, the BayernLB Group had a good supply of liquidity on hand.

Internal risk management system

Management structure

As part of the "Fokus 2024" transformation programme, the BayernLB committees below the level of the Board of Management were subjected to a comprehensive review and streamlined in 2020 to fit the requirements of the future realignment. As the current reporting to the Board of Management already includes comprehensive information on the key figures (capital, performance, risk and liquidity) as part of the Group Management report, it was decided that the preparatory and largely advisory upstream Board of Management committees (Performance & Capital Committee, Risk Committee and Liquidity Committee) should be abolished. In addition, the remaining boards were consolidated at senior management level (e.g. Investment Boards) or abolished by transferring their tasks to the responsible line units (e.g. Data Management Board).

Management structure

Supervisory Board and committees

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

The Audit Committee monitors the accounting processes, the effectiveness of the risk management system, particularly the internal control system and internal audit activities, as well as the correction of open audit findings.

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

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

Board of Management

In managing the business and the company the Board of Management is supported by the following boards in particular.

Senior management (boards)

At senior management level the boards generally act across the segments, without any direct involvement by the Board of Management.

The Capital Board, chaired by the head of the Finance Division, monitors and manages changes in risk-weighted assets (RWAs) at BayernLB.

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

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

The Investment Board is the highest decision-making body below the Board of Management with the authority to allocate capital and resources for the respective business areas and is responsible for the business area-specific management carried out on the basis of centrally issued rules and ratios and the strategic targets of these areas.

Other boards set up by the Board of Management include the Remuneration Board, the Project & Investment Board, the CFO/COO Board, the Regulatory Board and the NFR (Non-Financial Risk) Board.

Organisation

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

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

Risk Office

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

Group Risk Control independently identifies, evaluates, analyses, communicates, documents and monitors all risk types at an aggregated level. For the purposes of operational management of risk types and risk-bearing capacity, Group Risk Control provides the Board of Management and committees with independent and risk-appropriate reports.

In addition to periodic and ad hoc reporting on the BayernLB Group's risk situation to internal decision-makers, communication also includes external risk reports filed in accordance with legal and supervisory requirements. This includes reports on the performance of the indicators selected in accordance with the Minimum Requirements for the Design of Recovery Plans (MaSan) and the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz (SAG)).

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

The Credit Consulting Division looks after the restructuring and liquidation exposures and is responsible for BayernLB´s credit portfolio management. The Division performs the roles of both the Sales units and the Risk Office for the exposures assigned to it.

The main responsibilities of the Research Division are observing global economic and, insofar as they are relevant for the banking and financial markets, political trends, as well as financial market developments worldwide, particularly in Germany, the euro area and the US, on an ongoing basis. The Division prepares analyses and forecasts on all macro-economic topics, on real estate, on financial market trends (money, bond and equity markets) and on megatrends. The Division is also responsible for preparing analyses on the credit market and for issuers, corporate bonds and Schuldschein note loans, for services to support BayernLB's underwriting and placing business and for country risk and sector analysis.

Financial Office

Operational implementation of uniform Group-wide accounting standards is the responsibility of the Financial Office Central Area, which ensures that the accounts are properly prepared. It is also responsible for establishing the accounting process and ensuring its effectiveness.

Its key tasks include preparing the consolidated financial statements and the combined report on the Bank and the Group, establishing accounting policies, initiating accounting-related projects and providing guidance on national and international developments in accounting.

The Financial Office Central Area also implements the relevant accounting standards and legal requirements on accounting, which are detailed in the directives for preparing the accounts.

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

In addition, the Financial Office Central Area is responsible for supervisory reporting and the operational implementation of consistent rules across the Group as part of management controlling, and lays down standards for methods and procedures.

Operating Office

The Operating Office Central Area is responsible for BayernLB's operating processes and supporting these in the Operations & Banking Services, Credit Services & Purchasing and Information Technology divisions.

Operations & Banking Services deals with processing payments, trading transactions, foreign notes and coins and physical precious metals, and also facility management.

The Credit Services & Purchasing Division pools the credit-related tasks, frees up the Sales and Credit Analysis units to concentrate on their primary tasks, and, with its standardised, lean processes, makes a key contribution to boosting customer business and achieving the planned business growth. It is also responsible for central purchasing.

The Information Technology Division is responsible for providing IT governance functions, IT services, strategic management of the IT units in all foreign branches and strategic equity interests.

Corporate Center

The Group Compliance Division monitors and ensures compliance with legal and supervisory requirements, in addition to managing non-financial risks (outsourcing risk, information security risk, business continuity management, data protection and fraud risks). In particular, the Division also coordinates the compliance activities of the subsidiaries.

The Audit Division audits BayernLB's business operations and reports directly to the CEO. Taking a risk-oriented auditing approach, its auditing activities extend to all activities and processes within BayernLB. Its activities also include important processes and activities outsourced to third parties. As Group internal auditor, the Audit Division also supplements the internal auditing units of the subordinate companies.

The Legal Services & BoM Support, Group Development & Transformation and Human Resources divisions also report directly to the CEO, as does the Sustainability Executive Unit, which was set up in 2020.

Internal control procedure in risk management

The internal control and risk management system is governed by the internal written organisational rules (schriftlich fixierte Ordnung (SFO)). The potential impact on control procedures and intensity in the event of material changes to structures and procedures or IT systems is analysed in accordance with a defined process.

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

Risk-oriented management

Group Risk Strategy

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

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

The BayernLB and BayernLB Group risk strategy for 2020 encompassed the following main objectives:

- Ensure on a sustainable basis that the amount and quality of risk-bearing capacity is appropriate from both a regulatory and economic perspective (capital adequacy)
- Ensure BayernLB is solvent at all times
- Ensure BayernLB only takes on risks it is able to assess and manage
- Ensure quality takes priority over quantity when it comes to portfolio growth
- Maintain a risk culture that promotes the identification of and a conscious approach to risks and ensures that decision-making processes produce results which are also balanced from a risk perspective
- Sales and Risk units are jointly responsible for earnings after risk provisions
- Achieve sound and sustainable profitability
- BayernLB applies high ethical principles in its business activities
- The employee incentive schemes (remuneration system) are consistent with the Business and Risk Strategy

The economic capital available for allocation in the BayernLB Group is based on the long-term capital available and was allocated within the BayernLB Group by risk type. The Risk Strategy specified the maximum risk appetite, both overall and by risk type.

The basis for setting the Risk Strategy is the annual risk inventory carried out in accordance with MaRisk and the risk-bearing capacity calculation. The risk inventory examines not only BayernLB but also the subsidiaries, equity interests and special purpose entities in the BayernLB Group, regardless of whether they are consolidated under German commercial law or supervisory requirements. The BayernLB Group's overall risk profile is then presented to the Board of Management. The major risks at the BayernLB Group and BayernLB are credit risk, market risk, liquidity cost risk, operational risk, risk associated with equity interests and pension basis risk, business and strategic risk and reputational risk. The individual types of risk are discussed below.

Capital management

Capital management is based on a planning process that incorporates strategic, risk-based and regulatory factors into a multi-year operational plan. The Business Strategy is an essential element in the preparation of the Group Risk Strategy and the preparation, intra-year review and updating of the capital planning.

Integrated risk and earnings reporting

Trends in performance, capital, liquidity and risk are combined into a monthly Group management report presented to the Board of Management. As a component of the integrated reporting, the Group management report provides an initial impression of the current situation of the BayernLB Group and the Group units with key figures and ratios. Additional detailed information focused on the four key areas is then presented and commented on (in particular on the Group risk status (update at the end of the month) and the Group risk report). In addition, comprehensive reports were sent to the BayernLB committees on the impact of the coronavirus pandemic on the risk profile of the BayernLB Group in 2020.

The instruments used to manage and monitor the achievement of Business and Risk Strategy goals are constantly refined at Group level.

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

Regulatory capital adequacy (solvency)

To ensure BayernLB has an adequate amount of regulatory capital, the following objectives, methods and processes have been defined: the starting point for the allocation of regulatory capital is the BayernLB Group's own funds planning. Own funds are defined as Common Equity Tier 1 capital (CET1), Additional Tier 1 capital and Tier 2 capital. Common Equity Tier 1 capital comprises subscribed capital plus reserves, the capital contribution of BayernLabo and various supervisory adjustments and deductions. Additional Tier 1 capital is made up of dated silent partner contributions. Tier 2 capital comprises mostly long-term subordinated liabilities.

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

Regulatory capital is distributed in the planning process to each planning unit through RWAs. The planning units (Group units) are the defined business areas and divisions of BayernLB, as well as BayernLabo and DKB. The intra-year reviews were used in particular to analyse and evaluate the impact of the coronavirus crisis.

RWAs are allocated to the Group units through a top-down distribution approved by the Board of Management, combined with an internally determined capital ratio. Compliance with the RWA budgets available to each Group unit is continuously monitored. The Board of Management receives monthly reports on current RWA utilisations.

In addition to the CRR, BayernLB is subject to the European Central Bank's Supervisory Review and Evaluation Process (SREP). As a result of the outcome of the SREP, BayernLB was assigned a total capital ratio of 10 percent on a consolidated basis and taking into account the transitional provisions in CRR.

In support of the coronavirus crisis management efforts, the banking supervisory authorities passed various easing measures in 2020, including a temporary reduction of the capital adequacy requirements.

With a CET1 ratio of 15.9 percent and despite market turbulence as a result of the coronavirus pandemic, the BayernLB Group has a very solid capital base and is currently not making use of the capital adequacy easing measures.

Details on increases or decreases in the Group's supervisory ratios are provided in the report on the economic position in the combined management report. BayernLB publishes additional information in the disclosure report in accordance with section 26a German Banking Act (KWG). The disclosure report can be found on BayernLB's website under "Disclosure Report".

Economic capital adequacy (risk-bearing capacity)

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

The supervisory (normative) and economic aspects are closely coordinated in keeping with the ECB's guidelines on the design of internal bank processes to ensure that banks maintain an adequate capital base and sufficient liquidity. The capital and the capital components are the starting point for the supervisory (normative) and economic aspects. The available economic capital is derived from the regulatory capital, plus or minus certain capital components.

The planning of economic risks for the risk-bearing capacity calculation and the planning of the economic capital are integral parts of the Group planning process described in the regulatory capital adequacy section. The risk assessment is based on the risks that could have a significant economic impact on the capital position, which ensures that both the normative and economic perspectives of risks are uniformly and consistently taken into account.

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

As part of the intra-year review of medium-term planning, the potentially negative effects of the coronavirus pandemic were taken into account by temporarily increasing the maximum risk appetite in the BayernLB Group from EUR 6.9 billion for 2020 (FY 2019: EUR 7.1 billion) to EUR 7.8 billion and in BayernLB from EUR 5.5 billion (FY 2019: EUR 5.5 billion) to EUR 6.4 billion. Each of these increases were largely for credit, market, business and strategic risks.

As at 31 December 2020, the BayernLB Group had economic capital of around EUR 10.3 billion (FY 2019: EUR 10.4 billion), while the figure for BayernLB was around EUR 8.0 billion (FY 2019: EUR 8.4 billion).

Stress testing

To produce an in-depth, forward-looking analysis of regulatory and economic capital adequacy, risk-bearing capacity is calculated based on the Business Strategy and supplemented by stress tests. Both scenario and sensitivity analyses are carried out for this purpose.

The Group's stress testing programme was substantially refined in 2020. The reworked stress testing framework increases the consistency between the normative (regulatory) and economic aspects and includes a severe economic downturn (global economic crisis) and other market-wide and idiosyncratic stress tests. This therefore made the previous exclusively value-at-risk-based ICAAP stress scenario redundant. Even under the assumption of an extended global economic crisis triggered by the current coronavirus pandemic, there would be sufficient risk-bearing capacity, despite a considerable increase in the risk capital requirement.

In addition to historical scenarios, the impact of adverse changes in risk factors both on specific risk types and across risk types is also analysed using hypothetical scenarios. The latter in particular have a major role in the analysis of situational scenarios. They also take into account potential threat scenarios for the BayernLB Group that are triggered by external situations (e.g. a cyber attack). A climate stress scenario was also conducted for the first time during the reporting year.

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

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

Current situation

The table below shows year-on-year changes in risk capital requirements at the BayernLB Group and BayernLB (confidence level 99.90 percent).

Risk capital requirements in the BayernLB Group

EUR million	31 Dec 2020[1]	31 Dec 2019
Credit risk	1.331	1,405
Market risk	1.798	998
Pension basis risk (FY 2019: pension risk)	290	1,002
Operational risk	505	450
Investment risk	124	114
Business and strategic risk (includes reputational risk)	272	544
Liquidity cost risk	7	224
Total	**4.328**	**4,737**

Risk capital requirements at BayernLB

EUR million	31 Dec 2020[1]	31 Dec 2019
Credit risk	925	936
Market risk	1.190	526
Pension basis risk (FY 2019: pension risk)	288	983
Operational risk	333	300
Risk associated with equity interests	114	106
Business and strategic risk (includes reputational risk)	423	375
Liquidity cost risk	7	142
From loans provided within the BayernLB Group	397	300
Total	**3.676**	**3,667**

1 The methodology for calculating the credit risk, market risk, pension basis risk (FY 2019: pension risk) and business and strategic risk was adjusted during the course of the 2020 financial year. The previous year's figures were not restated.

Even taking into account the effects of the coronavirus pandemic, the BayernLB Group had adequate risk-bearing capacity at all times, as the provision of risk capital was solid. Following the temporary sharp increase in market risk in March 2020 as a result of coronavirus, the risk capital requirement rose relatively moderately, despite the ongoing coronavirus pandemic. The negative impact of the coronavirus pandemic manifested itself only to a minor degree in credit risk via the Corporates portfolio. The decline is largely down to methodological parameter changes in the credit risk. The BayernLB Group had economic capital of around EUR 10.3 billion (FY 2019: EUR 10.4 billion), while the figure for BayernLB was around EUR 8.0 billion (FY 2019: EUR 8.4 billion).

Since the introduction of a change in methodology, the general interest rate risk calculated from the pension liabilities previously included under pension risk is now taken into account in market risk. This resulted in a transfer of risk capital requirements between pension risk/pension basis risk and market risk in the financial year, which led to a significant reduction in the remaining pension basis risk compared to the previous year. The general interest rate risks from the build-up of pension assets to secure the risks from the pension obligations (Contractual Trust Arrangement (CTA)) are included in market risk.

In addition, the calculation of the business and strategic risk has therefore been modified in such a way that the two business-related P&L positions net interest income and administrative expenses have been calculated in a correlated manner since 1 January 2020. In the BayernLB Group in particular, this led to a significant reduction in the risk capital requirement on the comparison date of 31 December 2019 to EUR 47 million (previously: EUR 544 million) and in BayernLB to EUR 168 million (previously: EUR 375 million). In contrast, the risk capital requirement again rose sharply as at 31 December 2020 due to the anticipated negative impact of the coronavirus crisis (BayernLB Group: EUR 272 million, BayernLB: EUR 423 million).

The significant fall in the liquidity cost risk as at 31 December 2020 compared to the previous year is largely the result of participation in TLTRO III.

Recovery plan

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

The recovery plan was amended in 2020 to take account of changes in the system of indicators, the focus on a coronavirus scenario and the tightening of the possible courses of action. The thresholds for the one and two-stage indicators in the recovery plan, which are set mainly at the Group level and are based on the German Recovery and Resolution Directive (Sanierungs- und Abwicklungsgesetz (SAG)) and Minimum Requirements for the Design of Recovery Plans (MaSan), were reached for five indicators as a result of the impact of the coronavirus pandemic. As the markets calmed down over the course of the year, only two economic indicators remained at warning levels. Against this background, no recommendations for action needed to be sent to the Board of Management.

Resolution plan

In the EU regulation on a uniform Single Resolution Mechanism (SRM Regulation) and the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz (SAG)), lawmakers directed resolution authorities at the European and national level to maintain resolution plans for banks that can be activated in an emergency to avert threats to the financial system, where possible without the need for public money.

BayernLB complied with its legal obligations by assisting the responsible resolution authorities (the Single Resolution Board (SRB) and the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)) in developing such a resolution plan for the BayernLB Group and took measures to ensure its resolvability in compliance with the preferred resolution strategies determined by the authorities.

Credit risk

In accordance with their business model, the largest risk for the BayernLB Group and BayernLB is credit risk. Customers include large corporates and Mittelstand companies, real estate customers, financial institutions, the public sector and the savings banks in Germany. DKB is a further significant segment of the business model of the BayernLB Group, with its retail customers and target customers in the infrastructure and corporate customers sectors.

Definition

BayernLB defines credit risk as the risk of losses (in value) from all transactions giving rise to an actual, possible or contingent claim by the Bank against a borrower, counterparty, obligor or issuer, whenever these losses (in value) result from a default or change in the borrower's credit rating (migration risks) and/or from a change in the value of collateral provided. Risks from changes in the credit rating of securities are handled primarily by managing interest rate risks. A distinction is drawn between market-related and credit rating-related interest rate risks in the management of interest rate risks. This is also reflected in the separate presentation of the risk capital requirements for credit risks and market risks.

Credit risk also includes in particular country risk which results from country-specific circumstances (e.g. political or economic crises or currency restrictions). A distinction is made between transfer risk and country risk in the sense of a credit event caused by the country itself. Transfer risk is the risk of a loss occurring if a borrower is unable to meet its obligations in a foreign currency or the institution is unable to access an amount paid due to government transfer restrictions. Country risk as a credit event risk is the risk of a loss resulting from macroeconomic and (socio)political events in a country, in particular as the result of a crisis, arising from parallel changes in credit ratings (including default) of those borrowers that are attributable to that country from a risk perspective.

Organisation

The credit approval process at BayernLB consists of several stages. The Competence Regulations define the authority of the different competence holders based on the loan volume to be approved, the business area it is allocated to and the rating classification. Credit decisions which, pursuant to the KWG or the Competence Regulations, require the approval of the Board of Management or Risk Committee of the Supervisory Board are discussed and voted on in advance by the Credit Risk Board, which itself is a competence holder.

The decision-making process at DKB is similarly organised. In addition, members of BayernLB's Board of Management sit on DKB's Supervisory Board and its committees.

The Group Risk Control division is responsible for measuring and monitoring credit risks.

Risk Strategy

The credit risk strategy – which is part of the comprehensive Risk Strategy – is determined by the Board of Management for BayernLB and the BayernLB Group, taking account of risk-bearing capacity considerations.

Risk measurement

Risk classification procedure

In accordance with the Internal Ratings-Based approach (IRBA), the BayernLB Group uses rating procedures that are approved by the supervisory authorities. To maintain and refine the rating procedures, BayernLB works mainly with RSU Rating Service Unit GmbH & Co. KG, Munich, and Sparkassen Rating und Risikosysteme GmbH, Berlin. All rating procedures are subjected to a regular validation process to ensure they are able to correctly determine the default probabilities in each customer and financing segment. Validation includes both quantitative and qualitative analyses of the rating factors and the overall models. The accuracy and calibration of the procedures, and the data quality and the design of the models are examined using statistical and qualitative analyses and user feedback from daily application. The procedures are regularly modified where necessary.

Due to new supervisory requirements, it was decided in 2020 that in future the parameters probability of default (PD), loss given default (LGD) and credit conversion factor (CCF) will be estimated without a margin of conservatism (best estimate) and that the margin of conservatism will be disclosed separately. This was first implemented in the financial year for the parameters LGD and CCF, as the supervisory review and approval for the parameter PD is expected in the next financial year due to BayernLB's IRBA status.

Exposure at default

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

Collateral valuation and loss ratios

The market value is taken as the starting point for collateral valuation. It is reviewed on both a scheduled and ad hoc basis and adjusted whenever there is a change in valuation-relevant parameters. Based on these individual collateral valuations, the Bank estimates the size of the loss upon default, which is principally calculated using differentiated models for realisation ratios (average expected proceeds from the realisation of collateral) and for recovery rates (share of proceeds from the unsecured portion of a claim). The unsecured loss given default (LGD) is determined using the recovery rate. This shows the expected loss from the unsecured exposure of a loan. The different resolution scenarios (resolution, restructuring and recovery) are considered. These models are likewise updated and refined in partnership with RSU Rating Service Unit GmbH & Co. KG, Munich, and Sparkassen Rating und Risikosysteme GmbH, Berlin, using pooled data and internal loss data. All models are regularly validated and checked for their representativeness.

Expected loss

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

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

Unexpected loss

The BayernLB Group calculates unexpected loss at portfolio level using a simulated credit portfolio model which quantifies default and migration risks on a one-year horizon as well as the uncertainty in determining loss ratios with a confidence level of 99.90 percent. Dependencies among borrowers in the portfolio are quantified using a country and sector-specific model. Settlement risks and defaulted positions are additionally taken into account. The impact of an individual business partner on the unexpected loss of the whole portfolio is also calculated for risk analysis purposes.

Risk monitoring

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

Early warning

The aim of the early warning system is to identify negative changes in the risk profile of a business partner at an early stage, so as to be able to undertake suitable measures in good time to reduce the risk. To achieve this objective, a list of various risk signals has been created to give a reliable early warning of a deterioration in risk. The risk signals fall into quantitative, automatic signals (e.g. based on market price information about business partners or exposure data from feeder systems) and qualitative signals that are entered manually in the early warning system based on the expert opinion of relationship managers and analysts.

Under the defined, system-driven early warning process the responsible analysts react promptly and appropriately, i.e. the business partner is assigned a support type appropriate to the risk situation and, if necessary, steps are taken to improve the situation.

Credit risk limits for borrowers and borrower units

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

Sector and country limits

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

Risk capital requirements

BayernLB manages unexpected losses/risk capital requirements using appropriate limits at Group, individual institution and business-area levels. This also includes the positions that are built up in connection with the contractual trust arrangement (CTA)) to secure the risks from the pension obligations in the BayernLB Group. In addition, the sensitivity of key risk input parameters (mainly probabilities of default, loss ratios and correlations) is calculated regularly and supplemented by various stress tests, which in different forms (hypothetical, based on historical observations) are used to assess risk-bearing capacity.

Collateral

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

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

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

The BayernLB Group employs derivative instruments to reduce credit and market risks. In derivatives trading, the usual practice is to conclude master agreements for the purposes of close-out netting. In many cases there are collateral agreements restricting the default risk to an agreed maximum and authorising a call for additional collateral should this limit be exceeded. Limits are imposed as part of the generally applicable limitation process for credit risk.

Intensive support, problem loan handling and forbearance

Problem exposures are all exposures that require special attention due to their elevated risk situation, i.e. categorised as requiring intensive support or problem loan handling.

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

At BayernLB, the Credit Consulting Division is responsible for handling problem loans and therefore acts as an independent Workout Unit as defined in the regulatory requirements. At DKB this function is performed by the institution's own Credit Consulting Division.

Forbearance measures are approved as part of problem loan handling. All exposures where forbearance measures have been agreed are designated as forborne exposures. Such measures aim to enable the borrower to regain the ability to repay its loan or to minimise potential losses. Forbearance measures exist in all cases where concessions have been granted to a counterparty in financial difficulties in the form of refinancing/restructuring and/or the original terms and conditions of the loan agreement have been modified (e.g. a deferral, waiver or standstill agreement).

Exposures cease to be reported as forborne if all of the following criteria are met:

- The exposure has no longer been rated as non-performing for more than two years (probationary period) or at least two years have passed since the last approved forbearance measure (good conduct period)
- Principal and interest payments have been duly made during the probationary period on a material portion of payments due
- None of the borrower's exposure is more than 30 days overdue at the end of the probationary period

Quantitative data on forborne exposures is shown as renegotiated credits in the portfolio overview section under portfolio overview in accordance with IFRS 7.34a (management approach).

Risk provisions

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

Where necessary, due account has been taken of the risks in the credit business through risk provisions. Details are set out in the notes.

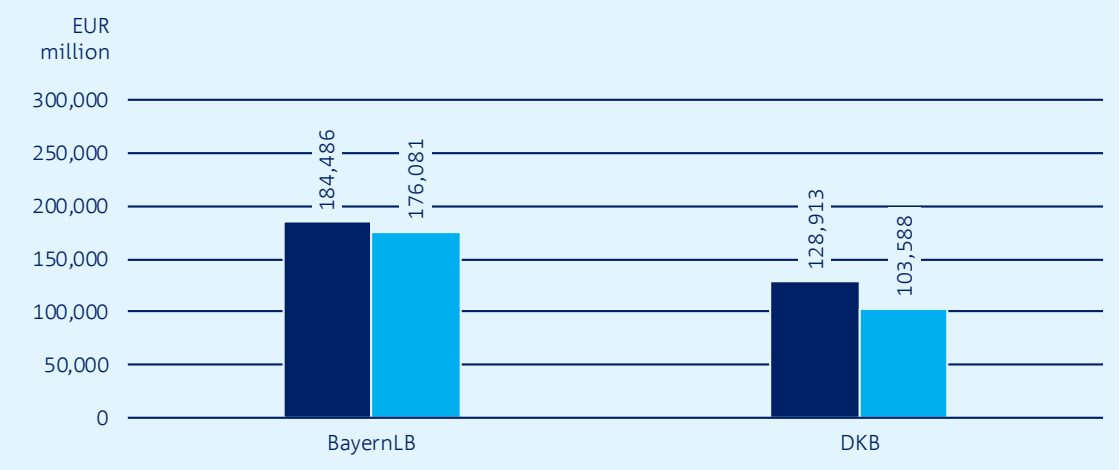
Current situation

The following presentation of credit risk is based on the figures used for internal reporting to the Board of Management and the Risk Committee of the Supervisory Board (management approach). These figures are derived from the economic perspective (e.g. taking account of undrawn overdraft facilities). The quantitative data on forbearance exposure and coronavirus-related measures is shown in the renegotiated credits section on the basis of the IFRS consolidated figures. The disclosures pertaining to IFRS 7.35 A- 7.38 can be found in notes 2, 9, 42, 45, 56, 60, 74 and 75.

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

The figures for the management approach include BayernLB and DKB.

Gross credit volume by Group unit



30 Dec 2020 Total: EUR 313,399 million
31 Dec 2019 Total: EUR 279,669 million

The gross credit volume for credit transactions comprises the gross lending volume – drawdowns plus unutilised commitments – and undrawn overdraft facilities. For trading transactions it is calculated from market values, for derivatives transactions from credit equivalent amounts.

Compared to 31 December 2019, the BayernLB Group's gross credit volume rose by EUR 33.7 billion or 12.1 percent to EUR 313.4 billion.

The Countries/Public-Sector/Non-Profit Organisations sub-portfolio posted the largest increase (EUR 26.5 billion). The significant increase is essentially the result of the participation of both institutions in the long-term refinancing tender TLTRO III and the associated liquidity investments at the Deutsche Bundesbank. As a result, the gross credit volume with the Deutsche Bundesbank rose to around EUR 28.6 billion.

Excluding the increased liquidity investments at the Deutsche Bundesbank, the gross credit volume at the BayernLB Group rose by EUR 5.1 billion. In keeping with the strategy, the Commercial Real Estate (EUR 4.1 billion) und Retail/Other (EUR 1.8 billion) sub-portfolios played a significant part in the increase in business.

The impact of the coronavirus pandemic was especially strongly felt in the Corporates sub-portfolio during the reporting period. Sectors highly impacted by restrictions associated with the pandemic were particularly affected, as was the case for the tourism and aviation sectors, for instance. The longer the pandemic-related restrictions continue to affect the economy, the more likely the Group portfolio is to suffer further declines in creditworthiness.

Gross credit volume at the BayernLB Group, BayernLB and DKB by sub-portfolio

	BayernLB Group			BayernLB		DKB	
EUR million	31 Dec 2020	31 Dec 2019	Change (in %)	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Countries/Public Sector/ Non-Profit Organisations	91,677	65,150	40.7%	47,867	39,886	43,810	25,264
Corporates	74,659	74,142	0.7%	53,791	55,316	20,868	18,826
Commercial Real Estate	59,186	55,105	7.4%	28,346	26,908	30,839	28,196
Financial Institutions	52,824	52,001	1.6%	50,957	50,303	1,867	1,698
Retail/Other	35,053	33,271	5.4%	3,525	3,667	31,529	29,604
of which Retail	34,919	33,140	5.4%	3,390	3,536	31,529	29,604
Total	**313,399**	**279,669**	**12.1%**	**184,486**	**176,081**	**128,913**	**103,588**

Net credit volume at the BayernLB Group, BayernLB and DKB by sub-portfolio

	BayernLB Group			BayernLB		DKB	
EUR million	31 Dec 2020	31 Dec 2019	Change (in %)	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Countries/Public Sector/ Non-Profit Organisations	89,002	62,690	42.0%	45,677	37,863	43,325	24,827
Corporates	60,656	60,541	0.2%	44,417	46,478	16,239	14,064
Commercial Real Estate	15,345	15,885	(3.4)%	7,847	9,022	7,498	6,864
Financial Institutions	50,513	50,849	(0.7)%	48,758	49,258	1,754	1,591
Retail/Other	23,452	22,280	5.3%	306	386	23,147	21,894
of which Retail	23,356	22,181	5.3%	209	287	23,147	21,894
Total	**238,968**	**212,245**	**12.6%**	**147,005**	**143,007**	**91,962**	**69,238**

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

The significant increase in the unsecured liquidity investments at the Deutsche Bundesbank also led to a significant increase in net credit volume. The collateral volume at the BayernLB Group grew in parallel by EUR 7.0 billion. In particular, the collateral types charges over properties (EUR 5.3 billion) and debt undertakings (EUR 2.0 billion) posted an increase in collateral volume. The increase in charges over properties is the result of the increase in business in the (tradition-

ally highly collateralised) Commercial Real Estate sub-portfolio. The increase in debt undertakings mainly stemmed from the increase in demand for government subsidy programmes in the form of indemnities associated with the coronavirus pandemic.

The collateral ratio at the BayernLB Group fell from 24.1 percent to 23.7 percent as a result of the aforementioned effects.

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

Breakdown by rating

The following tables show the gross credit volume at the BayernLB Group by rating category and sub-portfolio.

Gross credit volume by rating category

31 Dec 2020 **Rating categories** (EUR million)	**MR 0 – 7**	**MR 8 – 11**	**MR 12 – 14**	**MR 15 – 18**	**MR 19 – 21**	**MR 22 – 24**	**Total**
Countries/Public Sector/ Non-Profit Organisations	89,364	1,030	1,033	193	38	19	91,677
Corporates	21,331	33,008	12,213	6,226	566	1,314	74,659
Commercial Real Estate	31,445	19,917	6,443	986	179	216	59,186
Financial Institutions	48,748	3,542	499	28	0	7	52,824
Retail/Other	17,248	9,757	6,438	1,096	306	209	35,053
BayernLB Group	**208,137**	**67,255**	**26,626**	**8,528**	**1,089**	**1,763**	**313,399**
of which BayernLB	**118,991**	**43,537**	**15,088**	**5,265**	**507**	**1,099**	**184,486**
of which DKB	**89,146**	**23,718**	**11,538**	**3,263**	**583**	**665**	**128,913**

31 Dec 2019 **Rating categories** (EUR million)	**MR 0 – 7**	**MR 8 – 11**	**MR 12 – 14**	**MR 15 – 18**	**MR 19 – 21**	**MR 22 – 24**	**Total**
Countries/Public Sector/ Non-Profit Organisations	62,411	1,429	1,111	167	30	2	65,150
Corporates	23,607	33,317	10,661	4,242	711	1,605	74,142
Commercial Real Estate	29,508	17,323	6,626	1,301	131	216	55,105
Financial Institutions	48,471	2,990	418	110	0	12	52,001
Retail/Other	14,337	10,096	6,972	1,222	453	191	33,271
BayernLB Group	**178,334**	**65,155**	**25,787**	**7,042**	**1,325**	**2,027**	**279,669**
of which BayernLB	**113,147**	**43,001**	**14,968**	**3,162**	**564**	**1,238**	**176,081**
of which DKB	**65,187**	**22,154**	**10,818**	**3,880**	**761**	**788**	**103,588**

Gross credit volume in the BayernLB Group in the master rating (MR) categories 0–7 rose by EUR 29.8 billion in the reporting period, A large proportion of the increase was with the Deutsche Bundesbank (EUR 28.6 billion). The growth in business in the Retail/Other (EUR 2.9 bil-

lion) and Commercial Real Estate (EUR 1.9 billion) sub-portfolios also accounts for a sizeable proportion of this increase. Gross credit volume in the Corporates sub-portfolio in these rating categories declined sharply (decline of EUR 2.3 billion). This was largely due to the shift to lower rating categories that reflected the reduced creditworthiness of the customers as a consequence of the impact of the coronavirus crisis.

The credit volume also increased in the rating categories MR 8-11. The lion's share of the growth, which amounted to EUR 2.1 billion, came from an increase in business with investment-grade customers in the Commercial Real Estate sub-portfolio.

In total, the investment grade business volume (MR 0-11) rose by EUR 31.9 billion. Accordingly, the investment grade share of the Group portfolio also improved from 87.1 percent to 87.9 percent.

Excluding the increased liquidity investments at the Deutsche Bundesbank, the gross credit volume remained largely stable at 86.7 percent.

Gross credit volume in rating categories MR 12-14 and MR 15-18 increased by a total of EUR 0.8 billion and EUR 1.5 billion respectively over the reporting period. This was primarily due to a deterioration in creditworthiness in the Corporates sub-portfolio caused by the coronavirus pandemic. The percentage in these rating categories fell slightly from 9.2 percent to 8.5 percent (MR 12-14) and rose from 2.5 percent to 2.7 percent (MR 15-18) respectively.

Business volume in the rating categories MR 19-21 fell slightly by EUR 0.2 billion to EUR 1.1 billion and thus the percentage in these rating categories also declined from 0.5 percent to 0.3 percent.

The BayernLB Group's non-performing loan ratio fell during the reporting period to 0.6 percent (FY 2019: 0.7 percent). While BayernLB saw a slight improvement to 0.6 percent (FY 2019: 0.7 percent), DKB posted a significantly sharper fall from 0.8 percent to 0.5 percent. The increase in business volume with the Deutsche Bundesbank had no significant impact on the non-performing loan ratio in the BayernLB Group.

Adequate risk provisions were set aside to cover loans moved into the default categories. A detailed breakdown of risk provisioning can be found in the notes.

In summary, the BLB Group's high portfolio quality was maintained during the reporting period. This is particularly evident in the non-performing loan ratio, which decreased slightly, and in the slightly increased investment grade share. Two opposing factors are in play in the investment grade share. On the one hand, the portfolio shows a sharp rise in the very good rating categories, largely as a result of the higher gross credit volume with the Deutsche Bundesbank and the expansion of business in the Retail/Other and Commercial Real Estate sub-portfolios, and on the other, there was an increase in the business volume in the non-investment-grade range in the Corporates sub-portfolio as a result of the deterioration in creditworthiness in existing exposure. This provides the first clear evidence of the negative impact of the coronavirus pandemic on creditworthiness.

Renegotiated credits

The definition of renegotiated credits (forbearance pursuant to Art. 47b CRR) has remained unchanged since the previous financial year. Countries around the world have undertaken a variety of measures to reduce the macroeconomic consequences of the coronavirus crisis. In Germany consumers can exercise the option of a legal moratorium (see Section 3 Art. 240 EGBGB). The supervisory authorities have also permitted institutions to agree private moratoria among themselves, provided these comply with the EBA Guideline (EBA/GL/2020/02) criteria.

Measures approved as part of a moratorium are not to be regarded as forbearance pursuant to Art. 47b CRR. Only legal moratoria for consumers are currently in use in the BayernLB Group. All other measures associated with the coronavirus pandemic are decided upon by considering each borrower on an individual basis.

Current situation

Loans and advances subject to coronavirus-related (forbearance) measures, government and private moratoria and public guarantees associated with the coronavirus pandemic as at 31 December 2020

31 Dec 2020 EUR million	**BayernLB Group**
Loans subject to an EBA-compliant moratorium[1]	120.7
Loans subject to coronavirus-related forbearance measures[1]	511.3
New loans subject to coronavirus-related public guarantees[2]	392.0
Total	**1,023.9**

1 The volume shown includes loans and advances to customers.
2 The volume shown includes loans and advances to customers. As yet unutilised credit commitments (no disbursement has taken place) are not taken into account here.

The credit volume subject to an EBA-compliant moratorium is solely confined to DKB's retail portfolio. The loans subject to coronavirus-related forbearance measures aggregate all individually agreed measures as a result of the coronavirus crisis that do not conform to the requirements of an EBA-compliant moratorium but are classified as "forborne" pursuant to Art. 47b CRR.

The majority of the new loans subject to coronavirus-related public guarantees are guaranteed by KfW and LfA.

Forbearance exposures

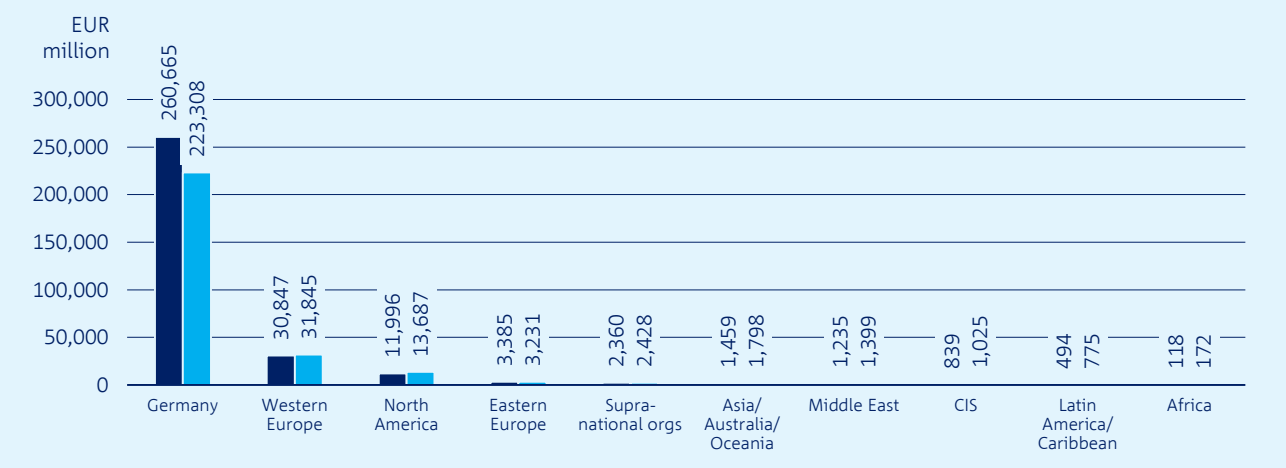
EUR million	Renegotiated credits/deferrals		Impairments		Collateral/financial guarantees received	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Loans and advances to banks	5.1	5.1	(5.1)	(5.1)	–	–
Loans and advances to customers	1,337.4	1,254.7	(287.6)	(335.2)	352.0	372.5
Financial investments	–	–	–	–	–	–
Credit commitments	374.9	155.9	(18.0)	(25.2)	29.2	5.8
BayernLB Group	**1,717.4**	**1,415.8**	**(310.7)**	**(365.5)**	**381.1**	**378.3**

From a risk perspective, the process to identify forborne exposure was improved in 2019 and is now based on the exposure level. The previous year's figures were not restated in this table.

Breakdown by region

The following table shows gross credit volume by region.

Gross credit volume by region



■ 31 Dec 2020 Total: EUR 313,399 million
■ 31 Dec 2019 Total: EUR 279,669 million

In line with the Business and the Risk Strategy, Germany accounted for a dominant share of the BayernLB Group's lending at 83.2 percent (FY 2019: 79.8 percent). BayernLB is responsible for the bulk of foreign business. A very small proportion of DKB's business is conducted abroad.

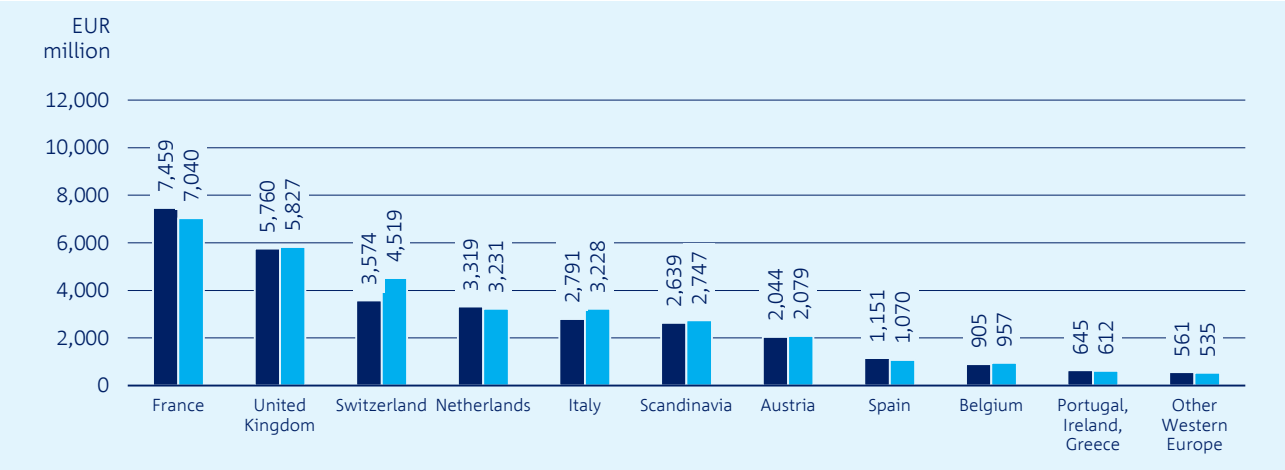
BayernLB Group's gross credit volume in Germany increased significantly to EUR 260.7 billion (FY 2019: EUR 223.3 billion). The increase was across the board, with gross credit volumes rising in all sub-portfolios. The increase was largely attributable to the Countries/Public-Sector/Non-Profit Organisations sub-portfolio (around EUR 29.1 billion). The increase in the gross credit volume held with the Deutsche Bundesbank was particularly significant (around EUR 28.6 billion). Business volumes rose by EUR 3.2 billion in the Commercial Real Estate sub-portfolio, by EUR 1.9 billion in the Corporates sub-portfolio, by EUR 1.8 billion in the Retail/Other sub-portfolio and by EUR 1.5 billion in the Financial Institutions sub-portfolio.

Regionally, the most significant change in gross credit volume was in the North America region and in Western Europe (excluding Germany). In North America gross credit volume fell by around EUR 1.7 billion. The lion`s share of the decline came from the US. Business volume in Western Europe (excluding Germany) fell by EUR 1.0 billion.

Generally speaking, country risks and risk/return ratios in lending abroad continued to be very closely managed and monitored, given the economic uncertainties due to political events (e.g. Brexit) and the effects of the coronavirus pandemic.

The following table shows the BayernLB Group's gross credit volume in western European countries (excluding Germany).

Gross credit volume in western European countries (excluding Germany)



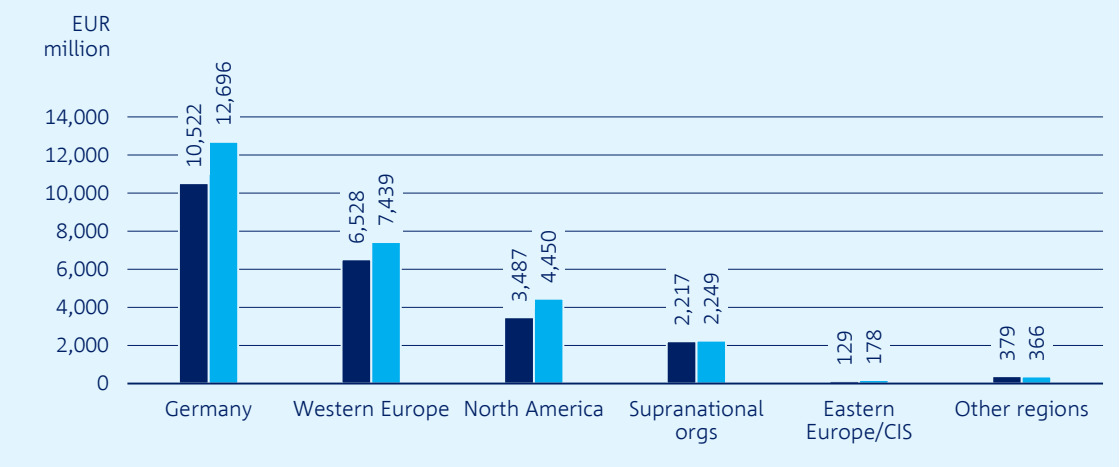
■ 31 Dec 2020 Total: EUR 30,847 million
■ 31 Dec 2019 Total: EUR 31,845 million

Gross credit volume in Western Europe (excluding Germany) fell by around EUR 1.0 billion to EUR 30.8 billion (FY 2019: EUR 31.8 billion): Switzerland (EUR 0.9 billion) and Italy (EUR 0.4 billion) accounted for the bulk of the decline in business volume. Business was expanded in France (EUR 0.4 billion). In Switzerland the decline in the gross credit volume came principally from the Financial Institutions (EUR 0.6 billion) and Corporate (EUR 0.3 billion) sub-portfolios. The decline in Italy was mainly in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio, while the expansion in France came largely from the Commercial Real Estate sub-portfolio.

Issuer risk

The following table shows gross issuer risk by region within the BayernLB Group.

Gross issuer risk by region



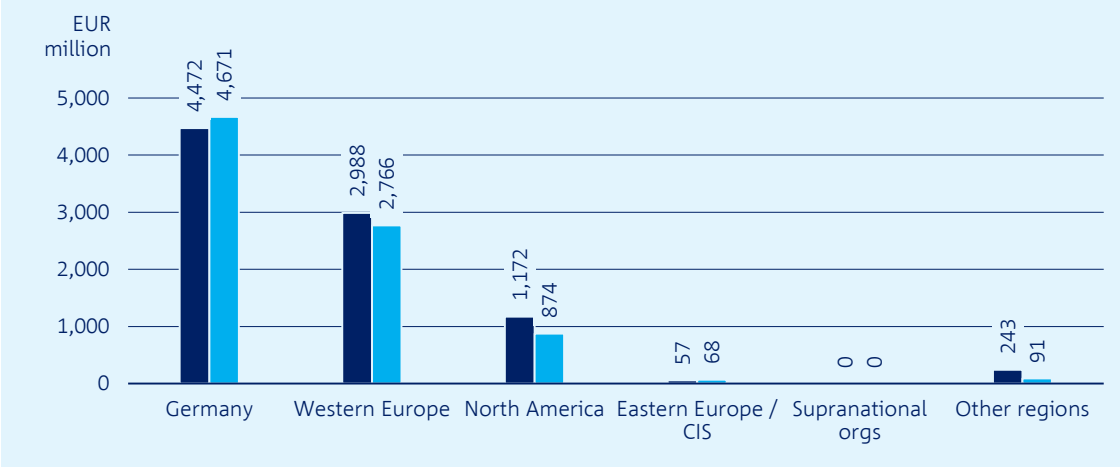
■ 31 Dec 2020 Total: EUR 23,261 million
■ 31 Dec 2019 Total: EUR 27,378 million

Gross issuer risk volume fell in the reporting period by EUR 4.1 billion to EUR 23.3 billion (FY 2019: EUR 27.4 billion). The largest falls were in issuer risks in Germany (EUR 2.2 billion) in the North America region (EUR 1.0 billion) and in Western Europe (EUR 0.9 billion). The lion's share of the decline in North America came from the US (EUR 0.8 billion), with Canada accounting for a small portion (EUR 0.2 billion). The reduction in Western Europe stemmed mainly from Italy (EUR 0.5 billion), France (EUR 0.2 billion) and Sweden (EUR 0.1 billion).

Replacement risk

The following table shows the BayernLB Group's gross replacement risk by region.

Gross replacement risk by region



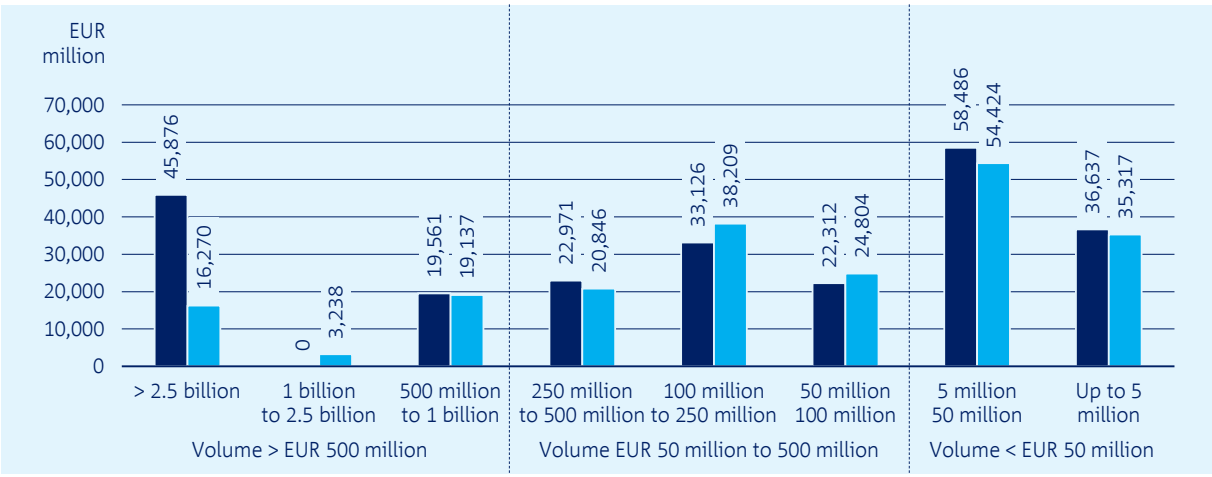
■ 31 Dec 2020 Total: EUR 8,932 million
■ 31 Dec 2019 Total: EUR 8,469 million

Gross replacement risk rose by around EUR 0.5 billion to EUR 8.9 billion (FY 2019: EUR 8.5 billion) during the reporting period. The increase in replacement risks stemmed mainly from North America (EUR 0.3 billion) and Western Europe (EUR 0.2 billion). The increase in the North America region was primarily down to the US, while the rise in Western Europe came from the UK.

Breakdown by size category

The following table shows net credit volume by size.

Net credit volume by size



■ 31 Dec 2020 Total: EUR 238,968 million
■ 31 Dec 2019 Total: EUR 212,245 million

Net credit volume with customers in the more than EUR 2.5 billion category rose significantly by EUR 29.6 billion to EUR 45.9 billion (FY 2019: EUR 16.3 billion). The increase stemmed from both institutions. The principal reason for the increase was the rise in deposits held with the Deutsche Bundesbank. This size category only contains loans and advances to top-rated German and American government entities with a first-class credit score.

Net credit volume in the more than EUR 500 million to EUR 2.5 billion category fell by around EUR 2.8 billion to EUR 19.6 billion (FY 2019: EUR 22.4 billion). The decline in these size categories was largely the result of the reduction in business in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio (EUR 5.0 billion) and an expansion of the Financial Institutions (EUR 1.7 billion) and Corporates (EUR 0.4 billion) sub-portfolios. 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). The net credit volume in these size categories over the reporting period was largely down to BayernLB customers.

The size category of net credit volumes from EUR 250 million to EUR 500 million posted a rise of EUR 2.1 billion to EUR 23.0 billion. This expansion was largely due to the Financial Institutions sub-portfolio, where individual exposures with investment grade customers were further expanded (moving them into higher categories). The net credit volume in these size categories over the reporting period was largely contributed by BayernLB customers.

The high granularity of the portfolio was maintained, which was reflected in the continuing very high net credit volume in the up to EUR 250 million categories. Net credit volume in these size categories was EUR 150.6 billion as at reporting date (FY 2019: EUR 152.8 billion). Both institutions account for a significant proportion of the net credit volume in these size categories.

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

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

Gross credit volume in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio rose significantly by EUR 26.5 billion or 40.7 percent to EUR 91.7 billion (FY 2019: EUR 65.2 billion). Volumes at BayernLB were up by EUR 8.0 billion to EUR 47.9 billion, while DKB saw a rise of EUR 18.5 billion to EUR 43.8 billion.

The change in the gross credit volume at BayernLB was largely the result of five movements. The business volume with the Deutsche Bundesbank rose by EUR 12.3 billion to EUR 14.5 billion, Transactions with foreign countries (EUR 1.4 billion), German state governments (EUR 1.2 billion), foreign central banks (EUR 0.8 billion) and German special-purpose public-sector banks (EUR 0.7 billion) were, however, down.

The increase in gross credit volume at DKB was largely the result of the increase in the position at the Deutsche Bundesbank by EUR 16.4 billion to EUR 22.8 billion. In addition, DKB managed to increase its business volume by EUR 2.2 billion, with business with the German public sector accounting for the lion's share.

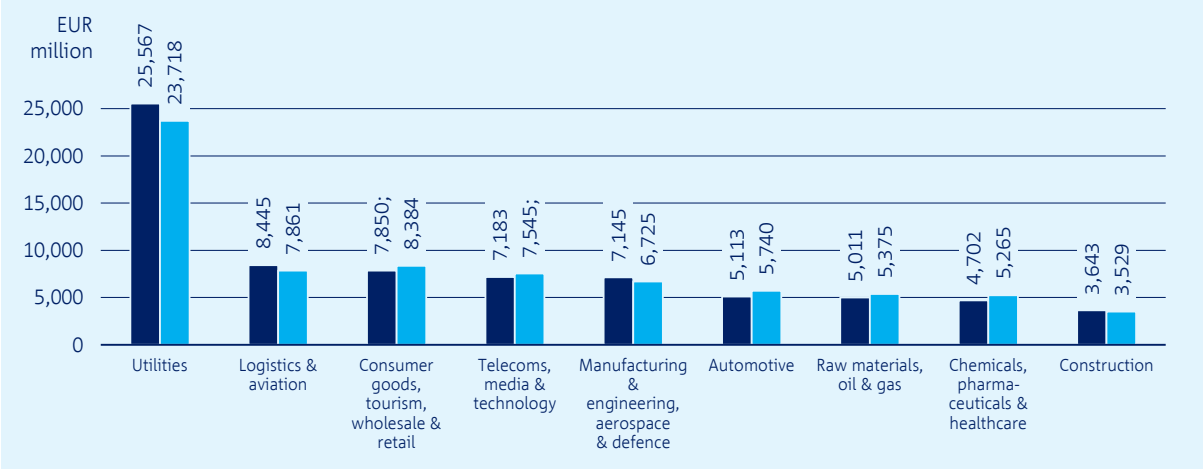
In principle, the central bank positions held by BayernLB and DKB are primarily for the purpose of managing liquidity and are therefore subject to fluctuations in value as at the reporting date. The significant increase in the gross credit volume held with the Deutsche Bundesbank in both institutions as at the reporting date was largely the result of increased use of favourable refinancing terms.

The very high investment grade share in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio improved slightly to 98.6 percent (FY 2019: 98.0 percent).

Corporates sub-portfolio

The Corporates sub-portfolio was confronted by significantly increasing challenges in 2020. Alongside the ongoing very high pressure on margins, the impact of the coronavirus pandemic was of particular importance. Despite these impediments, the business volume in the Corporates sub-portfolio was further expanded. The growth covered both existing and new customers. Overall, exposure in the sub-portfolio rose by a total of EUR 0.5 billion to EUR 74.7 billion, an increase of 0.7 percent. The following sectors examined in more detail below accounted for the majority of the changes in the business volume.

Sector breakdown within the Corporates sub-portfolio



■ 30 Dec 2020 Total: EUR 74,659 million
■ 31 Dec 2019 Total: EUR 74,142 million

In line with the current strategic focus, the utilities sector will continue to be a key sector in the BayernLB Group. Gross credit volume in this sector, the largest by far in the sub-portfolio, rose by EUR 1.8 billion or 7.8 percent to EUR 25.6 billion. At EUR 1.6 billion, most of the increase was accounted for by the financing of renewable energy and, in particular, project financing based on the German Renewable Energy Act. The volume of traditional corporate financing also increased by EUR 0.3 billion. In line with strategy, renewable energies, such as solar and wind farms, continue to form the main focus of the portfolio, accounting for a proportion of 61.6 percent. As loans for renewables are largely granted by DKB, it continues to have an above-average share of the sector at 63.2 percent (FY 2019: 62.1 percent). The majority of these transactions are structured as project financings that benefit to a large degree from long-term, legally guaranteed feed-in tariffs under German law. In addition to project financing, another focus in the sector is traditional corporate loans. The portfolio is distributed in a granular fashion across 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. At 87.0 percent, the majority of financing volume in the utilities sector is in Western Europe, of which Germany alone accounts for 76.1 percent.

Credit volume in another key sector with great potential, logistics & aviation, was up by EUR 0.6 billion to EUR 8.4 billion. The expansion came principally from public transport financing (financing of trains). In addition, the selective financing of government-backed airport operators contributed to the expansion of the credit volume in this sector.

The manufacturing & engineering, aerospace & defence sector is also an important future area of activity in some divisions of the BayernLB Group, with gross credit volume up by EUR 0.4 billion to EUR 7.1 billion. This expansion came mainly from European rolling stock manufacturers with good credit ratings. In contrast, the business volume in the defence sector, which will no longer be included in the BayernLB Group's strategic focus, was reduced.

The volume in the automotive industry fell by EUR 0.6 billion to EUR 5.1 billion. The decline was largely the result of the reduction in business volume in the automotive manufacturing and automotive financing sectors.

The chemicals, pharmaceuticals & healthcare sector saw a similarly low gross credit volume, with business down by EUR 0.6 billion to EUR 4.7 billion. There was a decline in the volume of financing for manufacturers of medical technology and pharmaceutical products.

Business in the consumer goods, tourism, wholesale & retail sector was also hit by a significant downturn. The gross credit volume in this sector fell by EUR 0.5 billion to EUR 7.9 billion, due in large part to the reduction in the food retailing and mail-order sectors.

The German home market, which is key for the BayernLB Group, continues to drive the Corporates sub-portfolio, with a high share of 72.0 percent (FY 2019: 70.0 percent).

The impact of the coronavirus pandemic led to a deterioration in creditworthiness, but the decline in the investment grade share of the sub-portfolio was nonetheless moderate at 72.8 percent (FY 2019: 76.8 percent). Further deteriorations in creditworthiness are, however, to be expected.

The high granularity of the sub-portfolio was further improved. The proportion of customers with a gross credit volume of less than EUR 50 million amounted to 49.2 percent (FY 2019: 48.9 percent).

Commercial Real Estate sub-portfolio

In line with strategy, gross credit volume in the Commercial Real Estate sub-portfolio rose significantly over the reporting period by EUR 4.1 billion or 7.4 percent. As a result, business volume as at the year-end was EUR 59.2 billion (FY 2019: EUR 55.1 billion). Of this amount, EUR 28.3 billion stemmed from BayernLB and around EUR 30.8 billion from DKB. Both institutions contributed to the increase in gross credit volume. BayernLB posted business growth of EUR 1.4 billion, while DKB saw a growth in volume of EUR 2.6 billion.

The increase in business volume at BayernLB was principally in investor-side real estate rental and leasing (EUR 1.1 billion), commercial real estate property developers (EUR 0.2 billion) and managed real estate in the logistics segment (EUR 0.1 billion).

The rise in gross credit volume at DKB was largely the result of business in the residential property sector, especially with investors and housing companies.

The German domestic market accounted for the majority of the BayernLB Group's growth, with a EUR 3.2 billion rise in business volume. In addition, there were noteworthy increases in France (EUR 0.5 billion) and the US (EUR 0.2 billion). In view of the uncertainties that arose during the course of the year from the UK leaving the EU (Brexit), business volume in the country decreased slightly due to the adoption of a very selective approach to new business being acquired there.

The already high quality in the Commercial Real Estate sub-portfolio again improved slightly. The investment grade share increased to 86.8 percent (FY 2019: 85.0 percent). The proportion accounted for by Germany remained high at 87.7 percent (FY 2019: 88.5 percent). The high quality of the portfolio with regard to granularity (stable) and collateralisation (improved) was maintained: as at the reporting date, the proportion of customers with a gross credit volume of less than EUR 50 million was 52.9 percent (FY 2019: 54.0 percent). The collateral ratio rose to 74.1 percent (FY 2019: 71.2 percent).

Despite the global economic slump in 2020 and the restrictions resulting from the coronavirus pandemic, the BayernLB Group expects the quality of the portfolio to remain largely stable, in part due to the adoption of a consistently selective approach to picking exposures, although volatility is to be expected in some segments.

Financial Institutions sub-portfolio

Gross credit volume in the Financial Institutions sub-portfolio rose by EUR 0.8 billion to EUR 52.8 billion (FY 2019: EUR 52.0 billion), a rise of 1.6 percent.

Within the BayernLB Group, the sub-portfolio's gross credit volume was split as follows: around EUR 51.0 billion with BayernLB and around EUR 1.9 billion with DKB.

Gross credit volume in the savings banks sector, the largest sector by volume, increased by EUR 1.5 billion to EUR 26.1 billion. The rise was largely the result of the increase in demand for government subsidy programmes associated with the coronavirus pandemic that were carried out via the participating savings banks.

The banks sector posted a fall in business, with gross credit volume down by EUR 0.9 billion to EUR 21.2 billion. The reduction in business came principally from global credit banks and is largely down to fluctuations in the value of transactions as at the reporting date in the form of investments to maintain liquidity and hedging activities.

Business volume in the insurance sector grew slightly by around EUR 0.3 billion and amounted to EUR 5.5 billion as at the reporting date. The expansion primarily related to reinsurance.

The quality of the sub-portfolio therefore remained high with an investment grade share of 99.0 percent (FY 2019: 99.0 percent). The share in Germany edged up to 68.7 percent (FY 2019: 67.0 percent).

Retail/Other sub-portfolio

In the Retail/Other sub-portfolio, gross credit volume increased by EUR 1.8 billion or 5.4 percent to EUR 35.1 billion.

In keeping with the strategy, business volume at BayernLB fell slightly (EUR 0.1 billion). The retail business has not formed part of BayernLB's core business for some years and is therefore being wound down as planned. Within the BayernLB Group, the retail business is successfully operated by the Group subsidiary DKB.

Gross credit volume at DKB rose significantly by EUR 1.9 billion to EUR 31.5 billion. The expansion strategy in the retail business was therefore successfully implemented once again in 2020. This growth was mainly due to lending to and credit card receivables from private individuals.

Germany's share of the sub-portfolio remained unchanged at nearly 100 percent throughout the Group.

Summary

The overall market environment in the financial year 2020 was increasingly overshadowed by challenges. Alongside the ongoing very high pressure on margins, the outbreak of the coronavirus pandemic was of particular significance.

Despite the exceptionally difficult market conditions, the BayernLB Group succeeded in further expanding the business volume and largely maintaining the quality of the portfolio. Particularly worthy of note in this regard are the Commercial Real Estate and Retail/Other sub-portfolios. The investment grade share was unchanged from the previous year at 87.9 percent. The already very low non-performing loan ratio was reduced from 0.7 percent to 0.6 percent at overall portfolio level during the reporting period.

The impact of the coronavirus pandemic was particularly severe in the Corporates sub-portfolio, which saw a significant decline in borrowers' creditworthiness. The longer the pandemic-related restrictions continue to affect the economy, the more likely the Group portfolio is to suffer further declines in creditworthiness.

Risk associated with equity interests

Definition

Risk associated with equity interests at BayernLB Group is defined as the risk incurred through acquiring equity interests. A distinction is made between risks associated with equity interests in the narrower and broader sense.

Risks associated with equity interests in the narrower sense are potential financial losses from equity interests, including from:

- The provision of equity or equity-like financing (e.g. silent partner contributions), suspension of dividends, partial writedowns, losses on disposals, or reductions in hidden reserves
- Liability risks and/or profit and loss transfer agreements, e.g. assumption of losses under letters of comfort or company agreements

- Capital contribution commitments

Risks associated with equity interests in the broader sense are defined as risks associated with equity interests, which, independently of risks associated with equity interests in the narrower sense, have an influence on the risk profile of the BayernLB Group via other risk types.

Organisation

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

Risk Strategy

In 2020 BayernLB reclassified its portfolio of equity interests into interests relevant to the business model, interests under public mandate and interests not relevant to the business model (with/without exit status). DKB, BayernInvest Kapitalverwaltungsgesellschaft mbH and Real I.S. AG Gesellschaft für Immobilien Assetmanagement are the equity interests that form an integral part of the Group business model. The BayernLB Group would like to dispose of the equity interests that have been assigned exit status.

Measures and requirements to identify, manage and monitor risk associated with equity interests in the broader sense are defined and implemented by the respective divisions responsible for the risk types.

The Group strategy for risks associated with equity interests, derived from the overarching BayernLB Group Risk Strategy, forms the framework for dealing with the risks associated with equity interests. The Bayerische Landesbank Act, the Statutes and the Rules of Procedure of the BayernLB Board of Management set further overall conditions for the Group Risk Strategy.

Measuring, managing and monitoring risk

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

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

Similar processes apply to DKB. This is also built into the entire Group strategy, planning, management and monitoring process.

Risk capital requirements for risks associated with equity interests are measured in ICAAP using the regulatory PD/LGD method in accordance with CRR/CRD IV.

For CRR/CRD IV reporting, risk associated with equity interests are measured using the simple risk weighting method.

The risks from direct equity interests are identified using the relevant procedures (classification and early warning) and reported to the Board of Management as part of the risk reporting process.

Current situation

The coronavirus crisis only had a direct impact on the equity interests in BayernLB's portfolio in two cases. Hotels were required by the authorities to close for periods during the course of 2020. These measures affected Berchtesgaden International Resort Betriebs GmbH, which is operated by Hotel Kempinski on Obersalzberg. This order also had a direct impact on Bayern Bankett Gastronomie GmbH with its Hotel Bayern Vital in Bad Reichenhall and on the (partial) closures of some catering establishments. Both equity interests are expected to fall short of their targets in 2020. It is not possible at this point to predict the degree to which the coronavirus pandemic will indirectly affect the business model and performance of other equity interests, e.g. long-term changes in the market environment or customer behaviour.

As at 31 December 2020, the economic risk capital requirement had increased to EUR 124 million (FY 2019: EUR 114 million) in the BayernLB Group and EUR 114 million (FY 2019: EUR 106 million) at BayernLB and is largely the result of an increase in the carrying amount of a BayernLB equity interest in the process of being wound down.

Summary

The implementation of the planned winding down of equity interests that have been assigned exit status was again driven forward.

Business and strategic risk

Definition

Business and strategic risk is defined as the risk resulting from unexpected changes in the economic, political, social, ecological, legal, technological or regulatory business environment that is not already explicitly or implicitly recognised in other risk types (e.g. credit, market or operational risk) in the risk-bearing capacity calculation. This risk manifests itself in the form of declining interest and commission income and rising administrative expenses. It may also be caused by a reputational loss on the part of the BayernLB Group.

Organisation

Group Risk Control quantifies the business and strategic risk for the purposes of the risk-bearing capacity calculation and analyses changes to those risks.

Risk Strategy

The management of business and strategic risks is defined in the business risk strategy as part of BayernLB's Risk Strategy. The management and monitoring of the relevant parameters for the business and strategic risk forms part of the BayernLB Group's management cycle.

Measuring and monitoring risk

The quantification of the business and strategic risk is based on target/actual historical deviations in the income statement items identified as pertinent to business risk using an analytical value-at-risk approach. The risk capital limits of the business and strategic risk are subject to a monthly Group-wide monitoring process. As part of Group risk reporting the Board of Management is informed monthly and the Risk Committee of the Supervisory Board is informed quarterly about the risk situation.

Current situation

Since 1 January 2020, the two business-related P&L positions net interest income and administrative expenses have been used to calculate the business and strategic risk in a correlated manner. This led to a significant reduction in the BayernLB Group's risk capital requirement compared with the previous years reporting date of 31 December 2019 to EUR 47 million (previously: EUR 544 million). The economic risk capital requirement at BayernLB fell compared with the previous years reporting date of 31 December 2019 to EUR 168 million (previously: EUR 375 million). In contrast, the risk capital requirement again rose sharply to EUR 272 million in the BayernLB Group and EUR 423 million at BayernLB as at 31 December 2020 due to the anticipated negative impact of the coronavirus crisis.

Summary

The risk capital requirement for the business and strategic risk remained within the allocated risk appetite during the reporting period.

Market risk

Definition

Market risk is the risk of financial losses due to changes in prices on the money, currency, capital and commodity markets. The potential losses arise through the financial transactions conducted in the course of the Bank's business activities (in both the trading and banking books) whose performance changes according to changes in market risk factors/market prices. Accordingly, the BayernLB Group breaks down its market risks into general and specific interest rate risks, currency risks, equity price risks, commodity risks and volatility risks. The actuarial interest rate risks arising from the pension liabilities after taking into account correlation and diversification effects were reported under the interest rate risks of the economic risk capital requirement in the financial year. These were previously shown separately under pension risk. This resulted in a decline in the risk capital requirement in the overview.

Organisation

Subsidiaries are responsible for monitoring their own market risks internally with their own risk-monitoring units. The market risks at BayernLB and DKB are included in a daily Group-wide risk report. Group Risk Control is responsible for setting Group-wide methodological standards and for the overall, Group-wide monitoring of market risk. The operational implementation is institution-specific.

Risk Strategy

The Risk Strategy sets out the strategic principles for handling market risks and prescribes the amount of economic capital to be made available for them. Market risks are measured, monitored and may only be assumed within approved limits.

The amount of economic capital provided as backing for market risks is broken down by risk unit and individual market risk type and implemented in the form of value-at-risk (VaR) limits. Market risks are entered into in accordance with the current Business and Risk Strategy primarily for liquidity and asset-liability management reasons. In addition, market risks are incurred as a result of transactions on behalf of customers and related hedging transactions, as well as of non-core business transactions. The gradual build-up of plan assets via a contractual trust arrangement construction (CTA) will reduce the impact of interest rate risks arising from the BayernLB Group's pension liabilities. Details are set out in the notes.

Risk measurement

For operational monitoring and management, the calculation of market risk normally uses a VaR procedure based on a one-day holding period and a confidence level of 99 percent. BayernLB and DKB both use the historical simulation approach. In 2020 the reporting of the general interest rate risk arising from the pension obligations also included the actuarial interest rate risk. Customer deposits at DKB are modelled using the dynamic replication method. Both contractual and legal termination rights on loan transactions are modelled as options and incorporated into the risk calculation. When estimating the interest rate risk from external credit margins, BayernLB takes a VaR risk premium into account. The interest rate risk in external credit margins is shown in the daily VaR at DKB. Market risks that cannot be covered by the VaR limit calculation are taken into account in the risk capital requirements through the use of alternative risk assessment methods (e.g. stress test estimates). Market risk measurement methods are continuously checked for the quality of their forecasting. In the backtesting process, the risk forecasts are compared with actual outcomes (gains or losses). As at 31 December 2020, the forecasting quality of the market risk measurement methods used at the BayernLB Group, in accordance with the Basel traffic light approach, was classified as good.

For economic risk-bearing capacity, one-day VaR is scaled to a one-year horizon, i.e. it is assumed risk positions are closed or hedged over a one-year time horizon. This takes particular account of market liquidity risk – the risk of having to close out risk positions on financial terms that are less favourable than had been expected.

Valuation discounts for market liquidity-relevant factors (e.g. bid-ask spreads) which are relevant for accounting and reporting are also modelled.

The outcomes of risk measurement for market risks must always be looked at in the context of the assumptions used in the model (primarily the confidence level selected, holding period, and the use of historical data over a period of around one year to forecast future events). For this reason, stress tests simulating extraordinary changes in market prices are conducted monthly on the risk positions and the potential risks are analysed accordingly. Additional stress tests are used at the level of the individual institutions. Stress tests take into account all relevant types of market risk, are regularly reviewed, and their parameters are modified where necessary.

In addition to the net present value risk measurement methods described above, net interest income risk also involves calculating the risk of a change in net interest income (NII) in the banking book. This is carried out assuming various interest rate scenarios based on business and margin trends over various periods of time.

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

Risk monitoring

In the BayernLB Group, several tools are used to monitor and limit market risks. In addition to the institution-specific risk capital requirement limits, these include in particular one-day VaR and corresponding VaR limits, risk sensitivities (including related sensitivity limits for Sales units heavily involved in trading) and stress tests, which in different forms are used to assess risk-bearing capacity. The risk monitoring of the individual limit units is performed separately for the trading and banking books. This accounts for the respective underlying discretionary purpose and achieves a close interlinking of economic and supervisory capital adequacy. DKB does not execute any trading book transactions.

Market risks are monitored, agreed with officers responsible for the trading position and reported daily at BayernLB independently of Trading. At DKB the A custody account is monitored daily and the other banking book monitored weekly. If a VaR limit is breached, appropriate measures are taken as part of an escalation procedure.

Interest rate risk in the banking book forms part of the risk calculation and monitoring processes of the risk-controlling units. In particular, in the case of interest rate risk in the banking book the fall in the present value in respect of the predefined interest rate scenarios is monitored monthly at institution level and across the Group and referenced against the corresponding supervisory thresholds or alert thresholds (threshold for the +/-200 basis point scenario: 20 percent of own funds; alert threshold for the additional interest rate scenarios (parallel scenarios, turnaround scenarios, or a short-term interest rate increase/decrease: 15 percent of Common Equity Tier 1 capital)). As at 31 December 2020, the calculated change in present value at both BayernLB and the BayernLB Group was well below the thresholds and/or alert thresholds. By way of illustration, the losses of net present value in the +/-200 basis points scenario amounted to less than one percent of capital at BayernLB and the BayernLB Group.

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

Current situation

The coronavirus crisis led to significant increases in market risks in March 2020 due to raised market volatility (very marked fluctuations in interest rate and massive widening of credit spreads). The risk appetite for market risk was increased to take account of the resulting breaching of limits. Seen in terms of the historical simulation model, the high market fluctuations resulting from the coronavirus crisis impacted risk throughout 2020.

Due to the business model and the great importance of pension obligations, the BayernLB Group's market risks consist primarily of general and specific interest rate risks. The establishment of the CTA has also led to an increase in equity risk since 2020. All other types of risk play a much less significant role by comparison. The risks in the banking book are of considerably greater significance than those in the trading book.

VaR contribution of market risks by risk type and banking/trading book in the BayernLB Group (confidence level 99 percent, holding period 1 day)

			31 Dec 2020		1 Jan 2020 to 31 Dec 2020		
EUR million	31 Dec 2020	31 Dec 2019	Of which banking book	Of which trading-book	Average	Maximum	Minimum
General interest rate VaR	63.8	41.7	62.5	2.3	58.8	69.2	37.1
Specific interest rate VaR (credit spreads)	46.8	9.9	47.2	1.7	27.5	49.4	9.1
Currency VaR	2.9	1.9	2.3	0.6	2.2	6.1	1.5
Equities VaR	16.5	3.5	16.7	0.1	8.6	16.5	3.5
Commodities VaR	1.4	0.9	0.0	1.4	1.0	1.6	0.6
Volatility VaR	1.5	1.4	1.4	0.3	1.7	3.4	1.2
Total VaR[1]	**84.1**	**45.3**	**82.8**	**4.2**	**68.3**	**91.6**	**40.6**

VaR contribution of market risks by risk type and banking/trading book at BayernLB (confidence level 99 percent, holding period 1 day)

			31 Dec 2020		1 Jan 2020 to 31 Dec 2020		
EUR million	31 Dec 2020	31 Dec 2019	Of which banking book	Of which trading-book	Average	Maxi-mum	Mini-mum
General interest rate VaR	38.5	21.0	37.2	2.3	35.1	45.8	19.9
Specific interest rate VaR (credit spreads)	45.4	9.3	45.8	1.7	26.2	48.0	8.5
Currency VaR	1.8	1.6	1.2	0.6	1.4	5.6	0.7
Equities VaR	8.3	0.7	8.4	0.1	2.1	8.3	0.4
Commodities VaR	1.4	0.9	0.0	1.4	1.0	1.6	0.6
Volatility VaR	1.5	1.4	1.4	0.3	1.7	3.4	1.2
Total VaR[1]	**55.2**	**22.8**	**53.9**	**4.2**	**41.9**	**57.9**	**21.9**

1 After eliminating intra-Group positions on consolidation; when calculating the risk capital requirement for BayernLB, in addition to showing the VaR contributions, risk-bearing capacity takes into account monthly VaR premiums for risks on external credit margins and credit risks on money market transactions and a risk premium for some downstream risk aspects in the case of XVA risk.

Summary

Total VaR rose by around EUR 38.8 million compared with 31 December 2019 to EUR 84.1 million. This increase is primarily reflected in the general and specific interest rate risk and is largely due to the increased market volatility caused by the coronavirus crisis. Furthermore, this trend has been further boosted by the integration of the pension obligations into the risk. The increased equity risk is primarily down to CTA investments in equity funds.

In contrast, the total VaR in the trading book has not changed significantly (from EUR 4.5 million as at 31 December 2019 to EUR 4.2 million as at 31 December 2020), although there were considerable fluctuations over the course of the year.

There was a sharp increase in risk in spring 2020 due in particular to the widening of the credit spreads resulting from the coronavirus crisis. The credit spreads narrowed again over the further course of the year. The winding down of non-strategic securities positions in autumn 2020 led to a further decline in risk.

Pension basis risk

Definition

Pension basis risk is defined as loss potential with an immediate impact on core capital, resulting from an adverse impact on the present values of the pension obligations for BayernLB as a result of changes in trend factors, mortality tables or other factors. There are pension obligations for candidates and recipients of benefits of BayernLB's civil service-style pension (direct and indirect).

Organisation

Group Risk Control monitors pension basis risk for the BayernLB Group. DKB's pension basis risk is classified as non-material from a stand-alone perspective in the risk inventory, but is also taken into account in order to ensure the consistency of the Group-level analysis.

Risk Strategy

The risk capital requirement for pension basis risk is limited and monitored separately.

Risk measurement

The risk capital requirements for pension basis risk (risk from pension liabilities) is calculated using a scenario-based approach. The parameters for the recognition of changes in adverse trend factors are derived from a historical time series and past experience. A maximum stress is also calculated from the trend factors.

Risk monitoring

The risk capital limits of the pension basis risk is monitored monthly on a Group-wide basis. As part of Group risk reporting the Board of Management is informed monthly and the Risk Committee of the Supervisory Board is informed quarterly about the pension basis risk situation.

Current situation

The coronavirus crisis has yet to demonstrate any risk-elevating impact on the underlying trend volatility and therefore on the risk capital requirement.

In general terms, the coronavirus crisis is putting increased pressure on businesses and therefore is also promoting the trend towards lower collective wage agreements, which in turn has a positive effect on benefit obligations. It might, however, result in higher increases in medical costs, which would offset some of this positive effect.

Taking the changes in methodology into account, the risk capital requirements for pension basis risk as at 31 December 2019 amounted to around EUR 262 million (previously: EUR 1.0 billion) in the BayernLB Group and around EUR 260 million at BayernLB (previously EUR 0.9 billion). As at 31 December 2020, the risk capital requirement rose to EUR 290 million in the BayernLB Group and EUR 288 million at BayernLB.

Summary

The risk capital requirement for pension basis risk is in line with expectations.

Liquidity risk

Definition

Liquidity risk is defined as the risk that payment obligations falling due cannot be met in full or as due (insolvency risk) or, in a liquidity crunch, funding is only obtainable at above-market rates (liquidity cost risk). This section looks first at insolvency risk. The liquidity cost risk, which is also taken into account in the risk-bearing capacity calculation, is dependent in part on the development of the refinancing structure (funding mix), which is subsequently presented.

Organisation

As at 31 December 2020, responsibility for strategic and operational liquidity management in the BayernLB Group was vested in the Group Treasury Central Area. Liquidity management ensures adequate liquidity reserves at all times and the management of ad hoc liquidity on the market. Group-wide risk controlling of liquidity risks is conducted by Group Risk Control. This Division also prepares liquidity overviews, such as liquidity gap analyses and limiting ratios as the basis for controlling and monitoring liquidity risks. The Board of Management decides on the necessary liquidity management and funding measures and defines these in relevant strategies The Board of Management has delegated tasks and competencies relating to the performance of the liquidity risk management to Group Treasury and Group Risk Control.

Risk Strategy

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

These strategic targets are detailed for daily management in the Group Risk Guidelines and instruments, including the Group Treasury Guidelines in combination with the liquidity management instrument. There is a business continuity plan to safeguard liquidity in the event of emergencies. This defines the processes, management tools and hedging instruments needed to avert potential or address acute crises. It also contains an escalation mechanism, which comes into operation when early warning signals are triggered.

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

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

The Additional Liquidity Monitoring Metrics (ALMM) for the BayernLB Group were also reported regularly to the supervisory authorities in the year under review. Changes to regulatory requirements that have an impact on liquidity risk, such as from the new version of CRR or new implementing regulations are continuously monitored in order to ensure they are implemented as scheduled in close cooperation with all units affected. This ensures reporting requirements can be met and liquidity efficiently managed in the future.

Risk measurement

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

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

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

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

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

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

At BayernLB level, a net cash flow figure for the next 180 days is calculated daily for the public Pfandbrief register and the mortgage register. In accordance with section 27 of the Pfandbrief Act (Pfandbriefgesetz), the results and other indicators with respect to the register of cover are reported internally every quarter to the Board of Management. The balance of cumulative cash flows and available liquidity indicated there was surplus liquidity throughout 2020.

Risk management

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

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

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

The quality of assets in the register of cover for Pfandbriefs is set by law. This, combined with matching currencies and maturities, ensures that Pfandbriefs issued by BayernLB meet high standards on the market, with Collateral Management responsible for maintaining these standards. This ensures that BayernLB has an ongoing ability to issue bonds in the Pfandbrief segment.

The Bank also met the minimum supervisory Liquidity Coverage Ratio (LCR) at all times in the reporting year through its integrated management of ad hoc liquidity. LCR amounted to 245 percent at Group level as at 31 December 2020 (FY 2019: 168 percent) and 186 percent at BayernLB (FY 2019: 168 percent). The LCR is calculated by comparing the available highly liquid assets with the net cash outflows for the following 30 days. The minimum ratio required by the regulator is 100 percent.

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

Risk monitoring

Group Risk Control monitors liquidity risks independently of Trading, calculates ratios derived from the daily scenario-based liquidity overviews and sets limits on them.

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

In addition to observing the maximum utilisation of available liquidity, ensuring that the time-to-wall figures in the defined stress scenarios are sufficient is key to complying with the liquidity risk limits. Time-to-wall shows the earliest point in time at which the forecast liquidity needs cease to be met by the liquidity counterbalancing capacity. The time-to-wall figures to be observed every day and the scenario-dependent minimum liquidity surplus limits to be observed in euro and other currencies are set out in the BayernLB Group Strategy for Liquidity Risks.

In 2020 limiting liquidity risks once again ensured the BayernLB Group was solvent and able to fund itself at all times and made a valuable contribution to optimising the management of short-term and structural liquidity.

The reporting and management of foreign currency intraday liquidity risks were expanded in BayernLB in 2020. Intraday cash flows in US dollars, the only material foreign currency for BayernLB, are now taken into account along with euro cashflows in its intraday liquidity risk management.

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

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

Current situation

The liquidity situation as at 31 December 2020 is shown based on the maturity structures in accordance with IFRS 7.39 and IFRS 16.58 on the one hand and an economic approach on the other.

In accordance with IFRS 7.39, the breakdown of financial liabilities by contractual maturity structure is shown below.

Contractual maturities of financial liabilities in the BayernLB Group[1]

31 Dec 2020 EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
Financial liabilities	89,592	97,059	108,583	171,660
Liabilities from derivatives	(468)	(811)	(811)	(1,015)
Total	**89,124**	**96,249**	**107,771**	**170,645**

31 Dec 2019 EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
Financial liabilities	79,741	87,301	98,719	134,941
Liabilities from derivatives	(313)	(317)	75	125
Total	**79,428**	**86,984**	**98,795**	**135,066**

1 The contractual cash flows reported are not discounted and include interest payments. They may therefore differ from the carrying amounts on the balance sheet.
2 Adjusted as per IAS 8.22 (see note 2).

The BayernLB Group's open irrevocable commitments rose to EUR 28.1 billion (FY 2019: EUR 25.9 billion). The volume of contingent liabilities from guarantees and indemnity agreements fell slightly to EUR 12.2 billion (FY 2019: EUR 12.4 billion). However, in contrast to the economic liquidity situation shown below, call probabilities have not been factored into these volumes.

The maturities of lease liabilities in accordance with IFRS 16.58 were structured as follows as at 31 December 2020:

Contractual maturities of financial lease liabilities

31 Dec 2020 EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
Lease liabilities	**13.3**	**4.0**	**18.7**	**84.8**

31 Dec 2019 EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
Lease liabilities	**7.5**	**3.9**	**18.6**	**86.9**

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

The BayernLB Group management scenario showed the following results as at 31 December 2020 compared with 31 December 2019:

Economic liquidity situation in the BayernLB Group and at BayernLB

31 Dec 2020 Cumulative figures in EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
BayernLB Group				
Liquidity counterbalancing capacity	57,990	55,920	48,511	54,856
Liquidity gap	20,422	25,682	22,497	33,334
Total liquidity surplus	**37,569**	**30,237**	**26,014**	**21,522**
BayernLB				
Liquidity counterbalancing capacity	27,014	25,459	22,313	21,075
Liquidity gap	13,618	16,248	16,804	15,674
Total liquidity surplus	**13,397**	**9,212**	**5,509**	**5,401**

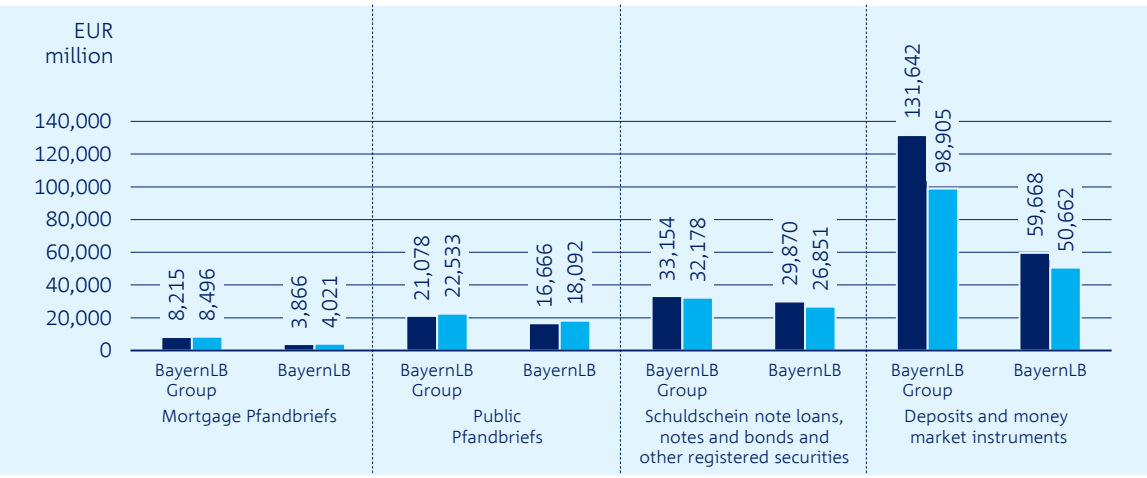
31 Dec 2019 Cumulative figures in EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
BayernLB Group[1]				
Liquidity counterbalancing capacity	38,083	44,204	37,713	21,151
Liquidity gap	12,923	18,523	16,796	(67)
Total liquidity surplus	**25,160**	**25,681**	**20,917**	**21,218**
BayernLB				
Liquidity counterbalancing capacity	24,995	24,481	22,815	11,086
Liquidity gap	10,180	13,913	14,717	128
Total liquidity surplus	**14,814**	**10,569**	**8,099**	**10,958**

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

The liquidity position of the BayernLB Group and BayernLB was comfortable at all times during the period under review. Cash outflows due to the coronavirus crisis were manageable at all times. The significantly further improved liquidity situation as at 31 December 2020 is in part due to the BayernLB Group's participation in the ECB tenders (TLTRO III) on 24 June 2020 and 30 September 2020, Furthermore, in 2020 the Group subsidiary DKB bolstered its already strong position in the retail business through a surge in customer deposits and lending activities.

The change in the refinancing structure of the BayernLB Group for 2020 compared to the previous year was as follows:

Funding structure



■ 31 Dec 2020
■ 31 Dec 2019

Events on the financial markets in 2020 were driven by the coronavirus crisis, the capital markets having begun the year with a continuation of the previous year's positive performance. By mid-February, however, the impact of the coronavirus pandemic had become clearly perceptible in the primary markets. An initially minor widening in margins on new issues increasingly developed into a market that was dominated by governments and supranational institutions and in which issuers were few and far between because of prohibitively high spreads. It took several interventions by the central banks before the situation on the markets began to ease, with risk premiums returning to normal in the covered bond market and then gradually in the market for unsecured bonds from May onwards, although they initially remained high for some time. The conditions continued to improve in the second half of the year, with the levels returning to those pertaining before the pandemic.

In addition to equity, BayernLB's structural funding derives mainly from capital market issues, deposits and subsidised loans and ad hoc funding in the money market. The BayernLB Group drew on the ECB's longer-term refinancing facilities (TLTRO III) in June and September 2020.

The BayernLB Group's long-term issue securities positions went down slightly. The (gross[39]) funding volume of structural, unsecured liquidity realised at BayernLB amounted to around EUR 4.6 billion in 2020 (of which around EUR 3.7 billion was in non-preferred format). There was a net repurchase of secured issues in the amount of EUR – 0.1 billion. Increased disposals of unsecured issues reduced the holdings of public Pfandbriefs in favour of unsecured Schuldschein notes, registered bonds and debt securities. Deposits increased due to participation in the TLTRO III programme. Short-term deposits were partially substituted by the TLTRO funding (reduction compared to 2019).

39 *Gross sales with no reduction for repurchases.*

Access to all funding sources was unlimited, even during the course of the coronavirus crisis (albeit at higher spreads). Funding raised in the first quarter prior to the start of the coronavirus crisis and sales after the market recovery from July onwards allowed funding costs to be maintained at a low level.

As the municipal and development bank of the Free State of Bavaria BayernLabo's liabilities are covered by a 100 percent state guarantee. In line with its mandate, BayernLabo is publicly funded via the KfW and the Landwirtschaftliche Rentenbank. The capital market offers further refinancing sources. BayernLabo meets ad hoc liquidity requirements by opening time deposits at BayernLB. In 2020 BayernLabo placed new issues worth around EUR 81 million net.

Customer deposits represented the largest source of funds in the DKB funding mix. In addition, much of the lending business is funded in the form of on-lending loans from development banks. The company's funding activities also include capital market issues. DKB's funding requirements continued to be met by strong growth in deposits in 2020. DKB also participated in TLTRO III.

BayernLB's ratings from Fitch and Moody's and the stable outlook have remained unchanged since 2019. BayernLB's issuer rating, which is good compared with European benchmarks, is Aa3 (Moody's) and A- (Fitch).

Economic and regulatory ratios and management limits, such as the internal limits of 110 percent for the LCR ratio and 100 percent for the NSFR ratio during the monitoring phase, were comfortably complied with throughout the reporting period.

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

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

Summary

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

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

The following tables show the debt instruments and structured financial products as defined in section 46f KWG, i.e. according to their seniority of payment under bankruptcy law:

Debt instruments as defined in section 46f para. 6 KWG (non-preferred senior) in the BayernLB Group

EUR million	31 Dec 2020	31 Dec 2019
Liabilities to banks	3,943	3,722
of which Schuldschein note loans	2,415	2,428
of which other registered securities	1,528	1,295
Liabilities to customers	6,729	6,948
of which Schuldschein note loans	838	844
of which other registered securities	5,892	6,104
Securitised liabilities	19,172	18,233
Liabilities held for trading	413	433
Total	**30,257**	**29,336**

Debt instruments as defined in section 46f paras 5 and 7 KWG (preferred senior) in the BayernLB Group

EUR million	31 Dec 2020	31 Dec 2019
Liabilities to banks	1,643	157
of which Schuldschein note loans	46	36
of which other registered securities	1,596	121
Liabilities to customers	746	783
of which Schuldschein note loans	133	157
of which other registered securities	614	626
Securitised liabilities	2,467	2,315
Liabilities held for trading	594	686
Total	**5,449**	**3,941**

Operational risk

Definition

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

In 2020, the following non-financial risks were identified as significant operational risks during the risk inventory carried out pursuant to MaRisk: legal risk, comprising general legal risk, compliance risk and tax law risk; fraud risk; information security risk (including cyber risk); outsourcing risk and model risk.

General legal risk is the risk that the Bank will incur losses as a result of (actual or alleged) non-compliance with applicable legal regulations. This includes breaches of contractual arrangements and erroneous contractual provisions. Legal risk arises from errors in the application of the law, amongst other things, especially when entering into contracts.

Compliance risk is a component of legal risk and includes the risk that the Bank will incur losses as a result of non-compliance with applicable legal regulations.

Tax law risk, part of legal risk, is the risk arising from BayernLB breaching applicable tax law.

Fraud risk covers the risk of a loss being incurred for the BayernLB Group due to punishable actions, whether carried out internally or externally.

Information security risk describes the risk arising from the availability, integrity and confidentiality of information and the need to protect this for each individual.

Outsourcing risk arises when errors are made in agreements with outsourcing companies, performance is poor or the outsourcing company defaults.

Model risk is the risk of loss that may arise when using results or basing decisions on results from models that are incorrect or incorrectly used.

Organisation

Operational risks are managed and monitored both centrally in Group Risk Control and, for non-financial risks, decentrally in the responsible divisions (e.g. the Legal Services & BoM Support Division for legal risks).

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

Risk Strategy

The treatment of operational risks is set out in the Risk Strategy and related sub-risk strategies and guidelines for non-financial risks. The strategic objective is to minimise or avoid risk based on a cost-benefit analysis. This requires operational risks to be identified and assessed as completely as possible.

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

Risk measurement

Operational risks are quantified for the calculation of risk-bearing capacity 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 99.90 percent. The key model assumptions and parameters used in the model are reviewed once a year.

Operation risk self assessment, which was further improved and repeated in 2020, serves as an important database for managing OpRisk activities. The improvements included recording new risks (e.g. risks from the transformation project "Fokus 2024"), updating the existing risks and removing risks that are no longer relevant. As part of the OpRisk Self Assessment the results of Group-internal risk analyses of individual non-financial risks (e.g. information security risk) were taken into consideration. Particular attention was also devoted to assessing the impact of the coronavirus pandemic. As part of the intra-year review of the multi-year planning for the calculation of the risk-bearing capacity the necessary records were updated (in particular coronavirus-related loss events and risks associated with epidemics/pandemics).

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

Risk management and monitoring

Operational risks at BayernLB Group are reported to the Board of Management monthly as part of the regular reporting on risk and on an ad hoc basis if material losses occur. The operational risk loss situation and trends and the resulting measures taken and capital charges form a major part of the regular reporting. Group reporting was expanded in 2020 to include further significant risk sub-types and associated key risk indicators in order to support the early identification and monitoring of risks.

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

Business continuity management

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

As a reactive measure to tackle the coronavirus pandemic the interdisciplinary coronavirus working group was convened at the start of the financial year – with the involvement of the Board of Management and the business areas – and regular assessments of the current coronavirus situation were undertaken. The successful performance of the RAS stress test in the financial year also reviewed the effectiveness of the technical capacities for enabling mobile working for a very high number of employees. In addition, monthly status requests were used to monitor the overall situation in the divisions in order to actively counter potential disruptions to business continuity. These measures ensured that business continuity was maintained at all times during the financial year and not jeopardised at any time.

BCM is embedded in the strategies of BayernLB and the BayernLB Group, in the Group-wide guidelines for BCM and the Information Security Guidelines, reflecting the supervisory requirements. The requirements include identifying time-critical activities and processes and specifying business continuity and restart procedures to protect these. They also cover regular testing of the effectiveness and suitability of the measures defined. Care is taken to ensure that the interfaces between disruption, emergency and crisis management are clearly defined and that clear escalation and de-escalation processes are in place. As part of BCM annual reporting the business continuity officer reports regularly to the member of the Board of Management responsible for BCM on compliance with standards by Group companies.

Current situation

The BayernLB Group's risk capital requirement increased on the comparison date of 31 December 2020 to EUR 505 million (FY 2019: EUR 450 million) and in BayernLB to EUR 333 million (FY 2019: EUR 300 million).

Coronavirus-related losses (e.g. for the purchasing of cleaning and disinfection products, implementing cleaning measures and the procurement of protective masks, etc.) resulting from the coronavirus crisis totalling EUR 0.4 million were reported in the BayernLB Group. No additional significant increases in these losses are currently anticipated.

Losses reported in 2019 were EUR 9.8 million, which was reduced to EUR 9.6 million in the BayernLB Group mainly as a result of subsequent adjustments to loss events.

The total loss at the BayernLB Group amounted to EUR 10.4 million in 2020. It stemmed mainly from the event categories external fraud, with a share of 35.4 percent (restated FY 2019: 37.4 percent), implementation, delivery and process management with a share of 35.2 percent (restated FY 2019: 43.9 percent) and customers, products and business practices with a share of 16.7 percent (restated FY 2019: 6.2 percent).

Losses at BayernLB totalling EUR 1.8 million (FY 2019: 1.3 billion) were largely caused by a processing error in the event category execution, delivery and process management.

DKB accounted for the bulk of the losses, at around EUR 8.6 million (FY 2019: EUR 8.4 million). These were incurred in particular in the context of projects (e.g. additional costs incurred in the implementation of an internet banking interface at DKB) or were the result of a processing error in the credit process. In contrast, the number of losses from card misuse in the retail customer business declined. The DDoS attacks at the start of the 2020 financial year and the temporary disruption to the availability of internet banking caused comparatively minor losses, which were spent on temporarily increasing services for customers.

Summary

The total loss at the BayernLB Group remained for the most part low.

Summary and outlook

The risk profile of the BayernLB Group remained stable in financial year 2020.

The BayernLB Group had adequate risk-bearing capacity at all times in the financial year and as at 31 December 2020, despite the impact of the coronavirus pandemic. The stress scenarios conducted also confirmed that adequate capital is held. In addition, the BayernLB Group had a comfortable supply of liquidity on hand. Risk provisions took appropriate account of known risks. Regulatory solvency requirements were met. Equity capital for the purpose of risk coverage amounted to EUR 12.0 billion in the BayernLB Group and EUR 10.0 billion at BayernLB (further details are reported in the Notes under Capital management).

The impact of the coronavirus pandemic both on risk trends and maintaining business operations will continue to be closely monitored and actively managed in the 2021 financial year. The implementation of the transformation programme on the focus sectors, taking into account the risk drivers resulting from climate and environmental risks, will also be continued.

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

Report on expected developments and opportunities

The following outlook is for a horizon of one year, which corresponds to the timeframe used in the management process within the Group. The report on expected developments and opportunities is based on the expectations and estimates of the BayernLB Group and may be affected by unforeseeable events. This can mean that the actual performance of the business may deviate either positively or negatively from the expectations described below due to political or economic conditions or other factors.

The Bank conducts its planning on a rolling basis, which also allows it to exploit opportunities that temporarily arise both quickly and systematically and to duly respond to unexpected risks. Its significant risks are described in the risk report.

Macroeconomic forecast

Economy, inflation and monetary policy

In 2021, the health of the economy will continue to be dominated by coronavirus and the political measures to combat the pandemic and provide economic support. After a weak and volatile first half of the year, the global economy should (with the expected roll-out of vaccinations and easing of lockdowns) enter a stable period of recovery, which will then significantly gather pace. Compared with North America and Europe, the upturn is likely to happen faster in Asia, where countries brought the spread of the virus under control with strict quarantines and systematic tracking and tracing of chains of infection. At the end of 2021, the world economy will overall have probably reached pre-crisis levels of output. In spite of the still elevated political uncertainty, it is not expected there will be any escalation of disputes that would substantially put the global economic recovery at risk. To prevent economies from collapsing again, monetary and fiscal policy will remain very accommodative over all forecast horizons, with all the usual consequences this will entail for central bank balance sheets and levels of public debt. It is probable that the ECB and Fed will leave policy rates alone but expand liquidity packages to keep the cost of borrowing low. In a global environment where capacity is not fully utilised, we are not expecting inflation to get out of hand and believe companies have little leeway in what they can charge, even though there has been evidence of an uptick in prices.

In the first half of 2021, with the effects of the pandemic still very much evident, the German economy has been stabilised by the fact that industry accounts for a comparatively large share of value creation. This sector has adjusted well to manufacturing goods under health and safety measures to protect against infection, while the usually less volatile services sector has been suffering badly under the lockdowns. Industry order books are now better filled than before the crisis and production is likely to reach pre-crisis levels over the course of 2021. In the second half of the year, the services sector is then set to play its role in driving forward the recovery. A significant tailwind is also likely to come from exports once again.

Brexit will probably have a relatively small impact on external trade. The post-Brexit agreement reached at the end of 2020 eliminated the risk of a disorderly exit by the United Kingdom from the EU single market and the customs union. Although importing and exporting companies now have to grapple with more customs paperwork, most sectors are tariff free.

Real GDP (adjusted for working days) is expected to rise by 3.1 percent on the previous year, while economic output and investment levels will still be well below pre-crisis levels. A significant rise in company insolvencies in 2021 would probably cause a moderate increase in the unemployment rate to 6.5 percent, although short-time working will prevent an even more serious situation from developing and stabilise incomes. After rising strongly in 2020, a now normalising savings ratio will also help private consumption fire up the recovery in Germany. Once the coronavirus pandemic is over, expansionary fiscal stimuli combined with a boost to disposable incomes from the plunge in oil and energy prices that has since occurred in Germany and the eurozone should bring about positive quarterly growth again from the summer onwards. The positive catch-up effect is, however, likely to be constrained by the fact that the losses caused by the cancellation of many events and lack of spending in the hotel and catering industries will not be made up when the pandemic subsides.

Germany's inflation rate is likely to be much higher than it was in 2020 due to the economy's lower capacity utilisation and the moderate oil price. The reasons for this are one-off effects such as the temporary reduction of value added tax in the second half of 2020 (baseline effect) and the introduction of the CO_2 tax at the start of 2021. With average price rises of around 2 percent compared with the previous year, the ECB's inflation target will probably be met in Germany. However, the average rate of inflation in the eurozone is expected to be significantly below this, so the ECB will continue to pursue its expansionary monetary policy.

Because of its closer trading ties to the United Kingdom, the USA and China, Bavaria is somewhat more heavily dependent on global and geopolitical developments than the German economy as a whole. The region also benefits from its strong industrial base, although a large part of this is the cyclical automotive industry, which has been affected more than other sectors of the economy by interruptions in supply chains and a collapse in demand, and which also must manage the task of transitioning to electric mobility over the course of a number of years. Both factors are also likely to weigh on the first half of 2021, but then contribute to the recovery. In overall terms, economic output in Bavaria should increase at roughly the same rate as the average for the rest of Germany.

The biggest risks to Germany's economic health in 2021 are pandemic-related. An aggressive or resistant mutation in the coronavirus, slow vaccination rates and the long lockdowns this would trigger would prove fatal to small and medium-size companies in particular. The expected wave of insolvencies could be much worse in such a scenario. Moreover, the trade dispute between the USA and China is not likely to go away, even under the recently installed President Biden.

A big sell-off on overbought financial markets and rising risk aversion in the real estate market could also trip up the economy. The opportunities in the Bank's economic forecast are a more effective or rapid expansion of dovish monetary and fiscal policy in the currency union, rapid containment of the coronavirus pandemic and an unexpectedly fast and sustainable solution in the trade dispute. An even greater upscaling of green investment is another potential upside risk to the economy in 2021.

On the exchange-rate front, BayernLB is expecting the dollar to depreciate against the euro to USD 1.25 per euro by the end of 2021. In the short term, the dollar will probably continue to be supported by the large number of open USD short positions and the prospects of additional spending programmes in the USA under President Biden. In the medium term, the roll-out of coronavirus vaccinations and a further move out of risk-off mode on markets should weaken the greenback once again. In addition, we anticipate accumulating forex losses will encourage foreign investors to reduce or start hedging their US investments, which would aggravate the depreciation in the dollar. At least with a no-deal Brexit now averted, we believe the pound sterling is now spared from further depreciation. In spite of its successful vaccination campaign, the economic outlook for the UK is not particularly rosy, so we are not expecting any substantial appreciation in the currency either. The Swiss franc could lose at least some ground if the various sources of uncertainty recede over the course of the year.

Markets

In 2021, central banks will continue to be a dominating force on bond markets. It is true that Bund yields will be stoked up by the normalisation of the economy and inflation, the large supply of newly issued government bonds to fund the budget deficits that have swollen as a result of the coronavirus pandemic, increased competition from EU bonds in 2021 and the likely negative impact from US Treasury market leads. However, these rises will be tempered by the ECB's decision to keep hoovering up large volumes of bonds. As at the end of 2021, we expect the 10-year Bund to be yielding – 0.3 percent. The sovereign bond market at the euro periphery will be supported by the ECB's purchase programme and the EU's recovery fund. Risk premiums should continue to tighten in 2021.

Covered bond investors will need to accommodate themselves to a negative net supply in 2021 too. Although EUR 132 billion of fixed income is due to mature, we anticipate gross issues of new debt will not easily exceed EUR 100 billion. The ECB's TLTRO funding facility for banks will therefore remain attractive. Constrained supply coupled with the ECB's willingness to keep its spending spree going should keep spreads low.

Supported by the ECB's purchase programmes (CSPP and PEPP for non-financials), a recovering economy and a small drop in volumes of new issues compared with previous years, low spreads on credit markets will probably become established. As the Bank considers the potential for further spread tightening to be limited, non-financials will become comparatively less attractive in spite of the persistent low interest rate environment. The increasing numbers of insolvencies over the course of the year will not primarily impact companies active in the market and therefore will not affect spreads.

In 2021, equity markets will be further bolstered by the massive injection of liquidity by central banks and the persistent low interest-rate environment. Stocks will also be supported by the prospects of a sustained economic upturn in the aftermath of the pandemic and further recovering corporate earnings. However, valuations in many segments are already ambitious and investors are aggressively positioned in their portfolio weightings. This makes it likely there will be some sharp corrections over the year, but they should be short-lived.

The fallout from the global economic collapse in 2020 will continue to rattle global real estate markets in 2021. Although there are no real alternatives to real estate on offer for institutional investors, a trend to investing in Europe has materialised due to greater risk aversion. Residential real estate is proving particularly popular. However, the impact of the coronavirus crisis is more visible on the commercial real estate market, which is sensitive to the state of the economy. Therefore, investors in the commercial sector will be mainly focusing on core properties in central locations in urban areas in Europe. Nevertheless, some differences between regions can be observed: Germany is enjoying brisk interest from investors, even outside the centres, and high transaction volumes can be expected in 2021 too. On the other hand, interest from professional investors is noticeably on the wane with respect to the United Kingdom and, in particular, the southern European nations of Spain and Italy.

Sector forecasts

In 2021, the banking sector will have to be prepared for rising insolvencies and an increase in loan defaults that would accompany them. It is too soon to fully know what the risk costs and ratio of problem loans will be as this will depend in large part on how much the virus spreads, how successful the measures to tackle it are and what support governments provide. The situation is therefore still too uncertain to forecast how the economy will perform.

As well as potentially weaker growth in lending, the banking sector must also contend with the familiar series of challenges in 2021: persistent low interest rates, tough competition and pressures to digitalise. Digitalisation has also been given a push by the pandemic and is forcing banks to adapt their business models more quickly to the future and invest in IT. The need to find new ways of generating income beyond charging interest on loans will intensify.

Although the foundation of the EUs recovery fund and the expansionary monetary policy of the ECB have pushed the issue of how the public sector will be able to service its debts rather more into the background, it is still a key question and could create political friction that may be felt on banks' balance sheets. Geopolitical tensions, especially between the USA and China, could come back onto the radar once the pandemic fades and impede banks' business activities both directly and indirectly. This would cast a shadow on the prospects for the European and German banking landscape.

Because of the good quality of German banks' assets and the resilience of the country's economy, the consequences of the pandemic will be manageable. However, lower levels of profitability and difficulties in improving earnings will mean that cost-cutting will take a leading role over the next 12 months.

Banks should have better visibility on the regulatory pipeline when the legislative proposals for CRR3/CRD6 are published, which has meant the finalisation of Basel III will be transposed into European law one year later than originally planned.

Even though the issue of sustainability has caught the attention of politicians and supervisory authorities and this poses risks due to the need to make changes, it also offers opportunities to refine, develop and update business models. For example, banks could play a key role in funding the transition to a more sustainable economy and support their customers with new services.

The refinancing options provided by the ECB to the end of 2021 and beyond should also be positive as they allow the sector to obtain cheap funding. Nonetheless, loose monetary policy has also caused asset prices in all market segments to climb to high levels, so a correction is another risk factor.

Regulatory environment

In future, just as has unerringly been the case in previous years, the banking supervisory authorities will continue to account for a large proportion of new regulatory requirements issued.

Looking to 2021, the main focus will be on the application of CRR II, which will lay down a new standardised approach for measuring counterparty default risks and implement the first stage of the Fundamental Review of the Trading Book (FRTB) in the form of a simple disclosure requirement. In addition, a binding leverage ratio and capital requirements for the NPL backstop, and therefore minimum cover for problem loans, will be introduced in the EU.

In 2021, the EBA will be conducting another stress test to determine the general resilience of EU-based banks to adverse economic developments. This will be performed by BayernLB and another 50 banks across the whole European Union in the first half of 2021. The results are due to be published at the end of July 2021.

A draft version of the CRR II is also expected, which will be used to transpose the finalised Basel III rules within the EU. The main revisions to the rulebook relate to the standardised (CRSA) and internal ratings-based approach (IRBA) for measuring credit risk, calculating capital requirements for operational risk, and the risk of a deterioration in the creditworthiness of derivatives counterparties. An output floor of 72.5 percent is also being introduced, which will limit the advantages of using the IRBA and link it to the results of the CRSA.

The revision to EU bank resolution legislation will also flesh out the structure of the MREL thresholds. Accordingly, the MREL thresholds set by the resolution authorities in 2021 will be calibrated on the basis of a risk-orientated metric (RWA) and a component that is independent of the risk measurement (leverage exposure).

Lastly, it is apparent that the banking sector will continue to be affected by the coronavirus pandemic in 2021. This means the ECB will focus its supervisory activities on credit risk management, the capital base, the viability of business models and governance.

Company forecasts

Expectations regarding the BayernLB Group

Key forecast assumptions

In its forecast for financial year 2021, the BayernLB Group has made the following key assumptions:

- A 3.1 percent increase in real GDP (Germany) on the previous year. However, key customer sectors will still be exposed to the challenges posed by the coronavirus and sector-specific structural changes
- Rising insolvencies and therefore an increase in loans at risk of default
- Sustained low interest rates, tough competition and heavy pressure to digitalise
- Further targeted implementation and systematic adherence to the cost-cutting measures set out in the "Fokus 2024" transformation programme
- An increase in administrative expenses for strategic investment on growth, digitalisation and sales
- Moderate negative impact from restructuring measures as ample restructuring provisions have been made

Our forecasts for our key financial performance indicators are:

	Net profit for 2020	Outlook for 2021
Profit/loss before taxes	EUR 195 million	EUR 200 million – EUR 400 million
Return on equity (RoE)	1.9%	>3%
Cost/income ratio (CIR)	66%	65% – 70%
Common Equity Tier 1 (CET1) capital ratio	15.9%	>14%
Leverage ratio[1]	–	>4%

1 Valid from 30 June 2021.

With regard to managing economic capital, the stress as at the end of 2021 is expected to be almost unchanged. BayernLB anticipates it will be able to comfortably bear risks and maintain a solid capital base at all times.

Under supervisory rules, a liquidity coverage ratio (LCR) of at least 100 percent is mandatory. The BayernLB Group anticipates that it will easily exceed the floor of this key liquidity ratio in 2021 and will stay at the comparatively high level it reached in financial year 2020 (245 percent as at 31 December 2020).

Another key liquidity ratio, the NSFR, will become binding when CRR II comes into force in June 2021. BayernLB has already calculated this indicator. For 2021, the BayernLB Group is forecasting an NSRF in the region of 120-130 percent.

In 2021 the net profit for the year after taxes (HGB) is expected to be on par with financial year 2020.

As it is unclear how the pandemic will unfold or what the potential, currently unpredictable impact on the German economy and financial markets will be, this forecast is fraught with a high level of uncertainty. BayernLB is closely monitoring developments in connection with the impact of the coronavirus pandemic and is adequately prepared for any deterioration in the current situation.

It cannot be ruled out that any change in the assumptions underlying our forecasts may affect the BayernLB Group and its financial position and performance.

Expectations regarding the operating business segments

Corporates & Markets segment

In 2021, the Corporate & Markets segment will be implementing the strategic objectives and goals developed in 2020. The Corporates Business Area will focus on remodelling and realigning its organisation and structures to become an investment lender focused on selected sectors of the future, especially mobility, energy, technology, manufacturing & engineering, and construction & basic resources. The pooling of advisory and product expertise into an overarching sector team with the required sector expertise will create the necessary foundations for providing all-round support for corporate customers. At the same time, it will refine and improve sustainable financing solutions and expand product expertise in structured financing and capital market transactions. The Financial Markets Division will continue implementing the comprehensive transformation programme along the path drawn up in 2020 by focusing its offering on strategically relevant products. In view of the challenges posed by the coronavirus pandemic, the Corporate & Markets segment is therefore positioning itself on a more stable and forward-looking footing to take advantage of the changed dynamics of the market through its nuanced approach to business.

Real Estate & Savings Banks/Financial Institutions segment

The main thrust of the strategic approach taken in the real estate business is unchanged. This is to gradually but selectively expand commercial and residential real estate financing in the established asset classes of offices, residential, logistics, retail and property management. Because of the pandemic, no hotels or shopping centres are currently being financed. Besides Germany, business activities will be centred on western Europe, selected countries in eastern Europe and the USA. To better diversify income and risks, the foreign share in the portfolio will be raised from 36 percent to around 42 percent in the medium term. Most of the expansion will take place through the Paris, London, Milan and New York branches, which will constantly monitor market developments, especially with regard to the impact of the coronavirus pandemic. The approach to sales will remain the same: achieve high market penetration by providing all-round customer support across the entire product range.

BayernLB's professionalism, expertise and reliability make it a partner of choice for financial institutions and the public sector. The successful, trust-based collaboration with savings banks is based on the sales and customer-oriented support model, with a holistic approach. As the central bank to the Bavarian savings banks, BayernLB offers the savings banks and their customers a focused and future-oriented range of products and services. Growth in the segment will be further supported by systematically expanding sustainable products and services and maintaining a strong market position in the precious metals business.

DKB segment

DKB is expecting its three market segments – retail customers, infrastructure and corporate customers – to post a good business performance, thus enabling it to make further progress on digitalising and improving internal processes in order to make the customer experience even more satisfying, increase scalability and accelerate business processes. For a detailed forecast for the DKB segment, please refer to DKB's combined management report.

Future plans for the BayernLB Group

In 2021, the BayernLB Group will continue to systematically implement the programme that was agreed at the end of 2019 and confirmed in summer 2020, and this will see it strategically realigned and transformed. The strategic target structure for 2024 and the financial guidelines defined for this will also form the strategic framework within which the BayernLB Group will operate. In view of this, in 2021 the Bank will also be following the strategic goals and objectives outlined in the section on the business model and Group strategy.

In the first half of 2021, a review was conducted on the strategic direction and the degree to which the business segments had met their targets within the BayernLB Group's periodic strategy process; suitable measures and modifications were made where necessary.

The fundamental indicators that the BayernLB Group's business strategy has been successfully implemented are to have a solid capital base, a stable core business, and to have implemented the transformation as planned, including meeting the cost targets set. Key areas of the Group-wide "Fokus 2024" transformation programme in 2021 include further optimising the IT infrastructure and internal bank management processes, successfully implementing the teamwork model for working on the five focus sectors in the corporate customers business and making ongoing improvements and refinements to DKB. DKB will continue to position itself as a modern tech bank and is aiming to double the number of customers it serves to 8 million and increase gross earnings to more the EUR 1.3 billion.

As regards internal processes and procedures, the strategic targets up to 2024 are focused on rigorously optimising the cost base, adapting the operating model to changing market conditions, increasing process efficiency, boosting the Groups innovativeness and ensuring all Group units work together in a customer and solutions-centric manner. Specifically, BayernLB (excluding BayernLabo and DKB) is planning to significantly reduce administrative expenses to EUR 500 million by 2024. This is to be achieved partly by making significant reductions to the headcount up to 2024. To markedly improve the efficiency of the platform in Munich, the Group is planning to invest around EUR 280 million in IT at BayernLB. Capital spending of around EUR 400 million will be needed to transform DKB under the "Corporate strategy 9" programme.

The financial guidelines for realising the transformation to the target structure, include keeping RWA volumes within the BayernLB Group largely constant, with the aim of achieving a figure of around EUR 70 billion in 2024. The BayernLB Group also plans to achieve a return on equity (RoE) of about 8 percent and a cost/income ratio (CIR) of slightly above 50 percent. On top of this, it is aiming for a Common Equity Tier 1 ratio (on a consolidated basis) in 2024 of at least 14 percent. For more detailed information on the future plans for the BayernLB Group, please refer to the report on expected developments.

Based on this systematic and sustainable strategy, the Bank will be working over the next few years to increase the share of the portfolio that is ESG (environment, social and governance) compliant and impactful.

All in all, for BayernLB the year 2021 (and the two following years) will be heavily shaped by the programme to transform the Group, the investment needed for this (especially in IT and infrastructure) and the impact of the coronavirus crisis. Despite the large-scale modernisation of IT at BayernLB and DKB and higher risk costs as a result of the pandemic, the BayernLB Group will produce good and increasing profits while maintaining a solid capital base. This means that the BayernLB Group will be in a position to fund its comprehensive transformation from its own resources.

Opportunities and risks

The assumptions made over the course of financial year 2021 may be affected positively or negatively by the significant opportunities and risks described below:

At the top of the list is the potential impact from the ongoing coronavirus pandemic. In addition, the ongoing drift towards protectionism, as is evident from, for example, the trade dispute between the USA and China, and the structural changes in certain sectors, especially in the automotive industry, combined with below-average economic growth in Germany and the eurozone may have a greater negative impact than expected.

For the Group, coronavirus-related risks affecting customers, for instance, may result in higher-than-expected risk provisions. Unexpected pressure on margins and therefore earnings in the forecast period may come from even fiercer competition and lower-than-expected interest rates. On top of that, if stricter regulations than had been anticipated are brought in, that could also cast a shadow.

The Bank's strategic transformation over a number of years creates both opportunities and risks. The latter includes the agreed measures being implemented only in part or with a delay requiring additional investment or not generating the scheduled cost savings, and, for example, the market or customers reacting negatively to the planned streamlining of business activities. The new strategy itself will create a new risk structure as a result of a stronger focus on specific types of assets, a higher foreign share (especially in the case of real estate), longer maturities in the credit portfolio in some cases and strong growth in the retail customer segment at DKB. As part of the strategic realignment, the Bank has, however, already worked out specific measures to mitigate these risk factors, including building up additional expertise in the relevant asset classes, focusing on the foreign markets the Bank is already familiar with, increasing regional diversification in the real estate business, and strengthening the Banks placement ability. The planned expansion of its business activities in real estate, in the foreign notes and coins and precious metals business and at DKB as part of its strategic realignment will provide the Bank with opportunities to tap additional earnings potential. In addition, the targeted efficiency improvement and digitalisation measures have the potential to generate earnings and cut down on costs, although it will be some time before this bears fruit with a better bottom line.

In addition, because of its membership of the institutional guarantee scheme of the Landesbanks and also due to the "European bank levy" BayernLB may be one of the banks called upon to make a special payment if conditions deteriorate to the extent that a package of compensation and support measures is required, and this could have unforeseeable effects on the BayernLB Group's financial position and financial performance. It is also anticipated that contributions to the bank levy will rise up to the end of the regular building up phase in 2023, especially due to a rise in the target volume. It cannot be ruled out that further contributions may be collected even after 2023.

Given the expectations by the supervisory authorities that the deposit guarantee scheme will be refined, it is anticipated that the Savings Bank Finance Group will, in coordination with the ECB and BaFin, agree on potentially necessary changes to this scheme.

On the other hand, the BayernLB Group may also find opportunities in the aforementioned conditions over the forecast period if the outcome for the factors is more positive than expected. For example, margins and earnings may be better than had been forecast if returns rise more than predicted. Although the ongoing process of digitalisation and supervisory authorities' increased focus on sustainability pose potential risks (as it would result in changes to market and customer requirements), it also offers BayernLB opportunities to modify, fine tune and refine its business model.

BayernLB Group's consolidated financial statements

Statement of comprehensive income

Income statement

EUR million	Notes	2020	2019
Interest income		5,258	5,929
Interest income from financial instruments determined using the effective interest method		3,126	3,590[1]
Interest income – other		2,132	2,339[1]
Interest expenses		(3,486)	(4,203)
Interest expenses from financial instruments determined using the effective interest method		(1,372)	(1,804)
Interest expenses – other		(2,113)	(2,399)
Net interest income	(27)	1,772	1,726
Risk provisions	(28)	(142)	251
Net interest income after risk provisions		1,631	1,978
Commission income		747	715
Commission expenses		(416)	(428)
Net commission income	(29)	331	287
Gains or losses on fair value measurement	(30)	62	(2)
Gains or losses on hedge accounting	(31)	11	(13)[1]
Gains or losses on derecognised financial assets	(32)	(14)	4
Gains or losses on financial investments	(33)	68	40
Administrative expenses	(34)	(1,520)	(1,446)
Expenses for the bank levy and deposit guarantee scheme	(35)	(161)	(134)
Other income and expenses	(36)	75	159[2]
Gains or losses on restructuring	(37)	(287)	(217)
Profit/loss before taxes		**195**	**656**
Income taxes	(38)	37	(187)
Profit/loss after taxes		**232**	**469**
Profit/loss attributable to non-controlling interests		(3)	(3)
Consolidated profit/loss		**228**	**466**

Rounding differences may occur in the tables.

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

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

Statement of comprehensive income

EUR million	Notes	2020	2019
Profit/loss after taxes as per the income statement		**232**	**469[1]**
Components of other comprehensive income temporarily not recognised in profit or loss			
Changes 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	(62)	46	45
Change not including deferred taxes		65	65
Change in measurement		114	170
Reclassification adjustment due to realised gains and losses		(49)	(106)
Change in deferred taxes		(19)	(20)
Changes in the revaluation surplus containing changes in the fair value of currency swaps arising from currency basis spread fluctuations	(62)	(4)	(8)
Change not including deferred taxes		(4)	(8)
Change in measurement		(4)	(8)
Reclassification adjustment due to realised gains and losses		–	–
Change in deferred taxes		–	–
Currency-related change	(62)	3	–
Change not including deferred taxes		3	–
Change in measurement		3	–
Reclassification adjustment due to realised gains and losses		–	–
Change in deferred taxes		–	–
Components of other comprehensive income permanently not recognised in profit or loss			
Rating-related changes in the fair value of financial liabilities from the “fair value option” category recognised through other comprehensive income	(62)	14	73
Change not including deferred taxes		13	97
Change in the revaluation surplus for rating-related changes in the fair value of financial liabilities from the “fair value option” category		14	92
Change in retained earnings for realised rating-related changes in the fair value of financial liabilities from the “fair value option” category		(1)	5
Change in deferred taxes		1	(24)
Change due to remeasurement of defined benefit plans	(62)	(238)	(321)
Change not including deferred taxes		(280)	(355)
Change in measurement		(280)	(355)
Change in deferred taxes		43	34
Other comprehensive income after taxes		**(179)**	**(211)**
Total reported comprehensive income recognised and not recognised in profit or loss		**53**	**258**
Attributable:			
To BayernLB shareholders		50	255
To non-controlling interests		3	3
Total comprehensive income attributable to BayernLB shareholders:			
From continuing operations		50	255
From discontinued operations		–	–

Rounding differences may occur in the tables.

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

Balance sheet

Assets

EUR million	Notes	31 Dec 2020	31 Dec 2019
Cash reserves	(7, 39)	9,342	8,512
Loans and advances to banks	(8, 40)	56,177	31,106
Loans and advances to customers	(8, 41)	152,376	144,997
Risk provisions	(9, 42)	(1,084)	(973)
Portfolio hedge adjustment assets	(10)	1,014	765
Assets held for trading	(11, 43)	12,110	13,925
Positive fair values from derivative financial instruments (hedge accounting)	(12, 44)	876	706
Financial investments	(13, 45)	21,881	23,561
Investment property	(14, 46)	28	28
Property, plant and equipment	(14, 47)	489	544
Intangible assets	(15, 48)	144	102
Current tax assets	(25, 49)	100	205
Deferred tax assets	(25, 49)	680	581
Non-current assets or disposal groups classified as held for sale	(16, 50)	26	–
Other assets	(17, 51)	2,113	1,905
Total assets		**256,271**	**225,965**

Rounding differences may occur in the tables.

Liabilities

EUR million	Notes	31 Dec 2020	31 Dec 2019
Liabilities to banks	(18, 52)	75,995	50,152
Liabilities to customers	(18, 53)	109,779	100,436
Securitised liabilities	(18, 54)	43,037	44,570
Liabilities held for trading	(19, 55)	9,374	10,312
Negative fair values from derivative financial instruments (hedge accounting)	(20, 56)	1,178	1,224
Provisions	(21, 57)	2,895	4,801[1]
Current tax liabilities	(25, 58)	162	241
Liabilities of disposal groups	(59)	6	–
Other liabilities	(22, 60)	584	583
Subordinated capital	(23, 61)	1,685	2,107
Equity	(62)	11,576	11,537
Equity excluding non-controlling interests		11,559	11,521
Subscribed capital		3,412	3,412
Capital surplus		2,182	2,182
Retained earnings		5,719	5,667[1]
Revaluation surplus		165	109
Foreign currency translation reserve		5	2
Distributable profits		75	150
Non-controlling interests		18	16
Total liabilities		**256,271**	**225,965**

Rounding differences may occur in the tables.

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

Statement of changes in equity

EUR million	Parent								Non-controlling interests	
	Subscribed capital	Compound instruments	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**		**Consolidated equity**
As at 31 Dec 2018	**3,412**	**21**	**2,182**	**5,660[1]**	**4**	**2**	**175**	**11,455**	**18**	**11,473**
Adjusted as per IAS 8[2]	–	–	–	5	–	–	–	5	–	5
As at 1 Jan 2019	**3,412**	**21**	**2,182**	**5,666**	**4**	**2**	**175**	**11,461**	**18**	**11,478**
Changes in the revaluation surplus										
Changes in the fair value of debt instruments - FVOCIM[3]	–	–	–	–	45	–	–	45	–	45
Rating-related changes in the fair value of financial liabilities - FVPLD (FVO)[4]	–	–	–	5	68	–	–	73	–	73
Changes in the fair value of currency swaps from currency basis spread fluctuations	–	–	–	–	(8)	–	–	(8)	–	(8)
Currency-related changes	–	–	–	–	–	–	–	–	–	–
Changes due to Remeasurement of defined benefit plans	–	–	–	(321)	–	–	–	(321)	–	(321)
Other comprehensive income	–	–	–	(315)	105	–	–	(211)	–	(211)
Consolidated profit/loss[2]	–	–	–	–	–	–	466	466	3	469
Total comprehensive income	–	–	–	(315)	105	–	466	255	3	258
Capital increase/ capital decrease	–	–	–	–	–	–	–	–	–	–
Changes in the scope of consolidation and other	–	(20)	–	1	–	–	–	(19)	–	(19)
Allocations to/withdrawals from reserves[2]	–	–	–	315	–	–	(315)	–	–	–
Distributions on silent partner contributions, profit participation rights and specific-purpose capital	–	–	–	–	–	–	–	–	–	–
Distribution of profits	–	–	–	–	–	–	(175)	(175)	(5)	(180)
As at 31 Dec 2019	**3,412**	**–**	**2,182**	**5,667**	**109**	**2**	**150**	**11,521**	**16**	**11,537**

Rounding differences may occur in the tables.

Details on equity can be found in note 62.

1 Adjustments as per 31 Dec 2018 (see Annual Report and Accounts 31 Dec 2019, note 2).

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

3 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.

4 Revaluation surplus - rating-related changes in the fair value of financial liabilities from the "fair value option" category recognised through other comprehensive income, and reclassification of the rating-related changes in the fair value of these financial liabilities to retained earnings.

EUR million	Parent								Non-controlling interests	
	Subscribed capital	Compound instruments	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**		**Consolidated equity**
As at 31 Dec 2019	**3,412**	**–**	**2,182**	**5,667**	**109**	**2**	**150**	**11,521**	**16**	**11,537**
Adjusted as per IAS 8	–	–	–	–	–	–	–	–	–	–
As at 1 Jan 2020	**3,412**	**–**	**2,182**	**5,667**	**109**	**2**	**150**	**11,521**	**16**	**11,537**
Changes in the revaluation surplus	–	–	–	–	–	–	–	–	–	–
Changes in the fair value of debt instruments - FVOCIM[3]	–	–	–	–	46	–	–	46	–	46
Rating-related changes in the fair value of financial liabilities - FVPLD (FVO)[4]	–	–	–	(1)	16	–	–	14	–	14
Changes in the fair value of currency swaps from currency basis spread fluctuations	–	–	–	–	(4)	–	–	(4)	–	(4)
Currency-related changes	–	–	–	–	–	3	–	3	–	3
Changes due to remeasurement of defined benefit plans	–	–	–	(238)	–	–	–	(238)	–	(238)
Other comprehensive income	–	–	–	(239)	57	3	–	(179)	–	(179)
Consolidated profit/loss	–	–	–	–	–	–	228	228	3	232
Total comprehensive income	–	–	–	(239)	57	3	228	50	3	53
Capital increase/ capital decrease	–	–	–	–	–	–	–	–	–	–
Changes in the scope of consolidation and other	–	–	–	(12)	–	–	–	(12)	–	(12)
Allocations to/withdrawals from reserves	–	–	–	303	–	–	(303)	–	–	–
Distributions on silent partner contributions, profit participation rights and specific-purpose capital	–	–	–	–	–	–	–	–	–	–
Distribution of profits	–	–	–	–	–	–	–	–	(2)	(2)
As at 31 Dec 2020	**3,412**	**–**	**2,182**	**5,719**	**165**	**5**	**75**	**11,559**	**18**	**11,576**

Rounding differences may occur in the tables.

Details on equity can be found in note 62.

1 Adjustments as per 31 Dec 2018 (see Annual Report and Accounts 31 Dec 2019, note 2).

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

3 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.

4 Revaluation surplus - rating-related changes in the fair value of financial liabilities from the "fair value option" category recognised through other comprehensive income, and reclassification of the rating-related changes in the fair value of these financial liabilities to retained earnings.

Cash flow statement

EUR million	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019
Profit/loss after taxes	**232**	**469[1]**
Items in consolidated profit/loss not affecting the cash flow and carryforwards to cash flow from operating activities		
Amortisation, depreciation, writedowns, loss allowances and writeups on receivables and fixed assets	443	271
Changes to provisions	(1.659)	805[1]
Changes to other items not affecting cash flow	121	(658)[2]
Gains or losses on the sale of assets	(34)	1
Other adjustments (net)	(1.515)	(1.509)[2]
Sub-total	**(2.410)**	**(621)**
Changes to assets and liabilities from operating activities		
Loans and advances		
To banks	(25.073)	5,505
To customers	(7.828)	(6.447)
Risk provisions	(249)	(244)
Securities (unless financial investments) and derivatives	2,296	2,730
Other assets from operating activities	(208)	660
Liabilities		
To banks	25,896	(3.918)
To customers	9,637	6,889
Securitised liabilities	(1.226)	(1.034)
Other liabilities from operating activities	(225)	(186)
Cash flows from hedging derivatives	(645)	251[2]
Interest and dividends received	7,078	9,002[2]
Interest paid	(5.503)	(7.477)
Income tax payments	(60)	(16)
Cash flow from operating activities	**1,479**	**5,094**
Proceeds from the sale of		
Financial investments	41	8
Property, plant and equipment	55	1
Intangible assets	0	2
Payments for the acquisition of		
Financial investments	(3)	(19)
Property, plant and equipment	(49)	(37)
Intangible assets	(73)	(52)
Cash flow from investing activities	**(30)**	**(97)**
Disbursements to company owners and minority shareholders	(2)	(180)
Changes in cash from subordinated capital (net)	(408)	252
Cash flow from financing activities	**(410)**	**73**
Cash and cash equivalents at end of previous period	8,512	3,335
+/- cash flow from operating activities	1,479	5,094
+/- cash flow from investing activities	(30)	(97)
+/- cash flow from financing activities	(410)	73
+/- exchange-rate, scope of consolidation and measurement-related changes in cash and cash equivalents	(208)	107
Cash and cash equivalents at end of period	**9,342**	**8,512**

Rounding differences may occur in the tables.

Details on the cash flow statement can be found in note 72.

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

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

Notes

Notes to the consolidated financial statements

The consolidated financial statements for Bayerische Landesbank, an institution established under public law, Munich, Germany (BayernLB), entered in the Commercial Register at Munich District Court (HRA 76030), for financial year 2020 were prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to Commission Regulation 1606/2002 of the European Parliament and Council of 19 July 2002 (including all addenda), as well as 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 for financial year 2020 have been applied.

The consolidated financial statements contain the statement of comprehensive income including the income statement, the balance sheet, the statement of changes in equity, the cash flow statement, and the notes including the segment report. The presentation currency is the euro.

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.

The information on the nature and extent of risks arising from financial instruments (IFRS 7.31 to IFRS 7.42) is provided in the combined management report, with the exception of the information on default risk as per IFRS 7.35A to IFRS 7.38, which is disclosed in the notes.

Accounting policies

(1) Principles

Pursuant to IFRS 10.19, the BayernLB Group's accounts are prepared in accordance with Group-wide accounting and valuation policies. Items are recognised and measured on a going concern basis.

Income and expenses are treated on an accruals basis and recognised through profit or loss in the period to which they are economically attributable.

Estimates and assessments required for recognition and measurement pursuant to IFRS are made in accordance with the respective standards. They are regularly checked and are based on past experience and other factors such as expectations of future events. No assurance as to the reliability of estimates can be given, particularly when calculating the value of risk provisions, provisions, deferred taxes, and the fair value of financial instruments.

An asset is recognised when it is probable that the economic benefits will flow to the BayernLB Group in the future and its cost can be measured reliably.

A liability is recognised when it is probable that an outflow of resources embodying economic benefits will result from its settlement and the settlement amount can be measured reliably.

Impact of amended and new International Financial Reporting Standards

In the reporting year, the following amended standards and interpretations had to be applied for the first time:

- *IFRS 3*
  The amendments to IFRS 3 Business Combinations introduced a new definition of a business. There was no impact on BayernLB's consolidated financial statements as at 31 December 2020.

- *IFRS 9, IAS 39 and IFRS 7*
  The amendments to IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement provide for a temporary exemption from the application of specific hedge accounting requirements for hedges directly affected by the reforms to IBOR. The amendment to IFRS 7 Financial Instruments: Disclosures introduced new disclosure requirements for these hedges. For BayernLB, the amendments had no impact on the consolidated financial statements as at 31 December 2020.

- *IFRS 16*
  Under the amendments to IFRS 16 Leases, lessees are under certain circumstances not required to assess whether a rent concession in connection with the Covid-19 pandemic should be clas-

sified as a change to a lease, and may instead report the rent concession as if it did not represent a change to a lease. This did not have an impact on the consolidated financial statements of the BayernLB Group as at 31 December 2020.[1]

- *IAS 1 and IAS 8*
  The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors reformulate the definition of materiality and standardise it in all IFRSs. Clarifications are also provided on the newly added concept of obscuring information and on the primary users of financial statements. The changes had no impact on BayernLB's consolidated financial statements as at 31 December 2020.

- *Amendments to the references to the Framework in the IFRSs*
  The corresponding references to the Framework in the individual IFRSs were modified as a result of the revision of the Framework. There was no impact on BayernLB's consolidated financial statements as at 31 December 2020.

As permitted in the reporting year, BayernLB elected not to engage in voluntary, early application of the following amended standards incorporated into European law by the European Commission, whose application becomes mandatory in financial year 2021:

- *IFRS 4*
  In June 2020, the International Accounting Standards Board (IASB) published amendments to IFRS 4 Insurance Contracts that extend until 1 January 2023 the option for companies that conclude contracts falling within the scope of application of IFRS 4 to temporarily exempt themselves from applying IFRS 9. The amendments were incorporated into European law in December 2020 and take effect in financial years beginning on or after 1 January 2021. No impact on BayernLB's consolidated financial statements is expected from these amendments.

- *IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*
  In August 2020, the IASB issued amendments to IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance contracts and IFRS 16 Leases; they will be transposed into European law in January 2021. The amendments to IFRS 9, IAS 39 and IFRS 4 mainly provide for reliefs when presenting in the balance sheet the changes to the basis for calculating contractually agreed cash flows of financial assets or financial liabilities resulting from the IBOR reform and other temporary exemptions granted as a consequence of the IBOR reform which permit an entity to waive the application of specific hedge accounting requirements. The amendments to IFRS 16 contain rules for lessees on accounting for a change to a lease that was made necessary by the IBOR reform. As a result of the amendment to IFRS 7, additional disclosures need to be made in connection with the IBOR reform. The amendments take effect in financial years beginning on or after 1 January 2021. BayernLB is currently evaluating the impact of these changes on the consolidated financial statements.

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The IASB has also issued the following amended and new standards in particular which have not yet been incorporated into European law.

- *IFRS 3*
  In May 2020, the IASB published amendments to IFRS 3 Business Combinations, which update the reference in IFRS 3 to the revised 2018 conceptual framework. IFRS 3 also now stipulates that if an acquirer acquires liabilities (with the exception of contingent liabilities) that fall within the scope of IAS 37 or IFRIC 21, the acquirer must apply the rules of IAS 37 or IFRIC 21 instead of the conceptual framework and is also prohibited from recognising acquired contingent liabilities. The amendments take effect in financial years beginning on or after 1 January 2022. No impact on BayernLB's consolidated financial statements is expected as a result.

- *IFRS 17*
  In May 2017, the IASB published the new Standard IFRS 17, which contains new rules on the recognition of insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts. To simplify the requirements in the new standard and provide some reliefs for implementing it, the IASB published an amendment to IFRS 17 in June 2020. This includes postponing first-time mandatory application of IFRS 17 (including the amendments) to the financial years beginning on or after 1 January 2023. The impact on BayernLB's consolidated financial statements when the new Standard is implemented is currently being analysed.

- *IAS 1*
  In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements that alter the criteria for classifying liabilities as current or non-current. With the changes to IAS 1 published by the IASB in July 2020, mandatory first-time application was deferred to financial years beginning on or after 1 January 2023. No impact on BayernLB's consolidated financial statements is expected from these amendments.

  In February 2021, the IASB published further amendments to IAS 1, which specify the content of the disclosures on the accounting policies in the notes. The amendments take effect in financial years beginning on or after 1 January 2023. No impact on BayernLB's consolidated financial statements is expected as a result.

- *IAS 8*
  In February 2021, the IASB issued amendments to IAS Accounting Policies, Changes in Accounting Estimates and Errors introducing a definition for accounting estimates. The amendments take effect in financial years beginning on or after 1 January 2023. No impact on BayernLB's consolidated financial statements is expected from these amendments.

- *IAS 16*
  In May 2020, the IASB published amendments to IAS 16 Property, Plant and Equipment. One of the main changes were rules that stipulated that, in future, proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management must be recognised in profit or loss and no longer be deducted from the cost of the asset. The amendments take effect in financial years

beginning on or after 1 January 2022. BayernLB does not expect any impact on its consolidated financial statements as a result.

- *IAS 37*
  In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. These stipulate that when an entity is determining whether a contract is onerous, it must include all the costs of fulfilling the contract that can be directly related to the contract. The amendments take effect in financial years beginning on or after 1 January 2022. The impact of these amendments on BayernLB's consolidated financial statements is currently being examined.

- *Improvements to IFRS – 2018-2020 cycle*
  In May 2020, in its Annual Improvement Cycle, the IASB published minor amendments to standards IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture. The amendments take effect in financial years beginning on or after 1 January 2022. No impact on BayernLB's consolidated financial statements is expected as a result.

(2) Changes on the previous year

Adjustments in accordance with IAS 8.14 et seq.

To avoid distortions between net interest income and gains or losses on fair value measurement caused by the current method for designating or de-designating banking book derivatives in hedges, the BayernLB Group made adjustments in the reporting year to the logic for amortising banking book derivatives in fair value hedges to hedge interest rate risks. The adjustments to this method did not result in any changes to gains or losses on hedge accounting. The roll-down of the initial fair value of a derivative was once again calculated under the previous logic.

The presentation of net interest income may change in the following components:

- Designation: amortisations that existed prior to designation between gains or losses on fair value measurement and net interest income are amortised as before (largely original upfront payments).
- De-designation: changes in value of a banking book derivative in a hedge are amortised in net interest income as of de-designation (as an opposite entry to the amortisation of the hedge adjustment of a hedged item). Amortisations between gains or losses on hedge accounting and net interest income that existed prior to de-designation continue to be amortised from the amount between gains or losses on fair value measurement and net interest income

As of designation, the fair value of the banking book derivative prior to de-designation in a hedge that had increased from the fair value measurement is transferred back into gains or losses on fair value measurement as an amortisation entry from gains or losses on hedge accounting. The amended accounting method was applied prospectively as the system is not able to calculate the impact of retroactive adjustments. The changes to the methodology had no material impact on the annual financial statements of the BayernLB Group as at 31 December 2020.

From financial year 2020, to achieve a consistent presentation of gains or losses from the amortisation of a portfolio hedge adjustment and the pull-to-par effect in connection with portfolio fair value hedges are no longer recognised in gains or losses on hedge accounting but in net interest income. The changes to the methodology resulted in an increase in gains or losses on hedge accounting and accordingly to a EUR 7 million fall in net interest income for financial year 2019. The corresponding adjustments are recognised in the statement of comprehensive income (including the income statement), cash flow statement and the notes (including segment reporting).

To improve comprehensibility and transparency, adjustments were also made to the methodology of the economic liquidity calculation in financial year 2020. In the presentation of the BayernLB Group's management scenario in the combined management report (risk report), the changed presentation of balances held with central banks as at 31 December 2019 resulted in an increase in liquidity counterbalancing capacity and the liquidity gap of respectively EUR 8,413 million in all maturity bands. Moreover, optimised modelling of the sight deposits also led to a reduction in the liquidity gap of EUR 974 million in the "Up to 1 month" maturity band, EUR 311 million in the "Up to 3 months" maturity band and respectively EUR 601 million in the "Up to 1 year" and "Up to 5 years" maturity bands. The reduction in the intraday cash reserve resulted in a reduction in the liquidity gap of respectively EUR 1,000 million in all maturity bands. The adjustments led to an increase in the total liquidity surplus of EUR 1,974 million in the "Up to 1 month" maturity band, EUR 1,311 million in the "Up to 3 months" maturity band and respectively EUR 399 million in the "Up to 1 year" and "Up to 5 years" maturity bands.

In addition, the presentation of the contractual maturities of financial liabilities was further developed in the reporting of the BayernLB Group's liquidity situation in the combined management report (risk report). Extrapolated backwards to 31 December 2019, this had an impact on financial liabilities/liabilities from derivatives of EUR 587 million/EUR 37 million in the maturity band of up to one month, respectively EUR 8 million in the maturity band of up to three months, EUR -594 million/EUR 52 million in the maturity band of up to one year and EUR -4,587 million/EUR 277 million in the maturity band of up to five years.

Adjustments in accordance with IAS 8.32 et seq.

The interest rate derivation method for calculating liabilities under IAS 19 was further developed in the reporting year. This reduced the pension obligations to the benefit of retained earnings by EUR 242 million and the restructuring provisions to the benefit of gains or losses on restructuring by EUR 1 million. The changes in estimates will also have an impact on future periods which currently cannot be reliably estimated.

In addition, refinements were introduced to the modelling of loss given default (LGD) and the credit conversion factor (CCF) in the second half of 2020. These pertain in particular to a best estimate of LGD and CCF and the presentation of LGD without an overheads ratio and result overall in a non-significant reduction in risk provisions in Stages 1 and 2. It is anticipated that this will also marginally reduce risk provisions in future periods.

As part of the continual improvement and further development of the model to determine the XVA valuation discounts, the relevant parameters were updated in the financial year. This also included an adjustment to the margin period of risk. In addition, the market data was improved

as part of the determination of the bid-ask spread discount. This resulted in an increase on gains or losses on fair value measurement of around EUR 27 million. The changes in estimates will also have an impact on future periods which currently cannot be reliably estimated.

Adjustments in accordance with IAS 8.41 et seq.

The requirements for the creation of one of BayernLB's provisions were not met in one particular case. As a result, as at 31 December 2019 provisions were overstated by EUR 8 million (1 January 2019: EUR 5 million). The necessary adjustment increased retained earnings as at 31 December 2019 by EUR 8 million (1 January 2019: EUR 5 million). In the income statement, this had the effect of increasing other income and expenses by EUR +3 million in financial year 2019. The corresponding adjustments are recognised in the statement of comprehensive income including the income statement, the balance sheet, the statement of changes in equity, cash flow statement and the notes including segment reporting.

In the note on Unconsolidated structured entities, the fund assets of the investment funds were understated by EUR 6,965 million. In addition, under the assets from interests in investment funds line item the financial investments were understated by EUR 21 million, other assets by EUR 33 million, gains or losses on interests in investment funds under net commission income by EUR 166 million, and gains or losses on fair value measurement by EUR 1 million. The previous year's figures were restated accordingly.

In the note on Fair value hierarchy of financial instruments, under financial assets measured at fair value as at 31 December 2019, securitised liabilities in the amount of EUR 90 million (FY 2019: EUR 186 million) were recognised under Level 3 instead of Level 2. The previous year's figures were restated accordingly. In addition, changes in the fair value of loans and advances to customers calculated on the basis of non-observable market data (Level 3) were understated by EUR 38 million in the income statement and overstated by EUR 38 million in settlements. The previous year's figures were restated accordingly.

In the note on Contingent assets, contingent liabilities and other commitments, commitments as at 31 December 2019 of EUR 967 million were incorrectly reported. The need to restate the previous year's figures increased the irrevocable lending commitments by the same amount and reduced the liabilities from guarantees and indemnity agreements by the same amount.

(3) Scope of consolidation

Besides the parent company, the group of companies consolidated within BayernLB comprises 14 (FY 2019: 11) subsidiaries that are consolidated in accordance with IFRS 10.

As before, it does not include any companies within the scope of consolidation that are measured at equity.

Changes in the consolidated Deutsche Kreditbank Aktiengesellschaft sub-group

In the financial year, the three DKB sustainability funds EUROPA AL, Klimaschutz AL and SDG AL, all based in Luxembourg and in which Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) holds a majority shareholding, were incorporated into the DKB sub-group. This had no material impact on the consolidated financial statements. The DKB sustainability funds are managed by

BayernInvest Luxembourg S.A. The financial liabilities to the non-controlling interests holding shares in DKB sustainability funds are reported under other liabilities. The financial year of the DKB sustainability funds ends on 31 March, which therefore differs from that of the BayernLB Group. For the purposes of consolidation, BayernInvest Luxembourg S.A. provided DKB with an IFRS reporting package as at the BayernLB Group's reporting date, in accordance with the requirements of IFRS 10.B92.

Determining the scope of consolidation

BayernLB's scope of consolidation is determined by materiality criteria. 109 (FY 2019: 116) 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 of the contractual relationships between Group entities and these non-consolidated entities is recognised in the consolidated financial statements.

The list of shareholdings shows all the subsidiaries included in the consolidated financial statements (see note 83).

(4) Consolidation principles

BayernLB, the parent company, and the subsidiaries within the scope of consolidation are presented in the consolidated financial statements as an economic unit. The subsidiaries comprise all entities controlled by the BayernLB Group, regardless of their legal structure. These also include structured entities where voting or similar rights are not the dominant factor in deciding who controls the entity. This includes entities whose relevant activities are predetermined by a narrowly defined purpose in the articles of association or in other contractual arrangements or where the decision-making power of the governing body is permanently limited.

A subsidiary is controlled if the BayernLB Group is exposed to variable returns as a result of its involvement with this entity or has rights to them and the ability to influence these returns through its power over decisions affecting the entity. The BayernLB Group has control over an entity if it has rights that give it the current ability to direct the relevant activities of the entity. Relevant activities are those that, depending on the nature and the purpose of the entity, significantly affect its returns. Variable returns are all returns that have the potential to vary as a result of the entity's performance. Returns from involvement with an entity may therefore be positive or negative. Variable returns include dividends, fixed and variable interest, remuneration and fees, changes in the value of the investment and other economic benefits.

When assessing whether control exists, all facts and circumstances must be considered. These include voting rights and other contractual rights to direct relevant activities if no economic or other obstacles to the exercise of existing rights exist. Power of decision is exercised on the basis of voting rights if the BayernLB Group holds more than 50 percent of the voting rights based on equity instruments or contractual arrangements and its share of these voting rights gives it substantive power over the relevant activities. Other contractual rights that may give it controlling influence are primarily rights of appointment to or removal from corporate bodies, and rights of liquidation and other decision-making rights. Contractual arrangements designed to protect only

the interests of the BayernLB Group as creditor or minority shareholder (protective rights) do not constitute control.

The BayernLB Group also controls a subsidiary if control is exercised by a third party in the interest of and for the benefit of the BayernLB Group (principal-agent relationship). In such cases, if another party with decision-making rights acts as an agent for the BayernLB Group, it does not control the subsidiary as it is only exercising decision-making rights delegated by the BayernLB Group (the principal). To determine whether such delegated decision-making powers exist, an assessment is carried out based on the scope of its decision-making authority, the rights of other parties, the remuneration and the agent's exposure to risk.

In some cases, due to ongoing insolvency proceedings, the BayernLB Group holds more than 50 percent of the voting rights, but without the corresponding controlling influence. Conversely, in certain other cases, the BayernLB Group has contractual rights giving it controlling influence, but holds less than 50 percent of the voting rights.

Subsidiaries are included in the consolidated financial statements of the BayernLB Group through full consolidation. A subsidiary is consolidated from the date on which the BayernLB Group gains control over it.

When consolidating an acquisition, the cost of acquiring the subsidiary is eliminated against the Group's share of the equity on the date of acquisition. Where there is an acquisition within the meaning of IFRS 3, this equity is the balance of the assets and liabilities of the acquired company measured at their fair value at initial consolidation, adjusted for deferred taxes. If any differences between the higher cost of acquisition and the Group's share of the remeasured equity remain on the assets side, they are recognised in the consolidated balance sheet as goodwill under intangible assets.

Equity interests in subsidiaries not owned by the parent company are disclosed under the equity item as non-controlling interests. If an entity deemed to be controlled under IFRS 10 is incorporated into the consolidated financial statements and the interests in it are not considered equity pursuant to IAS 32, as is the case with an investment fund for example, the interests in the net assets of this debt instrument not belonging to the parent company are recognised under other liabilities and not in equity.

If further equity interests are acquired in a company that is already fully consolidated, the transaction is not classified as a corporate acquisition as defined in IFRS 3 as a controlling relationship was already in existence. The acquisition of an interest is reported instead as a transaction with the minority shareholders. The positive or negative differences remaining after eliminating the additional interests acquired against equity are therefore offset against retained earnings within other comprehensive income.

If first-time consolidation takes place at a later date on materiality grounds, it is not classified as an acquisition as defined in IFRS 3 if control already existed. Where this is the case, the positive or negative differences remaining after eliminating against equity are offset against retained earnings within other comprehensive income.

Joint arrangements are based on contractual arrangements on the basis of which two or more partners have joint control. Joint control exists if the partners must cooperate to direct the relevant activities of the joint arrangement and decisions require the unanimous consent of the partners sharing control. A joint venture is a joint arrangement whereby the partners that have joint control have rights to the net assets of the arrangement. If, however, the partners have direct rights to the assets and obligations for the liabilities relating to the joint arrangement, then the arrangement is a joint operation. A joint venture in principle exists if a joint arrangement is embodied in the form of a legally independent partnership or a corporation with its own assets, so that the BayernLB Group, based on its share of interests in the entity, only has a proportional claim to the net assets of the entity. If a joint arrangement is conducted in the form of a civil law partnership (e.g. a consortium) whose legal form does not confer separation of the vehicle's assets and liabilities from the partners, an assessment must be carried out to determine whether it is a joint venture or a joint operation based on the contractual arrangements and the purpose of the joint arrangement. If neither the legal form nor the contractual provisions or other facts and circumstances give any indication as to whether the BayernLB Group has direct rights to the assets or obligations for the liabilities of the joint arrangement, it is deemed to be a joint venture.

Associates are entities over which the BayernLB Group exercises significant but not controlling influence either directly or indirectly through subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of another entity without exercising control. Significant influence exists if the BayernLB Group holds, as an investor, 20 percent or more of the voting rights either directly or indirectly through subsidiaries. An entity can also be an associate if the BayernLB Group holds less than 20 percent of the voting rights, but, on the basis of other factors, has the power to participate in the financial and operating policy decisions of the entity. This particularly applies to cases where the BayernLB Group is represented on the entity's governing body and has contractual rights to manage or realise assets, including making investment decisions.

In certain cases, the BayernLB Group holds at least 20 percent of the voting rights in the entity, but cannot exercise significant influence due to contractual or legal restrictions.

Subsidiaries cease to be consolidated on the date the BayernLB Group loses control over the subsidiary.

The financial statements of the entities included in the consolidated financial statements are prepared as at the parent company's reporting date.

When consolidating debt and earnings and eliminating intra-Group earnings from subsidiaries, all receivables and liabilities, income and expenses and intra-Group earnings from transactions within the Group are eliminated provided their importance is not negligible.

Interests in subsidiaries, joint ventures and associates not consolidated or measured at equity due to their negligible importance and other ownership interests are reported in the balance sheet under financial investments and measured at fair value.

(5) Currency translation

On initial recognition, assets and liabilities denominated in a foreign currency are translated into the functional currency at the spot rate applicable on the date of the business transaction. When translating currency in subsequent periods, a distinction is made between monetary and non-monetary items. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate at the end of the reporting period. Non-monetary items measured at historical cost are translated using the exchange rate on the date of the transaction. Non-monetary items measured at fair value are translated at the exchange rate on the date the fair value was calculated. Income and expenses in a foreign currency are translated into the functional currency at the end of the month using the ECB average exchange rate. Gains or losses on currency translation are recognised through profit or loss in gains or losses on fair value measurement.

The balance sheet items of the subsidiaries and foreign branches included in the consolidated financial statements are, if their functional currency is not the euro, translated into euros at the exchange rate of the respective currency on the reporting date and the expenses and income translated into euros at the ECB's annual average rate. Currency exchange rate differences arising from this translation are reported in the foreign currency translation reserve within equity.

(6) Financial instruments

Recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognised in the balance sheet from the date on which the entity drawing up the balance sheet becomes a contractual party and entitled to receive or obliged to make the agreed payments. Purchases or sales of financial assets (regular-way contracts) are normally recognised on the date of the trade.

All financial instruments, including derivative financial instruments as defined under IFRS 9, are recognised in the balance sheet and assigned to measurement categories. Financial instruments are initially recognised at fair value, which, as a rule, is the cost of acquisition.

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 for how groups of financial assets are managed together:

- Financial assets held to collect contractually agreed cash flows are assigned to the "hold to collect" business model.
- Financial assets held to collect contractually agreed cash flows and with a view to being 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 "residual" business model.

When analysing the cash flow criterion, the Bank must examine each financial asset to determine if the contractually agreed cash flows are solely payments of principal and interest. Contractually

agreed cash flows that are solely payments of principal and interest have the characteristics of a typical credit agreement. Interest is normally compensation for the time value of money and default risk, but can also incorporate compensation for other underlying credit risks (e.g. liquidity risk), costs (e.g. administrative costs) in connection with the holding of a financial asset over a certain period of time, and a profit margin. Repayments are repayments of the outstanding capital amount. In the BayernLB Group, the analysis of the cash flow criterion includes in particular an evaluation of the following contractual features: repayment, termination, interest rate, currency, renewal agreement, credit agreement clause and quasi-equity. If an investment is made in certain assets (principally in non-recourse financing), the Bank checks compliance with internal ratios (e.g. loan-to-value) relating to these financing transactions in addition to the general cash flow criterion. If the internal indicators are not complied with, the cash flow criterion is not met.

Financial assets are measured in accordance with the measurement category to which they have been assigned. 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 was applied (financial assets designated at fair value through profit or loss). Derivative financial instruments which are used as hedges and meet hedge accounting criteria 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 "residual" 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, 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 (see the section on hedge accounting).

  If debt instruments are allocated to the "residual" 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 had holdings in loans and advances to customers, assets held for trading and 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 measurement or recognition inconsistencies. These instruments 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 and meet the cash flow criterion and for which the fair value option is not applied. For the most part, these comprise loans and deposits with central banks.

These instruments are measured at amortised cost. Current income is recognised in net interest income. Realised gains or losses are reported in gains or losses on derecognised financial assets. For the reporting of gains or losses in connection with modifications, refer to the "Modifications" section, and for the specific details regarding the measurement of hedged items qualifying for hedge accounting, to the section on hedge accounting.

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". The BayernLB Group had holdings in all these balance sheet line items as at the reporting date.

Loss allowances for the financial assets reported in the balance sheet items "cash reserves", "loans and advances to banks" and "loans and advances to customers" 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 above the original cost of acquisition from the writeup of the carrying amount of purchased or originated credit-impaired financial assets is also shown here. The method for determining loss allowances is described in note 75.

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. For the most part, these comprise fixed-income securities.

  These instruments are measured at fair value. Measurement gains and losses are reported in the revaluation surplus within other comprehensive income. Current income is reported under net interest income. If financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category are derecognised, the amounts booked in the revaluation surplus are reclassified to the income statement. These released gains or losses are shown in gains or losses on financial investments or other income and expenses. For the reporting of gains or losses in connection with modifications, refer to the "Modifications" section, and for the specific details regarding the measurement of hedged items qualifying for hedge accounting, to the section on hedge accounting.

  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 loans and advances to customers and financial investments.

  Any necessary loss allowances are shown in the revaluation surplus within other comprehensive 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 above the original cost of acquisition from the writeup of the carrying amount of purchased or originated credit-impaired financial assets is also shown here. The method for determining loss allowances is described in note 75.

- 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 used to assign them to the "investments in equity instruments designated at fair value through other comprehensive income" category.

  This category has not been used in the BayernLB Group to date.

Financial liabilities are also measured according to the related measurement category. The categories are differentiated as follows:

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 do not come under this category.

- Held-for-trading financial liabilities:

Besides financial liabilities not used for trading purposes, this category includes derivative financial instruments with negative fair values reported on the balance sheet in accordance with IFRS 9 and not designated as hedging instruments in accordance with hedge accounting criteria.

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 normally reported under this item. Current income from derivatives in economic hedges is recognised in net interest income (see the section on hedge accounting).

Financial liabilities in the held-for-trading category (including derivatives) are shown in the balance sheet line item "liabilities held for trading". In the BayernLB Group, the holdings as at the reporting date for the most part consisted of liabilities held for trading.

- Fair value option:

  The fair value option is applied to reduce or eliminate measurement or recognition inconsistencies or to avoid bifurcating embedded derivatives which must be separated. Instead, a group of financial assets may be managed in accordance with a documented risk management or investment strategy. 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. Changes in value resulting from the Bank's own default risk (rating-related changes in the fair value) are not recognised through profit or loss but are recognised in the revaluation surplus within other comprehensive income, 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.

  Financial liabilities (mainly structured issues and liabilities with embedded derivatives) designated to the fair value option must be reported in the balance sheet line items "liabilities to banks", "liabilities to customers", "securitised liabilities" and "subordinated capital". In the BayernLB Group, primarily loans and advances to banks, loans and advances to customers and securitised liabilities were held as at the reporting date.

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 recognised in net interest income. Realised gains or losses are reported in net interest income or other income and expenses. For the reporting of gains or losses in connection with modifications, refer to the "Modifications" section, and for the specific details regarding the measurement of hedged items qualifying for hedge accounting, to the section on hedge accounting.

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 BayernLB Group, loans and advances to banks, loans and advances to customers, securitised liabilities and subordinated capital were held as at the reporting date.

Derecognition

Financial assets are derecognised if the contractual rights to cash flows from the assets have lapsed or the BayernLB Group has for the most part transferred all risks and rewards of ownership. Financial liabilities are derecognised if the contractual liabilities are discharged, cancelled or have expired.

Modification

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 through profit or loss. In subsequent accounting, the amortised cost of non-significantly modified financial instruments 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 through profit or loss. Subsequent accounting is based on the category to which the modified financial instrument is assigned.

Gains or losses on non-significant modifications of contractually agreed cash flows of financial assets whose loss allowances are measured in the amount of the 12-month credit loss are recognised in net interest income, while those of financial assets whose loss allowances are measured in the amount of the lifetime expected credit loss are reported in the risk provisions. Gains or losses on non-significant modifications of contractually agreed cash flows of financial liabilities are shown in net interest income. Gains or losses on significant modifications of financial assets in the “financial assets measured at amortised cost” category are booked to the “gains or losses on derecognised financial assets” category, while financial assets in the “financial assets mandatorily measured at fair value through other comprehensive income” category are carried to gains or losses on financial investments or other income and expenses; in the case of financial liabilities, the gains or losses are reported in net interest income or other income and expenses. Income and expenses from the amortisation of the amortised costs of significantly and non-significantly modified financial assets are presented under net interest income.

When distinguishing between significant and insignificant modifications, the BayernLB Group applies both qualitative criteria (e.g. changes in borrower, currency or type of financial instrument) and quantitative criteria (e.g. adjustment of interest rates or maturities). The evaluation of the quantitative criteria for financial assets is based on the provisions for financial liabilities.

Offsetting

Financial assets and financial liabilities are offset against each other in accordance with IAS 32.42 if a legally enforceable right to set off the recognised amounts currently exists and an intention exists to settle on a net basis or to realise the asset and settle the liability simultaneously.

Fair value

The fair value of a financial instrument is the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. Market participants are knowledgeable, willing partners that are independent of each other and able to enter into a transaction for the asset or liability. The relevant market for measuring fair value is the most active market that the BayernLB Group has access to (principal market). If no principal market exists, the most advantageous market is used.

Fair value is calculated where possible by reference to a quoted (unadjusted) price on an active market for an identical financial instrument. A market is considered active for a financial instrument if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. This means that pricing is regular, bid-ask spreads are small and several price contributors exist with only slightly different prices.

If no active market exists, fair value is calculated using a range of measurement methods including measurement models based on discounted cash flow methods and indicative valuation prices. The objective is to estimate the price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under current market conditions. The valuation techniques applied maximise the use of relevant observable inputs and minimise the use of non-observable inputs.

Valuation models

The methods used to calculate fair values include recognised valuation models based mainly on observable market data. The discounted cash flow method and option pricing models are among the valuation models used.

If a quoted price is not available for an identical financial instrument, the discounted cash flow method is used for interest-bearing financial instruments. This method calculates the instruments' value based on their cash flow structures, taking account of their nominal values, residual maturities and the agreed day-count convention. If the financial instrument has a contractually agreed cash flow, the cash flow structure is calculated using the agreed cash flows. In the case of variable rate instruments, cash flows are determined using forward curves. Cash flows are discounted using matching currency and maturity, secured and unsecured yield curves, and a risk-adjusted spread. Market data is used where spreads are publicly available. Bid-ask valuations are used for fair value measurement.

To determine the fair values of asset-side loans and advances whose loss allowances are measured in the amount of the 12-month expected credit losses (Stage 1 of the general approach for determining loss allowances), in the amount of the lifetime expected credit losses (Stage 2 of the general approach for determining loss allowances) or in the amount of the lifetime expected credit losses and that are credit-impaired (Stage 3 of the general approach for determining loss allowances and purchased or originated credit-impaired financial assets (POCI)) for which, however, the creation of a risk provision was not necessary despite credit impairment, the contractually agreed cash flows are discounted using the cost curve plus transaction-specific measurement spreads. This also applies to POCI that were no longer credit-impaired on the reporting date. 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 that are credit-impaired (Stage 3 of the general approach for determining loss allowances and POCI), and for which a risk provision was necessary due to the credit impairment, 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 are determined using the same approach on the basis of credit spreads observable on the market.

In the case of borrowing, cash flows are discounted using the risk-free yield curve plus a liquidity spread curve which reflects BayernLB's current credit rating and differs depending on the currency and the cover status of the transaction.

The liquidity spreads are based on the internal pricing curves of Asset Liability Management and tested for plausibility independently of Trading using the external market interest rate.

As mid-rate inputs are usually used when theoretically measuring fair values of derivatives, an accounting fair-value discount is determined on the basis of bid-ask spreads. In the case of OTC derivatives, discounting takes account of the collateral status and currency. In addition, the Bank takes account of counterparty risk and own default risk using credit valuation adjustments (CVA) and debit valuation adjustments (DVA). These values are calculated by conducting a Monte Carlo simulation of future fair values, taking account of any netting or collateral agreements and weighting default probabilities based on credit spreads. The Bank also factors in bank-specific financing conditions using a funding valuation adjustment (FVA). Any allocations to individual transactions are made on the basis of the relative credit adjustment approach.

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

The binomial model is used for options with several possible exercise dates. Publicly accessible market data is also used in the measurement.

Credit derivatives are measured using the hazard rate model based on the latest credit spreads.

Summary of the principal valuation models by derivative product group

Product group	Principal valuation model
Interest rate swaps	Discounted cash flow method
Forward rate agreements	Discounted cash flow method
Interest rate options	Black 76, displaced diffusion
Forward exchange deals	Discounted cash flow method
Currency swaps/cross-currency swaps	Discounted cash flow method
Foreign exchange options	Black 76, Trinomial tree (Cox-Ross-Rubinstein)
Equity/index options	Black-Scholes, Roll-Geske-Whaley
Credit derivatives	Hazard rate model

Structured products are concluded within structured issues. These structures are each hedged with mirror swaps. Besides using the above methods, these structures are measured largely using short-rate and BGM models (Libor market model) and Monte Carlo simulations.

In the case of equity instruments not traded on an active market, fair value is calculated using recognised valuation methods, particularly the German income method (Ertragswertverfahren), in which the expected and valuation-relevant cash flows are based on budgeted values of the companies in question, which are discounted to the valuation date using a risk-adjusted capitalisation rate based on a capital asset pricing model.

The valuation models presented above are therefore used to calculate the fair values of financial instruments in the "financial assets measured at fair value through profit or loss", "financial assets measured at amortised cost", "financial assets measured at fair value through other comprehensive income", "financial liabilities measured at fair value through profit or loss" and "financial liabilities measured at amortised cost" categories. The balance sheet items most affected are loans and advances to banks, loans and advances to customers, assets held for trading, positive fair values from derivative financial instruments (hedge accounting), financial investments, liabilities to banks, liabilities to customers, securitised liabilities, liabilities held for trading, negative fair values from derivative financial instruments (hedge accounting) and subordinated capital.

Embedded derivatives

Derivative financial instruments embedded in financial liabilities are recognised as independent derivatives and measured at fair value if they have to be separated from the host contract. If this is the case, the host contract is recognised and measured according to its measurement category. In the case of compound (structured) products, no separation is made if the fair value option has been applied.

Hedge accounting

For risk management purposes, derivative financial instruments are used to hedge recognised financial assets and recognised financial liabilities. These hedged items are accounted for and measured on the basis of whether they meet hedge accounting criteria or are economic hedges.

The BayernLB Group conducts hedge accounting in the form of micro fair value hedges in accordance with IFRS 9 and portfolio fair value hedges in accordance with IAS 39 in order to hedge

interest-rate risk and in the form of group fair value hedges in accordance with IFRS 9 in order to hedge currency risks (see note 67).

Derivatives used to hedge the fluctuations in the fair value of financial assets and financial liabilities on the balance sheet are measured at fair value and changes in their value are recognised through profit or loss. If the currency basis spread of a financial instrument is separate from a financial instrument and exempt from being designated as a hedging instrument, fair value changes arising from currency basis spread fluctuations are booked as hedging costs to other comprehensive income. The carrying amounts of hedged items in a micro hedge are adjusted in line with gains or losses on measurements attributable to the hedged risk and are recognised in the income statement. Where the fluctuations in the fair value are hedged in a portfolio hedge, the cumulative gains or losses on measurement attributable to the hedged risk for financial assets are recognised under portfolio hedge adjustment assets and the carrying amounts of the hedged items left at amortised cost.

Changes in the fair value of hedging instruments carried to profit or loss and changes in the fair value of hedged items arising from the hedged risk are reported under gains or losses on hedge accounting. Changes in the fair value from currency basis spread fluctuations are shown in the revaluation surplus in other comprehensive income. Interest income and expenses from hedging derivatives are recognised as net interest income. Derivative financial instruments (hedge accounting) are reported under positive fair values from derivative financial instruments (hedge accounting) or negative fair values from derivative financial instruments (hedge accounting).

Derivative financial instruments in economic hedges (derivatives for hedging fair value option transactions and derivatives in other economic hedges) that do not meet hedge accounting criteria are recognised and measured in accordance with their categorisation as financial assets measured at fair value through profit or loss or financial liabilities measured at fair value through profit or loss. The amounts are reported under assets held for trading or liabilities held for trading. Measurement gains or losses are reported under gains or losses on fair value measurement. Unlike current income and expenses of held-for-trading derivative financial instruments, the current income and expenses arising from these derivatives are reported under net interest income.

(7) Cash reserves

Cash reserves comprise cash, demand deposits at central banks, debt certificates issued by public entities and bills of exchange eligible for refinancing with central banks. Cash and balances at central banks are recognised at nominal value. Debt certificates issued by public entities and bills of exchange eligible for refinancing with central banks are financial assets assigned to the “hold to collect and sell” business model. These are measured at fair value and not carried to the income statement (see the comments on financial assets mandatorily measured at fair value through other comprehensive income in note 6).

(8) Loans and advances

Loans and advances to banks are non-derivative financial assets, which are allocated to the “hold to collect” or “hold to collect and sell” business models, regardless of whether they meet the

cash flow criterion. These items are measured according to the related measurement category (refer to note 6).

If the criteria for offsetting financial assets and financial liabilities are met, receivables and liabilities from repurchase agreements with central and bilateral counterparties are shown netted.

(9) Risk provisions

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 "cash reserves", "loans and advances to banks", "loans and advances to customers" and "other assets". For the calculation of loss allowances, including a breakdown of loss allowances and adjustments as a result of the coronavirus pandemic, refer to note 75.

Income and expenses from the release or addition to risk provisions are taken to the income statement in the line item "risk provisions".

(10) Portfolio hedge adjustment assets

This balance sheet item shows the changes in value of the hedged items for which fair value hedge accounting in the form of portfolio hedges was used.

(11) Assets held for trading

Assets held for trading include debt instruments that are assigned to the "residual" 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, and equity instruments that are held for trading. Refer to note 6 for information on financial assets mandatorily measured at fair value through profit or loss" (including derivatives).

If the requirements for netting financial assets against financial liabilities are met, derivative financial instruments are recognised at the net value of their market price and any variation margin paid or received.

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

This item on the balance sheet includes derivative financial instruments with positive fair values, which are used as hedges and meet hedge accounting criteria. The derivative instruments are measured at fair value. Changes in the fair value of hedging instruments recognised through profit or loss and changes in the fair value of hedged items arising from the hedged risk are reported under gains or losses on hedge accounting. Changes in the fair value from currency basis spread fluctuations are shown in the revaluation surplus in other comprehensive income. Interest income and expenses from hedging derivatives are recognised as net interest income.

If the requirements for netting financial assets against financial liabilities are met, derivative financial instruments are recognised at the net value of their market price and any variation margin paid or received.

(13) Financial investments

Financial investments comprise bonds, notes and other fixed-income securities, equities and other non-fixed income securities, equity interests and other financial investments. Debt instruments allocated to the "hold to collect" or "hold to collect and sell" business models, regardless of whether they meet the cash flow criterion, and equity instruments not held for trading are recorded. These items are measured according to the related measurement category (refer to note 6).

(14) Investment property and property, plant and equipment

Land or buildings held for the purposes of earning rental income or capital appreciation is reported on the balance sheet under investment property.

Property, plant and equipment comprises owner-occupied property, furniture and office equipment (including equipment leased under operating leases). These balance sheet line items comprise, besides own assets, capitalised rights as a lessee to use the underlying assets.

Mixed-use property that can be disposed of separately is allocated proportionately to the "investment property" and the "property, plant and equipment" items. If a theoretical division of the property is impossible, the entire property is reported as an investment asset if only a non-material proportion (less than 10 percent) is held for internal operations.

Upon initial recognition, property, plant and equipment is recognised at cost. Subsequent costs are capitalised if they lead to a significant improvement in the asset and thus add to the future economic benefit of the asset. Depreciable property, plant and equipment is subsequently reported on the balance sheet after deducting for straight-line depreciation corresponding to the useful life. BayernLB applies the option under IAS 40 to measure investment property at amortised cost.

Useful life is determined by considering the expected physical wear and tear, technical obsolescence and legal and contractual restrictions. In the case of buildings, the components are depreciated over their specific useful life (component approach).

All property, plant and equipment and investment property is depreciated on a straight-line basis over the following periods:

- Buildings 28–93 years
- Furniture and office equipment 3–25 years

Impairments are recognised in the amount by which the carrying amount exceeds the greater of the fair value less cost to sell and the value in use (impairment test). If the reasons for impairment cease to apply, an impairment reversal (writeup) is made up to no more than the value of the amortised cost.

Depreciation and impairment of investment property is reported under other income and expenses, while depreciation and impairment of property, plant and equipment is shown under administrative expenses. Writeups are reported in other income and expenses.

For materiality reasons acquisitions of low-value property, plant and equipment are recognised directly in administrative expenses. Profits and losses from the sale of property, plant and equipment and investment property are reported under other income and expenses.

(15) Intangible assets

Intangible assets comprise internally generated intangible assets and other intangible assets (purchased software).

The development costs of internally generated intangible assets are capitalised where their production is likely to result in an inflow of economic benefits and costs can be determined reliably. Expenditure on research is not capitalised but recognised through profit or loss.

Intangible assets are reported on the balance sheet at amortised cost. They are amortised on a straight-line basis over an expected useful life of usually four or five years or up to ten years in certain cases. Useful life is determined by considering the expected technical obsolescence and legal and contractual restrictions.

Impairments are recognised in the amount by which the carrying amount exceeds the greater of the fair value less cost to sell and of the value in use (impairment test). If the reasons for impairment cease to apply, an impairment reversal (writeup) is made up to no more than the value of the amortised cost.

Amortisation and impairment of intangible assets is reported under administrative expenses. Writeups are reported in other income and expenses.

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

This item comprises both non-current assets in the held-for-sale category and the assets of disposal groups in the held-for-sale category.

The conditions for designation as held for sale are met if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and the non-current asset or disposal group can be sold immediately in its present condition and the sale is highly probable. For this, a decision must be taken by management to carry out the sale, with the expectation it will be completed within the next 12 months.

Non-current assets or disposal groups classified as held for sale are recognised at the end of the reporting period at the lower of carrying amount or fair value less costs of sale if there are no measurement exceptions in accordance with IFRS 5.

(17) Other assets

Other assets comprise assets not allocated to one of the other items on the assets side. This item includes emissions certificates, precious metals and claims from reinsurance. The measurement depends on the regulations for the respective asset.

(18) Liabilities

Liabilities to banks and customers and securitised liabilities are non-derivative financial liabilities not used for trading purposes. These items are measured according to the related measurement category (refer to note 6).

If the criteria for offsetting financial assets and financial liabilities are met, receivables and liabilities from repurchase agreements with central and bilateral counterparties are shown netted.

(19) Liabilities held for trading

Liabilities held for trading includes, besides financial liabilities not used for trading purposes, derivative financial instruments with negative fair values reported on the balance sheet in accordance with IFRS 9 and not designated as hedging instruments in accordance with hedge accounting criteria. For measurement of financial liabilities in the "held for trading" category (including derivatives), refer to note 6.

If the requirements for netting financial assets against financial liabilities are met, derivative financial instruments are recognised at the net value of their market price and any variation margin paid or received.

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

This item on the balance sheet includes derivative financial instruments with negative fair values, which are used as hedges and meet hedge accounting criteria. The derivative instruments are measured at fair value. Changes in the fair value of hedging instruments recognised through profit or loss and changes in the fair value of hedged items arising from the hedged risk are reported under gains or losses on hedge accounting. Changes in the fair value from currency basis spread fluctuations are shown in the revaluation surplus in other comprehensive income. Interest income and expenses from hedging derivatives are recognised as net interest income.

If the requirements for netting financial assets against financial liabilities are met, derivative financial instruments are recognised at the net value of their market price and any variation margin paid or received.

(21) Provisions

Provisions for pensions and similar obligations and other provisions are recognised under this item.

Provisions for pensions and similar obligations

Provisions are made for pensions and similar obligations as a result of pension plans covering commitments regarding retirement pensions and disability and surviving dependants' benefits. The benefits provided by the BayernLB Group vary according to the legal and economic circumstances pertaining in the country concerned and generally depend on the length of service and salary of the individual employee. For a description of the defined benefit plans in the BayernLB Group, refer to the explanations in note 57.

Some of the defined benefit plans are financed by asset contributions in the form of a Contractual Trust Arrangement (CTA) and by qualifying insurance policies.

The defined benefit obligations are measured by independent actuaries using the projected unit credit method. This takes into account the current pension payments and vested retirement benefits as at the reporting date and also the expected changes in certain parameters such as salary and pension trends. The discount rates used to calculate the present value of pension obligations are based on yields on high-quality, fixed-rate corporate bonds – at maturities and currencies that match the pension payments – on the respective markets as at the reporting date. No high-quality, fixed-rate corporate bonds are available as a benchmark for very long terms. The relevant discount rates are determined by extrapolation from the observable market yields along the yield curve.

The following actuarial assumptions are used:

in %	2020	2019
Discount rate for retirement benefits	0.7	1.0
Discount rate for medical costs and death benefits	0.8	1.2
Changes in salaries[1]	2.0	2.0
Changes in benefits[2]	1.8	1.8
Changes in medical costs	5.5	5.3

1 In the case of non-payscale employees, a different assumption of a 2.3 percent change in estimated future salaries was used as a basis.
2 Eligible social insurance pensions at BayernLB in Germany were calculated to have increased by 2.3 percent.

They are measured in Germany on the basis of the biometric probabilities according to the "Heubeck Richttafeln 2018G" actuarial tables and in other countries on the basis of country-specific mortality tables.

The plan assets used to cover pension obligations are measured at fair value as at the reporting date and set off against the corresponding commitments. If plan assets exceed pension obligations, the resulting asset is reported under "other assets". The asset is recognised mainly on the basis of the future economic benefits it will provide, taking account of future charges from a reduction in contributions due to existing minimum funding requirements being met. Depending on the regulatory or contractual provisions, the plan assets are accounted for under the asset ceiling rules.

The service cost is classified as staff costs. Past service cost arises when a defined benefit plan is introduced or changes are made to the benefits payable under an existing defined benefit plan and is recognised immediately as an expense.

The impact from the remeasurement of defined benefit plans, such as actuarial gains and losses arising from the difference between expected and actual values or changed assumptions, is recognised in retained earnings directly in the period it arises.

Income from plan assets and expenses from the discounting of pension obligations are reported under net interest income.

In addition, some Group companies provide their employees with defined contribution plans due to statutory or contractual provisions. These defined contribution plans involve no commitments on the part of the company beyond paying contributions to an external pension provider. The

payments are recognised as an expense and reported under administrative expenses at the time of the payment obligation. No pension provisions need to be made.

Other provisions

Other provisions include provisions for off-balance sheet transactions, restructuring provisions and other provisions.

Provisions for off-balance sheet transactions are made for contingent liabilities and other liabilities where there is a risk of default. They include loss allowances for financial guarantees and for irrevocable and revocable credit commitments to which the impairment rules in accordance with IFRS 9 are applied (for calculation of loss allowances, including a breakdown of loss allowances, refer to note 75), in addition to provisions for other contingent liabilities and other commitments in accordance with IAS 37.

Restructuring provisions are recognised for termination benefits in accordance with IAS 19 and obligations under contracts in accordance with IAS 37. These are recognised if the BayernLB Group has a detailed formal plan for the restructuring measures and has already begun to carry it out, or if the major details of the restructuring have been announced.

Miscellaneous provisions are made in accordance with IAS 37 for present legal or de facto obligations if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.

The size of the provision corresponds to the best estimate of the amount that would be required to settle the liability as at the reporting date. The risks and uncertainties associated with the liability are factored into the calculation.

Where the effect of the time value of money is material, provisions are discounted and the present value of the expenditures required to settle the liability is reported. To this end a pre-tax discount rate is used that reflects the current market assessments of the time value of money and the risks specific to the liability.

(22) Other liabilities

Other liabilities comprise liabilities not allocated to one of the other items on the liabilities side. This item includes deferred income and accruals. The measurement depends on the regulations for the respective liability.

The line item also includes financial liabilities to non-controlling interests holding shares in DKB sustainability funds incorporated into the DKB sub-group (see note 3) and to which the fair value option is applied.

(23) Compound instruments

Debt and equity instruments are classified in accordance with IAS 32, taking account of IDW statement HFA 45 on the presentation of financial instruments under IAS 32. A financial instrument is therefore recognised in equity if

- it evidences a residual interest in the assets of an entity after deducting all of its liabilities (IAS 32.11) and
- in particular, it contains no contractual obligation to deliver cash or other financial assets to the contractual partner (IAS 32.16).

The contractual terms of the compound instruments used by BayernLB result in the following accounting treatment and measurement in the consolidated financial statements.

As they are compound financial instruments, dated silent partner contributions, including those that are callable by the lender, must be divided into their equity and debt components (split accounting). The fair value of the debt component was initially measured by discounting the nominal value of the compound instrument as a whole by its effective interest rate. The value is recognised in the balance sheet in the subordinated capital item. In subsequent years, interest on the debt component accrues and the resulting expense is reported in net interest income. The equity component – which as a residual interest as defined in IAS 32.11 corresponds to the present value of expected future distributions – is recognised in equity in the compound instruments (equity component) sub-item. Distributions on compound instruments are made only if their payment does not produce or increase a net accumulated loss in the separate accounts prepared under the German Commercial Code (HGB).

If a compound financial instrument shares in the losses, this affects the repayment of the nominal value of the compound instrument and therefore the debt component whose present value must be adjusted as necessary to take account of the changed cash flow expectations in accordance with IFRS 9.B5.4.6. The income resulting from the change in the present value (or expenses resulting from replenishing the instrument in subsequent years) is recognised in other income and expenses.

(24) Leasing

Leases are agreements whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a fee. They are recognised and measured on the basis of whether the BayernLB Group acts as a lessee or lessor.

The BayernLB Group as lessee

As at the date of preparation, lease liabilities are recognised at the net present value of the lease payments not yet made at the time. At the same time, the Bank capitalises a right to use the underlying asset that corresponds to the net present value of future lease payments plus initial direct costs, upfront payments and dismantling costs, less any incentive payments received. The BayernLB Group elects to use the option under IFRS 16 to apply the exemption from recognising in the balance sheet short-term leases or leases where the underlying asset is of low value. The rules in IFRS 16 do not apply to leases of intangible assets. Except for real estate leases, the BayernLB Group does not separate non-lease and lease components from each other.

Right-of-use assets are capitalised in subsequent measurements less straight-line depreciation or amortisation based on the useful life of the underlying assets or the term of the lease. In doing so the Bank also takes account of any impairments or remeasurements of lease liabilities. The carrying amount of the lease liability is adjusted for the accrued interest, the lease payments

made and any remeasurements. The right-of-use asset is recognised in the balance sheet under property, plant and equipment. Lease liabilities are shown under other liabilities.

Depreciation and impairments of right-of-use assets are reported in administrative expenses. Interest expenses for lease liabilities are reported under net interest income. Lease payments associated with short-term leases and leases where the underlying asset is of low value are recognised as an expense in administrative expenses or in other income and expenses.

The BayernLB Group as lessor

Leases are recognised and measured on the basis of whether they are classified as finance or operating leases. Since effectively all risks and rewards associated with ownership of the underlying assets remain with the BayernLB Group as lessor, all leases are operating leases.

In the case of operating leases, the leased asset is recognised at amortised cost (see note 14). The lease payments received by the lessee are recognised in other income and expenses. Depreciation and impairments are reported in administrative expenses and other income and expenses.

(25) Tax

Current tax assets and liabilities are measured by applying the currently applicable tax rates and netting against expected tax refunds or tax liabilities.

Deferred tax assets and liabilities result from the temporary differences between the carrying amount of an asset or a liability and the tax base and from unused loss carryforwards and tax credits. This creates tax liabilities or assets expected in the future. Deferred taxes are recognised where permitted. They are measured for each of the companies consolidated within the Group, at the specific relevant income tax rate expected to be applicable for the period of the reversal of the temporary differences based on tax laws that have been enacted or passed by the end of the reporting period.

Deferred tax assets are only reported if it is probable that taxable profit in future periods will be sufficiently high to offset the as yet unused tax losses carried forward and deductible temporary differences. The amount of deferred tax assets recognised is calculated on the basis of the tax planning for the company in question or – if a tax group exists – for the consolidated tax group in question. When recognising deferred tax assets from interest carryforwards, the same accounting policies as used for deferred tax assets from tax loss carryforwards are applied.

Deferred taxes are not discounted. Deferred tax assets and liabilities are created and carried through profit or loss if the underlying item is recognised in the income statement, or are created and carried in other comprehensive income if the underlying item is recognised through other comprehensive income.

Income tax expenses and income calculated on profit before taxes are reported in the consolidated income statement as income taxes. Other taxes not based on income are reported under other income and expenses.

Segment reporting

(26) Notes to the segment report

The segment report reflects the business structure of the BayernLB Group. A total of four segments are shown in the report, comprising the three operating business segments and the Central Areas & Others (including Consolidation) segment. The earnings of the consolidated subsidiaries and units are also allocated to the segment to which they have been assigned. The "Central Areas & Others (including Consolidation)" segment is not aggregated for segment reporting purposes but separately as "Central Areas & Others" and consolidation entries not allocated to any segment in the "Consolidation" column.

Segment reporting is based on IFRS 8 and thus 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 hence 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. This is because the cost of producing the information would be excessively high and the BayernLB Group's business activities are focused on Germany. There is therefore no significant amount of business that could be distributed across geographical regions.

The 2019 segment structure of the BayernLB Group with the four business segments Corporates & Mittelstand, Real Estate & Savings Banks/Association, Financial Markets and Deutsche Kreditbank (DKB) was restructured and reduced to three operating business segments at the start of financial year 2020 as a consequence of the strategic realignment of the business model and decision to focus on the high-growth areas of the future. These are now called Real Estate & Savings Banks/Financial Institutions, Corporates & Markets and Deutsche Kreditbank (DKB), supplemented by the Central Areas & Others (including Consolidation) segment.

As of 2020, the former Financial Markets segment no longer operates as an independent segment. Transactions with financial institutions and consolidated subsidiary BayernInvest Kapitalverwaltungsgesellschaft mbH Munich (BayernInvest), which were previously reported under Financial Markets, were assigned to the Real Estate & Savings Banks/Financial Institutions segment. As of 2020, the former Corporates & Mittelstand segment and the capital markets business of the former Financial Markets segment are part of the Corporates & Markets segment. The Group Treasury Division, which in financial year 2019 was also still part of the Financial Markets segment, is now reported, together with management of money market activities, under the Central Areas & Others (including Consolidation) segment. The changes to the segment structure affect all segments, with the exception of the Deutsche Kreditbank (DKB) segment. The segment figures for the comparison period have been adjusted in accordance with the new segment structure.

The risk-weighted assets (RWAs) shown include the figures as at the reporting date for credit risk, market risk positions and operational risk arising from the business activities. For the Group, the average regulatory capital available over the reporting period is reported as equity. For this, Common Equity Tier 1 (CET1) capital is calculated using the supervisory regulations in force at the time. For the purposes of internal management, economic capital is allocated to the segments in the amount of 14 percent of their average risk-weighted assets. 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 31 December 2020

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Net interest income	324	293	956	168	31	**1,772**
Risk provisions	(53)	(169)	(44)	124	–	**(142)**
Net commission income	240	105	12	(27)	1	**331**
Gains or losses on fair value measurement	67	59	19	(56)	(28)	**62**
Gains or losses on hedge accounting	–	2	3	5	–	**11**
Gains or losses on derecognised financial assets	–	(19)	5	–	–	**(14)**
Gains or losses on financial investments	2	(2)	37	31	–	**68**
Administrative expenses	(418)	(327)	(653)	(127)	4	**(1.520)**
Expenses for the bank levy and deposit guarantee scheme	–	–	(57)	(104)	–	**(161)**
Other income and expenses	13	–	24	43	(4)	**75**
Gains or losses on restructuring	–	–	(38)	(248)	–	**(287)**
Profit/loss before taxes	175	(58)	264	(191)	4	**195**
Risk-weighted assets (RWAs)	11,734	24,045	23,931	5,264	–	**64,974**
Average economic/regulatory capital	1,687	3,419	3,460	735	726	**10,027**
Return on equity (RoE) (%)	10.4	(1.7)	7.6	(26.0)	–	**1.9**
Cost/income ratio (CIR) (%)	64.7	74.6	61.8	77.4	–	**66.0**
Average number of employees (FTE)	912	518	4,223	2,103	–	**7,756**

Segment reporting as at 31 December 2019[1]

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Net interest income	298	281	9542	173	21	**1,726**
Risk provisions	119	(81)	(58)	272	–	**251**
Net commission income	229	90	(2)	(30)	–	**287**
Gains or losses on fair value measurement	63	38	30	(110)	(24)	**(2)**
Gains or losses on hedge accounting	1	–	(42)	(9)	–	**(13)**
Gains or losses on derecognised financial assets	–	1	3	–	–	**4**
Gains or losses on financial investments	2	3	15	20	–	**40**
Administrative expenses	(404)	(365)	(577)	(103)	5	**(1.446)**
Expenses for the bank levy and deposit guarantee scheme	–	–	(47)	(87)	–	**(134)**
Other income and expenses	7	3	(12)	1573	4	**159**
Gains or losses on restructuring	–	–	–	(217)	–	**(217)**
Profit/loss before taxes	314	(30)	301	65	5	**656**
Risk-weighted assets (RWAs)	11,896	23,270	24,714	4,723	–	**64,604**
Average economic/regulatory capital	1,728	3,516	3,388	741	387	**9,761**
Return on equity (RoE) (%)	18.2	(0.8)	8.9	8.8	-	**6.7**
Cost/income ratio (CIR) (%)	67.4	87.8	58.7	51.6	-	**65.8**
Average number of employees (FTE)	841	582	3,852	2,109	–	**7,384**

1 Except for DKB, the new segment structure led to an adjustment to all segments in accordance with IFRS 8.29. The only line items not affected are: gains or losses on derecognised financial assets, expenses for the bank levy and deposit guarantee scheme, gains or losses on restructuring, and consolidation entries.

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

3 Adjusted as per IAS 8.42 (see note 2) and IFRS 8.29.

Notes on delimitation of segments

The Real Estate & Savings Banks/Financial Institutions segment incorporates business with commercial and residential real estate customers, business with the savings banks, the public sector, insurers, credit institutions and institutional customers. 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.) and BayernInvest are allocated to this segment. The Real Estate Division focuses on long-term commercial real estate financing in Germany and selected foreign markets 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 & Financial Institutions Division functions as the central hub for the Bank's working relationship with the savings banks and public sector in Germany and the services it provides to insurers,

credit institutions, pension funds and asset managers at national and international level. 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 sales partners. The Division also serves state and municipal customers and public agencies in Germany, but also credit institutions, insurers and institutional customers worldwide, which BayernLB, as a partner, provides with a wide range of products and tailor-made solutions. In addition, an extensive network of institutional customers provides BayernLB with a broad investor pool. The Savings Banks & Financial Institutions Division also offers a broad range of products and services in an expanding foreign notes and coins and precious metals business as a market leader in the S-Finanzgruppe. 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, special-purpose associations, school associations and the Free State of Bavaria.

The Corporates & Markets segment comprises both the Corporates & Mittelstand and the Markets business areas. The Corporates & Mittelstand Business Area handles business with large German Mittelstand corporate customers and large German corporations. This includes DAX, MDAX and family-owned companies, as well as international companies in selected markets throughout the world. It also serves corporate customers of the Bavarian savings banks in syndicated business. The business area's product range includes, besides traditional loan financing, structured financial products in the areas of project financing, leasing, asset financing, securitisations and, for internationally active customers, exports and trade financing. It provides support to customers expanding abroad by having a presence in selected foreign markets. Business activities are focused on the five sectors of the future: energy, mobility, technology, manufacturing & engineering, and construction & basic resources sectors.

The Markets Business Area comprises the Markets and Non-Core Markets divisions. The Markets Division is a central supplier of financial market products for BayernLB customers focused on debt capital markets. The sale of money market and repo transactions and a streamlined range of interest rate and currency products round off the offering for all BayernLB customers. The division also provides market access for BayernLB's own treasury activities. The Non-Core Markets Division is responsible for winding down trading products and portfolios which BayernLB will no longer be offering in the future due to its strategic realignment, while seeking at the same time to maximise value.

The main component of the DKB segment is the business of the Deutsche Kreditbank Aktiengesellschaft, Berlin (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 and relatively non-cyclical sectors with long-term growth potential, such as residential property, renewable energy, agriculture and nutrition. BCS's business activities are focused on credit card services.

The Central Areas & Others segment incorporates the earnings contributions from the central areas Corporate Center, Financial Office, Operating Office, and Risk Office (including Credit Consulting) and Others. As of 2020, the activities of the Group Treasury Division are reported in the

segment, including asset and liability management and the related money market activities and liquidity management. Earnings contributions from money market transactions for customers are shown in the respective customer segment. The segment also includes transactions that cannot be allocated to either a business area or a central area. 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 intra-Group transactions are measured and the application of hedge accounting to cross-segment 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 2,088 million (FY 2019: EUR 2,294 million), including EUR 2,035 million relating to Germany (FY 2019: EUR 2,191 million), EUR 20 million relating to Europe excluding Germany (FY 2019: EUR 29 million) and EUR 34 million relating to America (FY 2019: EUR 74 million). Of the risk-weighted assets (RWAs) in the amount of EUR 64,974 million (FY 2019: EUR 64,604 million) recognised instead of non-current assets, EUR 63,377 million (FY 2019: EUR 62,749 million) relate to Germany, EUR 12 million (FY 2019: EUR 213 million) relate to Europe excluding Germany and EUR 1,585 million (FY 2019: EUR 1,642 million) relate to America.

Notes to the statement of comprehensive income

(27) Net interest income

EUR million	2020	2019
Interest income	**5,258**	**5,929**
Interest income from financial instruments determined using the effective interest method	3,126	3,590
From lending and money market transactions	2,745	3,227[1]
From financial investments	156	227
Modification gains or losses on non-significant modifications of financial assets[2]	1	-
From the amortisation of significant and non-significant modifications of financial assets	1	3
From negative interest	222	133
Interest income – other	2,132	2,339
From lending and money market transactions	70	71
From financial investments	23	32
From hedge accounting derivatives	607	6571
From derivatives in economic hedges	1,047	1,236
From negative interest	386	343
Interest expenses	**(3.486)**	**(4.203)**
Interest expenses from financial instruments determined using the effective interest method	(1.372)	(1.804)
For liabilities to banks and customers	(857)	(1.145)
For securitised liabilities	(308)	(434)
For subordinated capital	(71)	(94)
Modification losses on non-significant modifications of financial assets[2]	(2)	(1)
From the amortisation of significant and non-significant modifications of financial assets	(2)	(2)
Other interest expenses	(21)	(50)
From negative interest	(113)	(78)
Interest expenses – other	(2.113)	(2.399)
For liabilities to banks and customers	(125)	(131)
For securitised liabilities	(36)	(53)
For hedge accounting derivatives	(504)	(580)
For derivatives in economic hedges	(944)	(1.166)
Other interest expenses	(41)	(70)
From negative interest	(463)	(399)
Total	**1,772**	**1,726**

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

2 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 12-month expected credit losses.

Total interest income amounted to EUR 2,631 million (FY 2019: EUR 3,144 million[2]) for financial assets measured at amortised cost and EUR 156 million (FY 2019: EUR 232 million) for financial assets mandatorily measured at fair value through other comprehensive income. Total interest

[2] *Adjusted as per IAS 8.22 (see note 2).*

expenses for financial liabilities not measured at fair value through profit or loss were EUR 1,034 million (FY 2019: EUR 1,590 million).

(28) Risk provisions

EUR million	2020	2019
Income from risk provisions	**1,114**	**1,333**
From the release of risk provisions for on and off-balance sheet transactions	918	899
From the write-up of purchased or originated credit-impaired financial assets	13	106
Modification gains on non-significant modifications[1]	1	–
From recoveries on written down receivables	182	327
Expenses for risk provisions	**(1,255)**	**(1,081)**
From additions to risk provisions for on and off-balance sheet transactions	(1,254)	(1,081)
Modification losses on non-significant modifications[1]	(1)	(1)
Total	**(142)**	**251**

1 Not including 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 12-month expected credit losses.

Refer to note 75 for details about the post model adjustment shown as at 31 December 2020.

(29) Net commission income

EUR million	2020	2019
Commission income	**747**	**715**
Securities business	114	75
Credit business	194	178
Payments	44	40
Documentary business	7	9
Credit card business	165	211
Fund business	175	171
Trust transactions	16	15
Other	33	15
Commission expenses	**(416)**	**(428)**
Securities business	(65)	(41)
Broker fees	(18)	(10)
Credit business	(72)	(70)
Payments	(60)	(72)
Documentary business	–	(6)
Credit card business	(126)	(156)
Fund business	(69)	(66)
Other	(6)	(7)
Total	**331**	**287**

Net commission income includes expenses of EUR 63 million (FY 2019: EUR 57 million) from financial instruments not measured at fair value through profit or loss.

(30) Gains or losses on fair value measurement

EUR million	2020	2019
Net trading income	**144**	**(115)**
Interest-related transactions	(18)	(104)
Currency-related transactions	22	41
Equity-related and index-related transactions and transactions with other risks	78	(75)
Credit derivatives	(1)	(8)
Other financial transactions	66	39
Refinancing of trading portfolios	8	8
Trading-related commission	(10)	(16)
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	**(55)**	**122**
Fair value gains or losses on financial instruments in the "fair value option" category	**(27)**	**(9)**
of which:		
Profit/loss attributable to non-controlling interests arising from the capital consolidation	**(8)**	**–**
Total	**62**	**(2)**

Net trading income includes realised and unrealised gains or losses attributable to these trading activities, the interest and dividend income related to these transactions, and gains or losses on foreign currency translation.

Current income and expenses from derivatives in economic hedges, from debt instruments in the "financial assets mandatorily measured at fair value through profit or loss" category that are not held for trading, and from financial instruments in the "fair value option" category are reported under net interest income.

Profit/loss attributable to non-controlling interests arising from the capital consolidation relates to the DKB sustainability funds incorporated into the DKB sub-group in the reporting year (see note 3).

(31) Gains or losses on hedge accounting

EUR million	2020	2019
Gains or losses on micro fair value hedges	**8**	**(8)**
Gains or losses on the measurement of hedged items	(4)	(202)
Gains or losses on the measurement of hedging instruments	12	193
Gains or losses on portfolio fair value hedges	**3**	**(4)**
Gains or losses on the measurement of hedged items	444	533
Gains or losses on the measurement of hedging instruments	(441)	(537)[1]
Gains or losses on group fair value hedges	**(1)**	**–**
Gains or losses on the measurement of hedged items	(302)	58
Gains or losses on the measurement of hedging instruments	302	(58)
Total	**11**	**(13)**

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

As of financial year 2020, gains or losses from the amortisation of the portfolio hedge adjustment are reported in net interest income (see note 27).

(32) Gains or losses on derecognised financial assets

EUR million	2020	2019
Gains on derecognised financial assets	**20**	**8**
Gains on disposals	5	2
Gains on significant modifications	15	6
Losses on derecognised financial assets	**(34)**	**(4)**
Losses on disposals	(24)	–
Losses on significant modifications	(10)	(4)
Total	**(14)**	**4**

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

Losses on disposals arose primarily from the part sale of a credit exposure in the second half of 2020.

(33) Gains or losses on financial investments

EUR million	2020	2019
Gains or losses on financial investments in the "financial assets mandatorily measured at fair value through other comprehensive income" category	**34**	**40**
Income from financial investments	34	73
Gains on disposals	34	73
Expenses from financial investments	–	(33)
Losses on disposals	–	(33)
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	**34**	**–**
Total	**68**	**40**

(34) Administrative expenses

EUR million	2020	2019
Staff costs	**(856)**	**(771)**
Salaries and wages	(642)	(615)
Social security contributions	(88)	(82)
of which:		
Employer contributions to statutory pension scheme	(45)	(42)
Expenses for pensions and other employee benefits	(126)	(74)
of which:		
Expenses for defined contribution plans	(11)	(11)
Other administrative expenses	**(587)**	**(612)**
Expenses for real estate[1]	(36)	(33)
Data processing costs	(276)	(260)
Office costs	(5)	(4)
Advertising	(35)	(40)
Communication and other selling costs	(57)	(61)
Membership, legal and consulting fees	(128)	(164)
Miscellaneous administrative costs	(49)	(48)
Expenses from the amortisation, depreciation, loss allowances and writedowns of property, plant and equipment and intangible assets	**(78)**	**(63)**
Total	**(1.520)**	**(1.446)**

1 Not including investment property

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

EUR million	2020	2019
Expenses for the bank levy	(67)	(56)
Expenses for the deposit guarantee scheme	(94)	(79)
Total	**(161)**	**(134)**

(36) Other income and expenses

EUR million	2020	2019
Other income	**159**	**301**
Rental income from investment property	4	3
Gains on the sale of hedged items from hedge accounting[1]	6	4
Gains on repurchases of own issues	1	2
Income from claims for damages	47	–
Income from the release of provisions	30	31
Interest income from tax refunds due	21	204
Sundry other income	49	56
Other expenses	**(84)**	**(143)**
Current expenses from leased investment property	(2)	(2)
Expenses from the depreciation of investment property	(1)	(1)
Losses on repurchases of own issues	(5)	(6)
Expenses from loss transfers	(4)	(6)
Other taxes	(6)	6
Interest expenses from tax arrears	(30)	(62)
Sundry other expenses	(35)	(72)[2]
Total	**75**	**159**

1 Financial liabilities in the "financial liabilities measured at amortised cost" category.
2 Adjusted as per IAS 8.42 (see note 2).

Sundry other income and sundry other expenses included principally income and expenses that are not typical for banks.

(37) Gains or losses on restructuring

EUR million	2020	2019
Income from restructuring measures	1	1
Expenses for restructuring measures	(287)	(218)
Total	**(287)**	**(217)**

Gains or losses on restructuring included in particular the expenses for the agreed reductions in headcount as part of the "Fokus 2024" transformation programme, which mainly relate to BayernLB.

(38) Income taxes

EUR million	2020	2019
Current income taxes	**(42)**	**(80)**
Domestic and foreign corporation tax including solidarity surcharge	(13)	(39)
Municipal trade tax/foreign local taxes	(29)	(41)
Deferred taxes	**79**	**(107)**
Domestic and foreign corporation tax including solidarity surcharge	39	(68)
Municipal trade tax/foreign local taxes	40	(39)
Total	**37**	**(187)**

Tax income totalled EUR 37 million in the reporting year (FY 2019: EUR 187 million of tax expenses).

Current tax expenses of EUR 42 million (FY 2019: EUR 80 million) arose largely from the current income taxes in the reporting year of the consolidated tax group of BayernLB in the amount of EUR 29 million and current income taxes for previous years of EUR 10 million.

Deferred tax income of EUR 79 million (FY 2019: tax expenses of EUR 107 million) was mainly the result of subsequent recognition of tax loss carryforwards in the consolidated tax group of BayernLB.

The effective tax expenses recognised in the reporting year were EUR 99 million lower (FY 2019: EUR 21 million) than the estimated tax expenses. The factors responsible for this difference are shown in the table below.

EUR million	2020	2019
Profit/loss before taxes	195	653
Group tax rate (in %)	31.8	31.9
Estimated tax expenses (–)/income (+)	**(62)**	**(208)**
Effects from differing local tax rates	18	20
Effects from taxes from previous years recognised in the reporting year	(10)	2
Effects from changes in tax rates	(1)	(2)
Effects from additions to/deductions of municipal trade tax	–	(3)
Effects from other non-deductible operating expenses	(26)	(22)
Effects from tax-free income	4	38
Effects from permanent accounting differences	11	(24)
Effects from revaluations and corrections	106	12
Other	(3)	–
Effective tax expenses (–)/income (+)	**37**	**(187)**
Effective tax rate (in %)	**(19.0)**	**28.6**

In the reporting year, based on the applicable tax rates for corporation tax, the solidarity surcharge and municipal trade tax, the Group tax rate was 31.8 percent as at the reporting date (FY 2019: 31.9 percent).

The impact of differing local tax rates of EUR 18 million (FY 2019: EUR 20 million) was largely the result of BayernLabo's tax exemption and the fully consolidated foreign special funds.

The non-deductible operating expenses primarily arose from the non-deductible bank levy in the consolidated tax group of BayernLB. Offsetting tax-free income arose primarily from tax-exempt dividends at BayernLB level.

The effects from permanent balance sheet differences amounting to EUR 11 million (FY 2019: EUR -24 million) mostly arose from the increase in permanent differences from equity interests in non-consolidated corporations.

Tax effects of impairments and recognition corrections amounting to EUR 106 million (FY 2019: EUR 12 million) were generated largely from the increase in the value of the tax loss carryforwards compared with the previous year.

Notes to the balance sheet

(39) Cash reserves

EUR million	2020	2019
Cash	266	587
Deposits with central banks	9,076	7,527
Debt instruments issued by public entities and bills of exchange eligible for refinancing with central banks	–	397
Total	**9,342**	**8,512**

(40) Loans and advances to banks

EUR million	2020	2019
Loans and advances to domestic banks	48,922	23,380
Loans and advances to foreign banks	7,256	7,726
Total	**56,177**	**31,106**

Loans and advances to banks by maturity

EUR million	2020	2019
Payable on demand	**33,334**	**8,268**
With residual maturity of	**22,843**	**22,838**
Up to 3 months	4,154	4,887
Between 3 months and 1 year	3,329	3,308
Between 1 year and 5 years	6,588	6,179
More than 5 years	8,772	8,465
Total	**56,177**	**31,106**

(41) Loans and advances to customers

EUR million	2020	2019
Loans and advances to domestic customers	**125,848**	**117,963**
Government entities/companies under public law	24,250	22,917
Private companies/private individuals	101,598	95,046
Loans and advances to foreign customers	**26,528**	**27,033**
Government entities/companies under public law	2,017	1,906
Private companies/private individuals	24,511	25,127
Total	**152,376**	**144,997**

Loans and advances to customers by maturity

EUR million	2020	2019
With residual maturity of	**151,106**	**143,684**
Up to 3 months	12,546	13,700
Between 3 months and 1 year	13,593	12,541
Between 1 year and 5 years	52,466	48,266
More than 5 years	72,500	69,176
Perpetual maturities	**1,270**	**1,313**
Total	**152,376**	**144,997**

(42) Risk provisions

EUR million	2020	2019
Loss allowances – Stage 1	155	123
Loss allowances – Stage 2	299	142
Loss allowances – Stage 3	581	665
Loss allowances – POCI	49	44
Total	**1,084**	**973**

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" and "loans and advances to customers".

The loss allowances are broken down in the BayernLB Group as follows:

- Loss allowances measured in the amount of the 12-month expected credit losses (Stage 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 credit-impaired financial assets (Stage 2)
- Loss allowances measured in the amount of the lifetime expected credit losses for financial assets that were credit-impaired as at the reporting date but which were not at the time of purchase or origination (Stage 3)
- Loss allowances for purchased or originated credit-impaired financial assets (POCI)
- Loss allowances for trade receivables where the loss allowances are always measured in the amount of the lifetime expected credit losses (simplified approach)

Whereas reclassifications to Stage 3 from Stage 1 or Stage 2 are shown separately in the changes in loss allowances, reclassifications from Stage 3 to Stage 1 or Stage 2 result in the release of loss allowances at Stage 3 and additions to loss allowances at Stage 1 or Stage 2.

Changes in loss allowances – Stage 1

	Loans and advances to banks		Loans and advances to customers		Total	
EUR million	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
As at 1 Jan	**3**	**3**	**120**	**93**	**123**	**96**
Currency-related changes	–	–	(2)	1	**(2)**	**1**
Changes in the expected credit loss due to changes in the risk parameters	2	–	43	12	**45**	**12**
Additions due to lending/purchases	1	2	36	31	**37**	**32**
Releases due to disposals/redemptions/sales	(2)	(1)	(30)	(22)	**(32)**	**(23)**
Reclassifications to Stage 1 from Stage 2	–	1	31	39	**31**	**40**
Reclassifications from Stage 1 to Stage 2	(2)	(2)	(34)	(22)	**(36)**	**(24)**
Reclassifications from Stage 1 to Stage 3	–	–	(11)	(11)	**(11)**	**(11)**
As at 31 Dec	**1**	**3**	**154**	**120**	**155**	**123**

Changes in loss allowances – Stage 2

	Loans and advances to banks		Loans and advances to customers		Total	
EUR million	2020	2019	2020	2019	2020	2019
As at 1 Jan	**1**	**4**	**141**	**202**	**142**	**206**
Currency-related changes	**–**	**–**	**(3)**	**–**	**(3)**	**–**
Changes in the expected credit loss due to changes in the risk parameters	2	(1)	262	93	**264**	**92**
Additions due to lending/purchases	–	3	18	21	**18**	**24**
Releases due to disposals/redemptions/sales	(1)	(7)	(96)	(131)	**(97)**	**(138)**
Utilisations/writedowns	–	–	(16)	–	**(16)**	**–**
Reclassifications to Stage 2 from Stage 1	2	2	34	22	**36**	**24**
Reclassifications from Stage 2 to Stage 1	–	(1)	(31)	(39)	**(31)**	**(40)**
Reclassifications from Stage 2 to Stage 3	–	–	(14)	(26)	**(14)**	**(26)**
As at 31 Dec	**4**	**1**	**295**	**141**	**299**	**142**

Changes in loss allowances – Stage 3

	Loans and advances to banks		Loans and advances to customers		Total	
EUR million	2020	2019	2020	2019	2020	2019
As at 1 Jan	**6**	**2**	**658**	**719**	**665**	**721**
Currency-related changes	–	**–**	(6)	5	**(6)**	**5**
Changes in the expected credit loss due to changes in the risk parameters	–	4	153	175	**153**	**178**
Additions due to lending/purchases	–	**–**	40	83	**40**	**83**
Releases due to disposals/redemptions/sales	–	**–**	(76)	(127)	**(76)**	**(127)**
Utilisations/writedowns	–	**–**	(232)	(236)	**(232)**	**(236)**
Unwinding	–	**–**	(14)	(15)	**(14)**	**(15)**
Reclassifications to Stage 3 from Stage 1	–	**–**	11	11	**11**	**11**
Reclassifications to Stage 3 from Stage 2	–	**–**	14	26	**14**	**26**
Transfers/other changes	–	**1**	27	16	**27**	**17**
As at 31 Dec	**6**	**6**	**575**	**658**	**581**	**665**

Changes in loss allowances – POCI

	Loans and advances to customers	
EUR million	**2020**	**2019**
As at 1 Jan	**44**	**19**
Currency-related changes	**(2)**	**–**
Changes in the expected credit loss due to changes in the risk parameters	12	12
Additions due to lending/purchases	2	8
Releases due to disposals/redemptions/sales	(5)	(10)
Utilisations/writedowns	(1)	(8)
Unwinding	(1)	(2)
Transfers/other changes	–	24
As at 31 Dec	**49**	**44**

The total volume of non-discounted expected credit losses as at first-time recognition of financial assets whose creditworthiness was impaired when they were acquired or issued was EUR 27 million in the reporting year (FY 2019: EUR 75 million). All of these relate to loans and advances to customers.

The gross carrying amount of financial assets in the "financial assets measured at amortised cost" category which are recognised in the balance sheet line items "cash reserves", "loans and advances to banks", "loans and advances to customers" and "other assets" stood at EUR 216,970 million (FY 2019: EUR 183,353 million) as at the reporting date and comprised:

EUR million	**2020**	**2019**
Financial assets – Stage 1	196,660	174,272
Financial assets – Stage 2	18,816	7,396
Financial assets – Stage 3	1,323	1,494
Financial assets – POCI	133	153
Trade receivables – simplified approach	38	37
Total	**216,970**	**183,353**

The table below shows the extent to which changes in the gross carrying amount of financial assets contributed to changes in the loss allowance.

Changes in gross carrying amounts – Stage 1

	Cash reserves		Loans and advances to banks		Loans and advances to customers		Total	
EUR million	2020	2019	2020	2019	2020	2019	2020	2019
As at 1 Jan	**8,114**	**3,335**	**30,602**	**24,884**	**135,556**	**111,227**	**174,272**	**139,446**
Currency-related changes	(80)	30	(151)	122	(419)	125	**(650)**	**276**
Lending/purchases	41,907	12,782	164,339	119,434	64,717	46,348	**270,963**	**178,565**
Disposals/redemptions/sales	(40.600)	(8.033)	(135.412)	(135.736)	(56.090)	(41.930)	**(232.101)**	**(185.699)**
Non-significant modifications	–	–	–	–	(3)	6	**(3)**	**6**
Reclassifications to Stage 1 from Stage 2	–	–	2,336	23,797	6,131	33,679	**8,467**	**57,475**
Reclassifications to Stage 1 from Stage 3	–	–	–	–	10	24	**10**	**24**
Reclassifications from Stage 1 to Stage 2	–	–	(7.998)	(2.333)	(13.218)	(13.823)	**(21.216)**	**(16.155)**
Reclassifications from Stage 1 to Stage 3	–	–	–	–	(75)	(49)	**(75)**	**(49)**
Transfers/other changes	–	–	(2.983)	433	(25)	(51)	**(3.008)**	**383**
As at 31 Dec	**9,342**	**8,114**	**50,734**	**30,602**	**136,584**	**135,556**	**196,660**	**174,272**

Changes in gross carrying amounts – Stage 2

	Loans and advances to banks		Loans and advances to customers		Total	
EUR million	2020	2019	2020	2019	2020	2019
As at 1 Jan	**543**	**11,720**	**6,854**	**24,987**	**7,396**	**36,707**
Currency-related changes	(295)	68	(201)	187	**(496)**	**255**
Lending/purchases	12,328	44,467	4,359	30,372	**16,687**	**74,839**
Disposals/redemptions/sales	(12.797)	(34.256)	(4.462)	(28.318)	**(17.259)**	**(62.574)**
Non-significant modifications	–	–	1	(3)	**1**	**(3)**
Reclassifications to Stage 2 from Stage 1	7,998	2,333	13,218	13,823	**21,216**	**16,155**
Reclassifications to Stage 2 from Stage 3	–	–	85	85	**85**	**85**
Reclassifications from Stage 2 to Stage 1	(2.336)	(23.797)	(6.131)	(33.679)	**(8.467)**	**(57.475)**
Reclassifications from Stage 2 to Stage 3	–	–	(338)	(593)	**(338)**	**(593)**
Transfers/other changes	(3)	7	(6)	(7)	**(8)**	**–**
As at 31 Dec	**5,437**	**543**	**13,379**	**6,854**	**18,816**	**7,396**

Changes in gross carrying amounts – Stage 3

	Loans and advances to banks		Loans and advances to customers		Total	
EUR million	2020	2019	2020	2019	2020	2019
As at 1 Jan	**6**	**5**	**1,488**	**1,497**	**1,494**	**1,502**
Currency-related changes	–	–	(22)	8	**(22)**	**8**
Lending/purchases	–	1	220	365	**220**	**365**
Disposals/redemptions/sales	–	–	(667)	(880)	**(667)**	**(880)**
Utilisations/writedowns	–	–	(6)	(32)	**(6)**	**(32)**
Non-significant modifications	–	–	–	1	**–**	**1**
Reclassifications to Stage 3 from Stage 1	–	–	75	49	**75**	**49**
Reclassifications to Stage 3 from Stage 2	–	–	338	593	**338**	**593**
Reclassifications from Stage 3 to Stage 1	–	–	(10)	(24)	**(10)**	**(24)**
Reclassifications from Stage 3 to Stage 2	–	–	(85)	(85)	**(85)**	**(85)**
Transfers/other changes	1	–	(15)	(3)	**(15)**	**(3)**
As at 31 Dec	**7**	**6**	**1,317**	**1,488**	**1,323**	**1,494**

Changes in gross carrying amounts – POCI

	Loans and advances to banks		Loans and advances to customers		Total	
EUR million	2020	2019	2020	2019	2020	2019
As at 1 Jan	**1**	**–**	**153**	**314**	**153**	**314**
Currency-related changes	**–**	–	(2)	1	**(2)**	**1**
Lending/purchases	–	1	55	106	**55**	**107**
Disposals/redemptions/sales	**–**	–	(81)	(281)	**(81)**	**(281)**
Utilisations/writedowns	**–**	–	-	(11)	**–**	**(11)**
Non-significant modifications	**–**	–	13	–	**13**	**–**
Transfers/other changes	**(1)**	–	(4)	24	**(5)**	**24**
As at 31 Dec	**–**	**1**	**133**	**153**	**133**	**153**

Changes in gross carrying amounts – simplified approach

	Other assets	
EUR million	2020	2019
As at 1 Jan	**37**	**23**
Lending/purchases	19	32
Disposals/redemptions/sales	(18)	(18)
As at 31 Dec	**38**	**37**

(43) Assets held for trading

EUR million	2020	2019
Bonds, notes and other fixed-income securities	**1,351**	**2,304**
Money market instruments	683	449
Bonds and notes	668	1,855
Equities and other non-fixed income securities	**330**	**666**
Equities	330	666
Loans and advances	**1,375**	**2,078**
Schuldschein note loans	1,336	1,992
Loan syndications	37	86
Other receivables	1	–
Positive fair values from derivative financial instruments (not hedge accounting)	**9,054**	**8,877**
Total	**12,110**	**13,925**

Assets held for trading by maturity

EUR million	2020	2019
With residual maturity of	**11,780**	**13,259**
Up to 3 months	1,317	1,067
Between 3 months and 1 year	965	998
Between 1 year and 5 years	1,986	3,077
More than 5 years	7,512	8,117
Perpetual maturities	**330**	**666**
Total	**12,110**	**13,925**

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

EUR million	2020	2019
Positive fair values from micro fair value hedges	669	647
Positive fair values from portfolio fair value hedges	1	–
Positive fair values from group fair value hedges	206	60
Total	**876**	**706**

Positive fair values from derivative financial instruments (hedge accounting) by maturity

EUR million	2020	2019
With residual maturity of		
Up to 3 months	10	2
Between 3 months and 1 year	34	2
Between 1 year and 5 years	175	102
More than 5 years	657	599
Total	**876**	**706**

(45) Financial investments

EUR million	2020	2019
Bonds, notes and other fixed-income securities	**21,021**	**22,763**
Bonds and notes	21,021	22,763
Equities and other non-fixed income securities	**345**	**225**
Equities	231	–
Investment units	107	225
Other non-fixed income securities	7	–
Equity interests	**490**	**547**
Interests in unconsolidated subsidiaries	148	143
Interests in joint ventures not measured at equity	1	1
Interests in associates not measured at equity	3	3
Other equity interests	338	401
Other financial investments	**25**	**26**
Total	**21,881**	**23,561**

Financial investments by maturity

EUR million	2020	2019
With residual maturity of	**21,049**	**22,793**
Up to 3 months	850	913
Between 3 months and 1 year	1,859	1,885
Between 1 year and 5 years	11,306	11,598
More than 5 years	7,034	8,397
Perpetual maturities	**831**	**769**
Total	**21,881**	**23,561**

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 62.

As a result of the purchase of bonds and notes amounting to EUR 75 million in the reporting year that are assigned to the "hold to collect" business model and that meet the cash flow criterion, the gross carrying amount of the financial investments in the "financial assets measured at amortised cost" category was EUR 75 million as at the reporting date (FY 2019: EUR 0 million). This amount related exclusively to Stage 1.

(46) Investment property

EUR million	2020	2019
Leased property	28	28
Total	**28**	**28**

Changes in investment property

EUR million	2020	2019
Cost		
As at 1 Jan	56	56
Additions	1	–
As at 31 Dec	57	56
Depreciation, writedowns and writeups		
As at 1 Jan	(28)	(26)
Depreciation	(1)	(1)
As at 31 Dec	(29)	(28)
Carrying amount		
As at 1 Jan	28	29
As at 31 Dec	28	28

One purchase accounted for EUR 1 million of the additions to investment property (FY 2019: EUR 0 million).

As at the reporting date, the fair value of investment property was EUR 98 million (FY 2019: EUR 72 million). The fair value was calculated by independent experts and based on the German income method (Ertragswertverfahren) using market and geodata. The main inputs are unobservable (Level 3 in the fair value hierarchy).

As at the reporting date, there was a restriction on the realisability of an investment property in the amount of EUR 8 million (FY 2019: EUR 8 million).

(47) Property, plant and equipment

EUR million	2020	2019
Property	**293**	**301**
Owner-occupied property	287	286
Assets leased under operating leases	5	15
Furniture and office equipment	**46**	**47**
Right-of-use assets from leases	**150**	**196**
Total	**489**	**544**

Changes in property, plant and equipment

	Property[1]		Furniture and office equipment		Right-of-use assets from leases		Total	
in Mio. EUR	2020	2019	2020	2019	2020	2019	2020	2019
Cost								
As at 1 Jan	390	385	126	123	220	207	**735**	**715**
Currency-related changes	–	–	(1)	–	(2)	–	**(3)**	**–**
Additions	1	6	13	19	35	12	**49**	**37**
Transfers	–	–	–	1	–	–	**–**	**1**
Disposals	–	(1)	(6)	(17)	(55)	–	**(61)**	**(18)**
As at 31 Dec	390	390	133	126	198	220	**721**	**735**
Depreciation, writedowns and writeups								
As at 1 Jan	(89)	(81)	(78)	(86)	(23)	–	**(191)**	**(167)**
Depreciation	(9)	(8)	(13)	(9)	(26)	(23)	**(48)**	**(40)**
Impairments	–	–	–	(1)	–	–	**–**	**(1)**
Disposals	–	–	5	17	–	–	**6**	**17**
As at 31 Dec	(98)	(89)	(87)	(78)	(48)	(23)	**(233)**	**(191)**
Carrying amount								
As at 1 Jan	301	304	47	38	196	207	**544**	**549**
As at 31 Dec	293	301	46	47	150	196	**489**	**544**

1 Including assets leased under operating leases.

Expenditure on construction in progress in the reporting year of EUR 0 million (FY 2019: EUR 1 million) was capitalised.

(48) Intangible assets

EUR million	2020	2019
Internally generated intangible assets	66	47
Other intangible assets	79	55
Total	**144**	**102**

Other intangible assets comprise purchased software.

Changes in intangible assets

EUR million	Internally generated intangible assets 2020	Internally generated intangible assets 2019	Other intangible assets 2020	Other intangible assets 2019	Total 2020	Total 2019
Cost						
As at 1 Jan	112	168	238	220	**349**	**388**
Additions	28	20	45	31	**73**	**52**
Transfers	–	–	–	(1)	**–**	**(1)**
Disposals	–	(76)	(3)	(14)	**(3)**	**(90)**
As at 31 Dec	140	112	280	238	**419**	**349**
Depreciation, writedowns and writeups						
As at 1 Jan	(65)	(131)	(182)	(172)	**(247)**	**(303)**
Depreciation	(9)	(6)	(20)	(15)	**(29)**	**(21)**
Impairments	–	(2)	(2)	(8)	**(2)**	**(10)**
Disposals	–	74	3	13	**3**	**87**
As at 31 Dec	(74)	(65)	(201)	(182)	**(275)**	**(247)**
Carrying amount						
As at 1 Jan	47	37	55	48	**102**	**85**
As at 31 Dec	66	47	79	55	**144**	**102**

(49) Current and deferred tax assets

EUR million	2020	2019
Current tax assets	**100**	**205**
Germany	99	110
Abroad	1	95
Deferred tax assets	**680**	**581**
Germany	629	536
Abroad	51	45
Total	**780**	**786**

Current tax assets arose predominantly from reimbursement claims in the consolidated tax group of BayernLB and amounted to EUR 98 million (FY 2019: EUR 109 million). This included income tax receivables of EUR 62 million (FY 2019: EUR 61 million), which were capitalised in accordance with IFRIC 23. The decline in current tax assets compared with the previous year was largely the result of a receivable in the New York branch.

The following deferred taxes under assets and liabilities relate to recognition and measurement differences in individual balance sheet items, and to tax loss carryforwards:

EUR million	Deferred tax assets 2020	Deferred tax liabilities 2020	Deferred tax assets 2019	Deferred tax liabilities 2019
Loans and advances to banks and customers including risk provisions in Germany	331	59	168	254
Assets held for trading	173	732	39	277
Positive fair values from derivative financial instruments (hedge accounting)	4	563	3	440
Financial investments	51	117	48	76
Property, plant and equipment	1	43	1	42
Non-current assets or disposal groups classified as held for sale	–	8	–	–
Other assets	66	102	386	159
Liabilities to banks and customers	6	186	365	11
Securitised liabilities	3	14	98	3
Liabilities held for trading	683	–	184	–
Negative fair values from derivative financial instruments (hedge accounting)	572	1	250	26
Provisions	336	2	223	1
Other liabilities	9	140	1	212
Subordinated capital	27	1	5	1
Loss carryforwards and other	386	–	312	–
Sub-total	**2,648**	**1,968**	**2,083**	**1,502**
less netting	1,968	1,968	1,502	1,502
Total deferred taxes less loss allowances and netting	**680**	**–**	**581**	**–**

The deferred tax assets and liabilities of each reporting unit subject to taxation and of the consolidated tax group of BayernLB were fully netted, as the applicable tax laws permit current tax liabilities to be offset against current tax assets.

The change in net deferred income tax assets and liabilities (increase in surplus assets) of EUR 99 million (FY 2019: decrease in surplus assets of EUR 115 million) did not match the deferred tax income of EUR 79 million (FY 2019: deferred tax expenses of EUR 107 million).

This was due to changes in deferred taxes of EUR 24 million (FY 2019: deferred tax expenses of EUR 9 million) recognised in other income and expenses. Of this, a partial amount of EUR 43 million was attributable to the reserve for defined benefit pension plans (FY 2019: EUR 34 million). The residual amount of EUR -19 million (FY 2019: EUR -44 million) was attributable to the revaluation surplus for equity capital and debt instruments, and financial liabilities. An amount of EUR -4 million resulting from currency translation differences was also shown in retained earnings (FY 2019: EUR 1 million).

Tax loss carryforwards and instalments for which a deferred tax asset has been recognised or not recognised are listed separately in the table below for all types of loss relevant to the BayernLB Group. The tax loss carryforwards for the consolidated tax group of BayernLB were calculated based on the tax audit of the units. This was also the principal reason for the decrease. The period of time in which unrecognised loss carryforwards may still be used according to the tax law

applicable in each case is also shown. Tax loss carryforwards of companies subject to taxation in Germany may be used indefinitely.

EUR million	2020	2019
Corporation tax		
Loss carryforwards	3,466	3,824
Loss carryforwards for which a deferred tax asset has been recognised	1,258	1,052
Loss carryforwards for which no deferred tax asset has been recognised	2,208	2,772
Expire after 10 years	1,599	1,747
May be used indefinitely	609	1,025
Municipal trade tax		
Loss carryforwards	1,951	2,196
Loss carryforwards for which a deferred tax asset has been recognised	1,200	840
Loss carryforwards for which no deferred tax asset has been recognised	751	1,356
Expire after 10 years	529	578
May be used indefinitely	222	778

No deferred tax assets were recognised for deductible temporary differences of EUR 3,738 million (FY 2019: EUR 3,587 million).

The sum of the temporary differences associated with equity interests in subsidiaries, branches, joint ventures and associates, for which no deferred tax liability is recognised under IAS 12.39, amounted to EUR 46 million.

The deferred tax assets recognised on loss carryforwards relate to the tax planning for the relevant company/consolidated tax group of BayernLB.

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

EUR million	2020	2019
Assets held for trading	26	–
Total	**26**	**–**

As part of the strategic realignment of its business model ("Fokus 2024" transformation programme), BayernLB announced on 24 June 2020 that interest rate, currency and commodities management for the savings banks' corporate customers will be transferred to Landesbank Baden-Württemberg, Stuttgart ("LBBW"). BayernLB therefore closed down the business area on 1 January 2021. Consequently, the Bank also contractually agreed that the existing interest rate derivatives portfolio will be transferred in full and at its market value to LBBW by 31 December 2021, subject to the customers' and savings banks' approval. The requirements for classification as a disposal group under IFRS 5 were therefore met for interest rate derivatives as at the reporting date, although their transfer had not yet been completed despite approval being granted by the customers and savings banks.

In addition, BayernLB also shut down its commodities derivatives trading unit in the direct customer business as one of the measures to restructure its capital markets business on 30 June 2020. The existing portfolio will be wound down by 31 December 2021. Subject to the anticipated approval from the customer, commodities derivatives are settled by transfer to a

counterparty selected by the customer at the current fair value. The requirements for classification as a disposal group under IFRS 5 were therefore met as at the reporting date.

As permitted under the exemption provided for under IFRS 5.5 (c), interest rate and commodities derivatives assigned to the Corporates & Markets segment are measured at fair value through profit or loss in accordance with the rules of IFRS 9 (see the comments on financial assets mandatorily measured at fair value through profit or loss in note 6).

(51) Other assets

EUR million	2020	2019
Emissions certificates	1,254	954
Precious metals	364	476
Claims from reinsurance	229	227
Other assets	265	249
Total	**2,113**	**1,905**

EUR 398 million (FY 2019: EUR 546 million) of other assets were due after more than 12 months.

The fair value of emissions certificates was calculated using prices quoted on active markets for similar financial instruments (Level 2 of the fair value hierarchy) and was EUR 1,254 million (FY 2019: EUR 954 million) as at the reporting date.

(52) Liabilities to banks

EUR million	2020	2019
Liabilities to domestic banks	72,973	44,187
Liabilities to foreign banks	3,022	5,965
Total	**75,995**	**50,152**

Liabilities to banks by maturity

EUR million	2020	2019
Payable on demand	**5,271**	**4,269**
With residual maturity of	**70,724**	**45,883**
Up to 3 months	2,704	5,205
Between 3 months and 1 year	3,354	3,915
Between 1 year and 5 years	42,971	14,783
More than 5 years	21,695	21,980
Total	**75,995**	**50,152**

Liabilities to banks by product

EUR million	2020	2019
Schuldschein note loans/issues	**5,317**	**5,185**
Schuldschein note loans	2,431	2,419
Registered public Pfandbriefs issued	860	841
Mortgage Pfandbriefs issued	416	443
Other registered securities	1,609	1,483
Book-entry liabilities	**70,678**	**44,967**
On-lending business/subsidised loans	34,722	33,048
Overnight and time deposits	29,785	6,414
Current account liabilities	5,016	3,834
Securities repurchase transactions	463	1,058
Other liabilities	692	613
Total	**75,995**	**50,152**

Liabilities to banks included funding measured at amortised cost with a carrying amount of EUR 26,929 million, which arose from the Bank's participation in the third series of the Targeted Longer-Term Refinancing Operations (TLTRO III). These are reported in the balance sheet pursuant to IFRS 9. The interest rate in the TLTRO III is a market rate as the funding rates offered by the ECB correspond to the specific market rates to be used for the ECB's monetary transactions. The interest rate for this funding depends in part on net lending of eligible loans increasing. One Group unit currently expects the targeted increase in net lending of eligible loans to be met. Another unit does not currently believe this is achievable. As a result, the effective interest rate has been determined. The net interest income from the TLTRO III programme and the reinvested funds at the Deutsche Bundesbank totalled EUR 13 million for the BayernLB Group in the reporting year.

(53) Liabilities to customers

EUR million	2020	2019
Liabilities to domestic customers	**101,684**	**91,367**
Government entities/companies under public law	10,330	13,458
Private companies/private individuals	91,354	77,909
Liabilities to foreign customers	**8,095**	**9,069**
Government entities/companies under public law	1,796	2,811
Private companies/private individuals	6,299	6,257
Total	**109,779**	**100,436**

Liabilities to customers by maturity

EUR million	2020	2019
With residual maturity of		
Up to 3 months	85,964	72,356
Between 3 months and 1 year	4,273	7,538
Between 1 year and 5 years	6,997	6,304
More than 5 years	12,544	14,239
Total	**109,779**	**100,436**

Liabilities to customers by product

EUR million	2020	2019
Schuldschein note loans/issues	**17,728**	**18,627**
Schuldschein note loans	970	1,001
Registered public Pfandbriefs issued	8,069	8,583
Mortgage Pfandbriefs issued	2,183	2,313
Other registered securities	6,505	6,730
Book-entry liabilities	**92,051**	**81,809**
Overnight and time deposits	39,427	41,986
Current account liabilities	52,009	39,117
Other liabilities	614	706
Total	**109,779**	**100,436**

(54) Securitised liabilities

EUR million	2020	2019
Bonds and notes issued	**39,402**	**39,394**
Mortgage Pfandbriefs	5,615	5,740
Public Pfandbriefs	12,148	13,109
Other bonds and notes	21,638	20,546
Other securitised liabilities	**3,635**	**5,176**
Money market instruments	3,481	5,176
Miscellaneous securitised liabilities	154	–
Total	**43,037**	**44,570**

Securitised liabilities by maturity

EUR million	2020	2019
With residual maturity of		
Up to 3 months	4,631	5,242
Between 3 months and 1 year	4,996	3,472
Between 1 year and 5 years	21,184	21,131
More than 5 years	12,226	14,726
Total	**43,037**	**44,570**

(55) Liabilities held for trading

EUR million	2020	2019
Liabilities	**1,022**	**2,356**
Liabilities from short sales	16	1,237
Other liabilities	1,006	1,119
Negative fair values from derivative financial instruments (not hedge accounting)	**8,352**	**7,956**
Total	**9,374**	**10,312**

Liabilities held for trading by maturity

EUR million	2020	2019
With residual maturity of		
Up to 3 months	1,059	2,131
Between 3 months and 1 year	899	929
Between 1 year and 5 years	2,333	2,340
More than 5 years	5,083	4,912
Total	**9,374**	**10,312**

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

EUR million	2020	2019
Negative fair values from micro fair value hedges	1,135	978
Negative fair values from portfolio fair value hedges	10	40
Negative fair values from group fair value hedges	33	206
Total	**1,178**	**1,224**

Negative fair values from derivative financial instruments (hedge accounting) by maturity

EUR million	2020	2019
With residual maturity of		
Up to 3 months	12	17
Between 3 months and 1 year	41	65
Between 1 year and 5 years	250	280
More than 5 years	876	861
Total	**1,178**	**1,224**

(57) Provisions

EUR million	2020	2019
Provisions for pensions and similar obligations	**1,968**	**4,113**
Other provisions	**927**	**689**
Provisions for off-balance-sheet transactions	141	166
Loss allowances for financial guarantees/credit commitments as per IFRS 9	113	113
Provisions for other contingent liabilities/other commitments	28	53
Restructuring provisions	586	334
Miscellaneous provisions	199	188[1]
Total	**2,895**	**4,801**

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

EUR 675 million (FY 2019: EUR 434 million) of other provisions were due after more than 12 months.

Provisions for pensions and similar obligations

The majority of the pension obligations in the BayernLB Group relate to direct or indirect pension commitments at BayernLB. The Bank has both employer- and employee-funded pension plans. In addition to retirement pensions, the pension benefits include disability and surviving dependants' benefits. The current pension payments are adjusted for inflation in accordance with section 16 of the Occupational Pensions Act (Betriebsrentengesetz).

At BayernLB, the core element of the promised defined benefit obligations provided directly by the employer to employees in Germany is the full benefits package (Gesamtversorgungszusage), modelled on the pension system for civil servants ("pension eligibility"). In essence, no more employees are being added to the number of employees eligible for civil-servant style pension benefits as BayernLB closed the scheme to new entrants at the end of the first quarter of 2009. Following a ruling by the German Federal Employment Court in Erfurt on 15 May 2012 in favour of the plaintiffs reaching an agreement on their pension entitlements, these benefits were reinstated for the persons affected, provided certain conditions were met. The size of the pension commitments for defined benefit plans is based largely on each employee's salary and length of service. Civil-servant style pension benefits are agreed in individual employment contracts. Only employees with at least 20 years of eligible service who also meet other criteria such as positive performance evaluations and no negative health issues are eligible for these pension benefits. The full benefits package also includes entitlements to allowances in the event of illness and an entitlement to payments of death benefits. Both the benefit payments and death benefits are recognised in accordance with the rules for defined benefit plans.

To fulfil the defined benefit obligations under retirement provision law, coverage assets were transferred to a legally independent trust association, BayernLB Treuhand e. V., Munich (trust association) under the framework of the Bank's own contractual trust arrangement (CTA). The assets held by the trust association qualify as plan assets. The contractual trust agreement concluded between BayernLB and the trust association also established insolvency protection for the immediate commitments of the company retirement fund based on the underlying plan assets.

The trust association agreement places no funding obligations on the trustor. The trust association's executive bodies consist of the Board of Management and the Members' Meeting. The trust association currently comprises 13 members and two members of the Board of Management elected by the Members' Meeting. The Board of Management of BayernLB is responsible for the trust association's investment strategy, decides on the investment guidelines and monitors their implementation.

BayernLB has two legally independent support funds, Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich (Versorgungskasse I) and Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich (Versorgungskasse II). Versorgungskasse I is a buffer-financed provident fund that manages defined benefit obligations to former employees entitled to or in receipt of vested benefits. Versorgungskasse II is an insured provident fund that manages the portion of the benefits package that had already been earned when the arrangements were changed in respect of some occupational retirement benefits in financial year 2010. BayernLB made an individually determined one-off contribution in the form of a capital component for those employees who agreed to switch their occupational retirement benefits to the new pension system. This contribution was converted into plan assets and took the form of a one-off payment when the life insurance contract was concluded. Versorgungskasse II is responsible for paying the pension benefits and has reinsurance cover from Allianz Lebensversicherungs AG, Stuttgart (Allianz Leben), with BayernLB as the beneficiary of the life insurance contracts. A contractual trust agreement was concluded between BayernLB (trustor) and Willis Towers Watson Gruppen CTA (trustee) to safeguard the entitlements from the life insurance policies. As assets held in trust, BayernLB incorporated the reinsurance policies covering its pension commitments into the CTA. The assets managed under the CTA do not qualify as offsettable plan assets. As the beneficial owner, BayernLB reports the reimbursement rights from reinsurance as an asset on the balance sheet under "other assets". Their amounts and maturities correspond to the pension benefits. BayernLB makes regular contributions to Versorgungskassen I and II in accordance with thresholds defined by fiscal law.

Under the 2005 and 2010 pension schemes, BayernLB employees in Germany acquire rights to benefit entitlements based on indirect pension commitments. To fund these pension commitments, BayernLB and current employees pay defined contributions to two external benefit providers not part of the Group (ÖBAV Unterstützungskasse e. V., Munich and BVV Versorgungskasse des Bankgewerbes e. V., Berlin). These providers conclude reinsurance to fund occupational retirement benefits. As far as the basic provision is concerned, the contributions to the pension institutions comprise employer-funded allowances based on a defined percentage of annual remuneration. In addition to the basic provision, employees can also pay supplementary contributions into the pension institution through deferred compensation via the employer. The benefits promised by BayernLB are essentially the same as the ones the external benefit providers have agreed to provide. However, the external benefit providers are not under an explicit obligation to provide annual pension rises. As an annual pension rise is not explicitly ruled out in the contract, BayernLB still has a de facto obligation to provide the benefits. Consequently these indirect pension obligations are treated formally like defined benefit plans in accordance with IAS 19, but accounted for under the accounting regulations as defined contribution plans due to their economic substance. This means that the contribution payments made to the external benefit providers are recognised as pension costs and therefore in administrative expenses, while

the present value of the pension obligations and the plan assets used to cover them are of the same size so that no pension provisions for these pension schemes are reported on the BayernLB Group's balance sheet. Based on the current outlook, it is unlikely that the annual pension rise guarantee will be utilised in a financially significant amount.

Risks from defined benefit plans and plan assets

Both the defined benefit obligations and the plan assets are subject to fluctuations over the course of time, which can have a negative or positive impact on the financing status.

Risks arise from defined benefit obligations in the BayernLB Group in particular from changes in discount rates (including underlying interest rates), fluctuations in the inflation rate and increases in life expectancy. The significant influence of the discount rates on the amount of pension obligations is primarily due to the long-term nature of the obligations. Major risks associated with ancillary benefits include rising medical care costs and a lower contribution by the state to these costs.

The fair value of the plan assets is materially affected by the performance of the capital markets. Unfavourable trends, in equities and fixed-income securities in particular, can reduce the fair values of the investment assets. A broad diversification of investment assets and the ongoing monitoring of income and risk contribute to reducing the investment risk. The majority of the assets are invested in the currency of the respective plan to reduce the currency risk. Plan assets are invested in a range of asset classes to prevent risk concentrations. Where necessary, additional capital is injected to cover future obligations from defined benefit pension plans. The investment strategy matches the maturity structure of the assets with the expected pension payout dates. The investment strategy is checked regularly and adjusted, if required. An investment committee, generally composed of representatives from the Finance, Group Risk Control and Human Resources divisions, is responsible for the adoption of the investment strategy.

The risks arising from the pension plans in the BayernLB Group are part of the Bank's Group-wide risk strategy and are governed in the sub-risk strategy for pension risks.

Provisions for pensions and similar obligations reported in the balance sheet

The provisions for pensions recognised in the balance sheet are broken down as follows:

EUR million	2020	2019
Present value of pension obligations	4,688	4,342
Fair value of plan assets	(2.730)	(244)
Effects of the asset ceiling	6	11
Recognised pension provisions[1]	**1,968**	**4,113**

1 *This includes surplus assets of EUR 5 million (FY 2019: EUR 4 million). These result from offsetting pension provisions against claims from reinsurance.*

Reimbursement rights of EUR 229 million (FY 2019: EUR 227 million) were recognised as assets in the BayernLB Group and reported under other assets. These are rights from insurance contracts (reinsurance) which correspond in terms of their size and maturity to the benefits from the related pension obligations to be paid.

Changes in provisions for pensions

	Present value of pension obligations		Fair value of plan assets		Effects of the asset ceiling		Recognised pension provisions	
EUR million	2020	2019	2020	2019	2020	2019	2020	2019
As at 1 Jan	**4,342**	**3,938**	**(244)**	**(180)**	**11**	**18**	**4113**	**3,777**
Currency-related changes	(5)	4	6	(5)	(1)	1	–	–
Current service cost	56	51	–	–	–	–	56	51
Past service cost	42	–	–	–	–	–	42	–
Interest income/expenses	48	70	(10)	(4)	–	1	38	66
Changes due to remeasurement	311	380	(26)	(16)	(5)	(9)	281	355
Employer contributions	–	–	(2.460)	(44)	–	–	(2460)	(44)
Employee contributions	1	1	(1)	(1)	–	–	–	–
Benefits paid	(107)	(102)	4	4	–	–	(103)	(99)
Transfers/other changes	–	–	1	2	–	–	2	6
As at 31 Dec	**4,688**	**4,342**	**(2,730)**	**(244)**	**6**	**11**	**1,968[1]**	**4,113**

1 This includes surplus assets of EUR 5 million (FY 2019: EUR 4 million). These result from offsetting pension provisions against claims from reinsurance.

Present value of pension obligations

As at the reporting date, the present value of the BayernLB Group's pension obligations was EUR 4,688 million (FY 2019: EUR 4,342 million). Of this, EUR 3,193 million (FY 2019: EUR 3,016 million) is attributable to salary-related direct commitments, EUR 952 million (FY 2019: EUR 812 million) to allowances in the event of illness, and EUR 543 million (FY 2019: EUR 514 million) to other defined benefit plans, which are determined largely on the basis of contributions to legally independent benefit providers.

The current pension obligations had an average term (capital tie-up period) of 18 years (FY 2019: 18 years).

The changes arising from the remeasurement of the net present value of pension obligations are due to changes in actuarial assumptions. Of this, EUR 322 million (FY 2019: EUR 301 million) relates to changes in financial assumptions and EUR -11 million (FY 2019: EUR 78 million) to experienced-based adjustments. There were no changes in demographic assumptions in the financial year (FY 2019: EUR -1 million).

To calculate the impact of changes in assumptions on the present value of pension obligations, a sensitivity analysis is conducted by the external actuaries for each major measurement parameter in the same way as for the original measurement of the present value of pension obligations using the projected unit credit method. Potential correlations between the individual assumptions were not taken into account here.

A change in the assumptions used to calculate the net present value of pension obligations (see note 21) of 0.5 percentage points in each case would, as at the reporting date, impact the net present value of the pension obligations as follows:

	0.5 percentage point increase		0.5 percentage point decrease	
EUR million	2020	2019	2020	2019
Discount rate	(382)	(348)	438	399
Changes in salaries and benefits[1]	300	283	(268)	(252)
Changes in medical costs	112	93	(97)	(81)

1 In the sensitivity calculations, changes in estimated future salaries and benefits are shown together. These incorporate the offsetting impact from a change in the social insurance pension trend by +/– 0.25 percentage points.

An increase in life expectancy (biometrics) by one year has an impact of EUR 194 million (FY 2019: EUR 171 million).

Fair value of plan assets

The BayernLB Group's plan assets comprised:

	Prices quoted on active markets		Prices not quoted on active markets	
EUR million	2020	2019	2020	2019
Cash and cash equivalents	**–**	**–**	**1,900**	**84**
Equity instruments	**–**	**–**	**16**	**17**
Fund units	–	–	16	17
Debt instruments	**116**	**–**	**699**	**144**
Corporate bonds	102	–	110	33
Government bonds	14	–	98	62
Fund units	–	–	115	–
Reinsurance	–	–	159	49
Other debt instruments	–	–	217	–
Total	**116**	**–**	**2,615**	**244**

The plan assets may only be used to fulfil the pension obligations and cover the expenses incurred in the administration of the investment assets. EUR 2.4 billion was transferred to the BayernLB CTA in the reporting year.

Effects of the asset ceiling

As at 31 December 2020, the pension plan of a foreign branch reported pension assets in excess of pension obligations.

Change in the fair value of the reimbursement rights reported as an asset

EUR million	2020	2019
As at 1 Jan	**227**	**225**
Interest income	5	5
Benefits paid	(3)	(3)
As at 31 Dec	**229**	**227**

In the BayernLB Group, rights from insurance contracts were capitalised as reimbursement claims. These were acquired by BayernLB in Germany in its role as an employer to provide funding that matches employees' entitlements in Versorgungskasse II.

The pension expenses recognised in the income statement comprised:

EUR million	2020	2019
Current service cost	(56)	(51)
Past service cost	(42)	–
Interest income/expenses	(33)	(60)
Total	**(131)**	**(111)**

The pension expenses in the reporting year totalling EUR 131 million (FY 2019: EUR 111 million) were recognised under net interest income as a charge of EUR 33 million (FY 2019: EUR 60 million) and under administrative expenses in the amount of EUR 98 million (FY 2019: EUR 51 million).

Expected contributions to the BayernLB Group's pension plans in financial year 2021 were estimated to be EUR 922 million (FY 2019: EUR 713 million).

The defined contribution plans involve defined contributions made to external insurers or funds. These pension plans involve no contractual obligations or risks for the BayernLB Group beyond payment of the defined contributions.

Other provisions

Provisions as per IAS 37

Changes in provisions

	Provisions for off-balance-sheet transactions[1]		Restructuring provisions		Other provisions		Total	
EUR million	2020	2019	2020	2019	2020	2019	2020	2019
As at 1 Jan	**53**	**28**	**334**	**159**	**188**	**182[2]**	**576**	**368**
Currency-related changes	(2)	–	–	–	–	–	**(2)**	**–**
Utilisation	–	–	(33)	(27)	(93)	(120)	**(126)**	**(148)**
Releases	(41)	(40)	–	(1)	(23)	(25)	**(64)**	**(65)**
Additions	18	76	284	201	124	141[2]	**426**	**418**
Interest	–	–	–	2	1	1	**1**	**3**
Changes in discount rate	–	–	–	5	4	5	**4**	**10**
Transfers/other changes	–	(11)	–	(4)	–	4	**(1)**	**(11)**
As at 31 Dec	**28**	**53**	**586**	**334**	**199**	**188**	**814**	**576**

1 Not including loss allowances for financial guarantees and for irrevocable and revocable credit commitments to which the impairment rules in accordance with IFRS 9 are applied.
2 Adjusted as per IAS 8.42 (see note 2).

The restructuring provisions shown mainly arose from the measures agreed as part of the "Fokus 2024" transformation programme. They mostly relate to human resources at BayernLB.

Miscellaneous provisions include personnel-related provisions which are mainly short-term in nature. This line item also includes provisions in connection with equity interests, the costs of storing business documents, litigation costs and for loss events.

The size of each provision corresponds to the best, i.e. uncertain, estimate of the amount of the liability which is likely to be utilised. In the case of litigation, neither the length of the proceedings nor the amount can be reliably predicted when the provision is created.

Loss allowances for financial guarantees/credit commitments as per IFRS 9

The loss allowances for financial guarantees and for revocable and irrevocable credit commitments to which the impairment rules under IFRS 9 apply amounted to EUR 113 million (FY 2019: EUR 113 million) as at the reporting date (for the breakdown of the loss allowances see note 42):

EUR million	2020	2019
Loss allowances – Stage 1	26	28
Loss allowances – Stage 2	56	15
Loss allowances – Stage 3	30	64
Loss allowances – POCI	1	5
Total	**113**	**113**

Changes in loss allowances

	Stage 1		Stage 2		Stage 3		POCI		Total	
EUR million	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
As at 1 Jan	**28**	**25**	**15**	**32**	**64**	**36**	**5**	**8**	**113**	**102**
Currency-related changes	–	1	(9)	(1)	8	–	–	–	**(1)**	**–**
Changes in the expected credit loss due to changes in the risk parameters	2	(1)	65	15	(18)	58	(3)	–	**47**	**71**
Additions due to lending	25	24	17	12	11	17	–	1	**53**	**54**
Releases due to disposals	(22)	(21)	(32)	(38)	(19)	(37)	(1)	(3)	**(74)**	**(98)**
Unwinding	–	–	–	–	(1)	(1)	–	–	**(1)**	**(1)**
Reclassifications to Stage 1 from Stage 2	3	10	(3)	(10)	–	–	–	–	**–**	**–**
Reclassifications to Stage 2 from Stage 1	(9)	(9)	9	9	–	–	–	–	**–**	**–**
Reclassifications to Stage 3 from Stage 2	–	–	(7)	(5)	7	5	–	–	**–**	**–**
Transfers/other changes	–	–	–	–	(24)	(14)	–	(2)	**(24)**	**(16)**
As at 31 Dec	**26**	**28**	**56**	**15**	**30**	**64**	**1**	**5**	**113**	**113**

The total volume of non-discounted expected credit losses as at first-time recognition of purchased or originated credit-impaired financial assets in the reporting year was EUR 1 million (FY 2019: EUR 0 million).

The exposure to financial guarantees and revocable and irrevocable credit commitments stood at EUR 58,836 million as at the reporting date (FY 2019: EUR 56,534 million) and comprised:

EUR million	2020	2019
Financial guarantees/credit commitments – Stage 1	50,134	54,802
Financial guarantees/credit commitments – Stage 2	8,419	1,545
Financial guarantees/credit commitments – Stage 3	270	175
Financial guarantees/credit commitments – POCI	13	11
Total	**58,836**	**56,534**

The table below shows the extent to which changes in the exposure to financial guarantees and credit commitments contributed to changes in the loss allowance.

Change in exposure as at 31 December 2020

EUR million	Stage 1 2020	Stage 2 2020	Stage 3 2020	POCI 2020	Total 2020
As at 1 Jan	**54,802**	**1,545**	**175**	**11**	**56,533**
Currency-related changes	(546)	(133)	(2)	–	**(681)**
Lending/purchases	41,463	3,647	91	76	**45,270**
Disposals/redemptions/sales	(38,735)	(3,321)	(160)	(79)	**(42,282)**
Reclassifications to Stage 1 from Stage 2	4,040	(4,040)	–	–	**–**
Reclassifications to Stage 1 from Stage 3	30	–	(30)	–	**–**
Reclassifications to Stage 2 from Stage 1	(10,827)	10,827	–	–	**–**
Reclassifications to Stage 2 from Stage 3	–	13	(13)	–	**–**
Reclassifications to Stage 3 from Stage 1	(95)	–	95	–	**–**
Reclassifications to Stage 3 from Stage 2	–	(119)	119	–	**–**
Transfers/other changes	1	–	(5)	5	**(5)**
As at 31 Dec	**50,134**	**8,419**	**270**	**13**	**58,835**

Change in exposure as at 31 December 2019

EUR million	Stage 1 2019	Stage 2 2019	Stage 3 2019	POCI 2019	Total 2019
As at 1 Jan	**42,311**	**12,038**	**93**	**16**	**54,459**
Currency-related changes	129	62	–	–	**191**
Lending/purchases	40,207	9,908	158	54	**50,325**
Disposals/redemptions/sales	(37,943)	(10,287)	(157)	(59)	**(48,446)**
Reclassifications to Stage 1 from Stage 2	16,124	(16,124)	–	–	**–**
Reclassifications to Stage 1 from Stage 3	24	-	(24)	–	**–**
Reclassifications to Stage 2 from Stage 1	(6.048)	6,048	-	–	**–**
Reclassifications to Stage 2 from Stage 3	–	1	(1)	–	**–**
Reclassifications to Stage 3 from Stage 1	(6)	–	6	–	**–**
Reclassifications to Stage 3 from Stage 2	–	(100)	100	–	**–**
Transfers/other changes	4	–	(1)	1	**5**
As at 31 Dec	**54,802**	**1,545**	**175**	**11**	**56,534**

(58) Current and deferred tax liabilities

EUR million	2020	2019
Current tax liabilities	**162**	**241**
Germany	162	241
Total	**162**	**241**

Current tax liabilities of EUR 162 million arose in the consolidated tax group of BayernLB.

A breakdown of deferred tax liabilities is given in note 49, alongside the breakdown for deferred tax assets.

(59) Liabilities of disposal groups

EUR million	2020	2019
Liabilities held for trading	6	–
Total	**6**	**–**

The liabilities of disposal groups related to interest rate and commodities derivatives classified in accordance with IFRS 5 as at the reporting date (see note 50). As permitted under the exemption provided for under IFRS 5.5 (c), these are measured at fair value through profit or loss in accordance with the rules of IFRS 9 (see the comment on financial liabilities classified as held for trading in note 6).

(60) Other liabilities

EUR million	2020	2019
Accruals	284	286
Lease liability from right-of-use assets	152	197
Non-controlling interests (debt instruments)	68	–
Other liabilities	80	99
Total	**584**	**583**

EUR 160 million (FY 2019: EUR 183 million) of other liabilities were due after more than 12 months.

Profit/loss attributable to non-controlling interests relates to financial liabilities to non-controlling interests holding shares in DKB sustainability funds incorporated into the DKB sub-group (see note 3).

(61) Subordinated capital

EUR million	2020	2019
Subordinated liabilities	1,654	1,680
Profit participation certificates (debt component)	30	400
Dated silent partner contributions (debt component)	1	27
Total	**1,685**	**2,107**

Subordinated capital by maturity

EUR million	2020	2019
With residual maturity of	**1,655**	**2,078**
Up to 3 months	67	469
Between 3 months and 1 year	10	35
Between 1 year and 5 years	304	290
More than 5 years	1,275	1,284
Perpetual maturities	**30**	**29**
Total	**1,685**	**2,107**

(62) Equity

EUR million	2020	2019
Equity excluding non-controlling interests	**11,559**	**11,521**
Subscribed capital	3,412	3,412
Statutory nominal capital	2,800	2,800
Capital contribution	612	612
Capital surplus	2,182	2,182
Retained earnings	5,719	5,667
Statutory reserve	1,268	1,268
Other retained earnings	4,452	43991
Revaluation surplus	165	109
Foreign currency translation reserve	5	2
Distributable profit	75	150
Non-controlling interests	**18**	**16**
Total	**11,576**	**11,537**

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

Subscribed capital

BayernLB Holding AG, Munich holds 100 percent of BayernLB's nominal capital. As at 31 December 2020, the Free State of Bavaria's equity interest in BayernLB Holding AG was 75 percent and the equity interest of the Association of Bavarian Savings Banks, Munich was 25 percent.

The capital contribution, reported as specific-purpose capital up to 31 December 2012, was created by a contribution in kind by the Free State of Bavaria in the form of subsidised loans in 1994/1995. Its basis was the law on the formation of special-purpose assets through the transfer of receivables held in trust belonging to the Free State of Bavaria to the liable equity capital of Bayerische Landesbank Girozentrale of 23 July 1994, as most recently amended by the law of 9 May 2006, and the contribution agreements of 15 December 1994 and of 28 December 1995, each as most recently amended by agreement on 23 December 2005. The special-purpose assets transferred are used to construct social housing. To ensure various equity components are recognised as Common Equity Tier 1 capital under the CRR/CRD IV requirements applicable since 1 January 2014, specific-purpose capital was modified and transferred to the capital contribution reported in subscribed capital with effect from 1 January 2013.

Capital surplus

The capital surplus is derived mainly from additional contributions to the parent company's equity.

Retained earnings

Allocations to the reserves from earnings generated in previous years and the reporting year are reported in retained earnings.

In addition, retained earnings includes the impact from the remeasurement of defined benefit pension plans.

Revaluation surplus

EUR million	2020	2019
Gains or losses on fair value measurement of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category	206	144
Loss allowances for financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category	6	3
Rating-related changes in the fair value of financial liabilities from the "fair value option" category recognised through other comprehensive income	35	21
Changes in the fair value of currency swaps from currency basis spread fluctuations recognised through other comprehensive income	(12)	(8)
Deferred taxes recognised through other comprehensive income	(70)	(52)
Total	**165**	**109**

The loss allowances for financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category comprised (for the breakdown of the loss allowances see note 42):

EUR million	2020	2019
Loss allowances – Stage 1	3	2
Loss allowances – Stage 2	3	–
Loss allowances – POCI	1	1
Total	**6**	**3**

Changes in loss allowances – Stage 1

	Financial investments	
EUR million	2020	2019
As at 1 Jan	**2**	**2**
Changes in the expected credit loss due to changes in the risk parameters	2	-
Additions due to lending/purchases	–	1
Releases due to disposals/redemptions/sales	(1)	(1)
Reclassifications from Stage 1 to Stage 2	(1)	-
As at 31 Dec	**3**	**2**

Changes in loss allowances – Stage 2

	Financial investments	
EUR million	**2020**	**2019**
As at 1 Jan	–	–
Changes in the expected credit loss due to changes in the risk parameters	1	–
Reclassifications to Stage 2 from Stage 1	1	–
As at 31 Dec	**3**	**–**

Loss allowances for purchased or originated credit-impaired financial assets (POCI) remained unchanged at EUR 1 million as at the reporting date (FY 2019: EUR 1 million).
The gross carrying amount of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category was EUR 20,253 million (FY 2019: EUR 22,574 million) as at the reporting date and comprised:

EUR million	2020	2019
Financial assets – Stage 1	18,669	22,563
Financial assets – Stage 2	1,583	10
Financial assets – POCI	1	1
Total	**20,253**	**22,574**

The table below shows the extent to which changes in the gross carrying amount of financial assets contributed to changes in the loss allowance.

Changes in gross carrying amounts – Stage 1

	Cash reserves		Financial investments		Total	
EUR million	2020	2019	2020	2019	2020	2019
As at 1 Jan	**397**	**–**	**22,165**	**23,122**	**22,563**	**23,122**
Currency-related changes	(34)	(1)	(269)	73	**(303)**	**72**
Lending/purchases	–	398	2,557	4,052	**2,557**	**4,450**
Disposals/redemptions/sales	(364)	–	(4,256)	(5,518)	**(4,620)**	**(5,518)**
Reclassifications to Stage 1 from Stage 2	–	–	225	1,560	**225**	**1,560**
Reclassifications from Stage 1 to Stage 2	–	–	(1,689)	(1,063)	**(1,689)**	**(1,063)**
Transfers/other changes	–	–	(64)	(61)	**(64)**	**(61)**
As at 31 Dec	**–**	**397**	**18,669**	**22,165**	**18,669**	**22,563**

Changes in gross carrying amounts – Stage 2

	Financial investments	
EUR million	2020	2019
As at 1 Jan	**10**	**1,141**
Lending/purchases	**191**	**–**
Disposals/redemptions/sales	(84)	(621)
Reclassifications to Stage 2 from Stage 1	1,689	1,063
Reclassifications from Stage 2 to Stage 1	(225)	(1,560)
Transfers/other changes	2	(13)
As at 31 Dec	**1,583**	**10**

The gross carrying amount for purchased or originated credit-impaired financial assets (POCI) remained unchanged at EUR 1 million as at the reporting date (FY 2019: EUR 1 million).

Distributable profits

The distributable profits of the BayernLB Group correspond to the consolidated profit after changes in reserves.

Notes to financial instruments

(63) Fair value of financial instruments

EUR million	Fair value 2020	Carrying amount 2020	Fair value 2019	Carrying amount 2019
Assets				
Cash reserves	9,342	9,342	8,512	8,512
Loans and advances to banks[1]	56,114	56,177	31,142	31,106
Loans and advances to customers[1]	157,339	152,376	147,840	144,997
Assets held for trading	12,110	12,110	13,925	13,925
Positive fair values from derivative financial instruments (hedge accounting)	876	876	706	706
Financial investments	21,881	21,881	23,561	23,561
Non-current assets or disposal groups classified as held for sale	26	26	–	–
Liabilities				
Liabilities to banks	77,477	75,995	51,434	50,152
Liabilities to customers	112,170	109,779	102,579	100,436
Securitised liabilities	43,886	43,037	45,184	44,570
Liabilities held for trading	9,374	9,374	10,312	10,312
Negative fair values from derivative financial instruments (hedge accounting)	1,178	1,178	1,224	1,224
Liabilities of disposal groups	6	6	–	–
Other liabilities/non-controlling interests	68	68	–	–
Subordinated capital	1,748	1,685	2,269	2,107

1 Carrying amount not including deductions of loss allowances for loans and advances to banks of EUR 12 million (FY 2019: EUR 10 million) and loans and advances to customers of EUR 1,073 million (FY 2019: EUR 963 million) in the "financial assets measured at amortised cost" category.

For details on the fair value calculation, refer to note 6.

(64) Financial instrument measurement categories

EUR million	2020	2019
Assets		
Financial assets measured at fair value through profit or loss	13,239	15,023
Financial assets mandatorily measured at fair value through profit or loss	13,133	14,923
Loans and advances to customers	126	189
Assets held for trading	12,110	13,925
Financial investments	869	808
Non-current assets or disposal groups classified as held for sale	26	–
Fair value option	106	100
Financial investments	106	100
Financial assets measured at amortised cost	217,843	184,026
Cash reserves	9,342	8,114
Loans and advances to banks[1]	56,177	31,106
Loans and advances to customers[1]	152,249	144,806
Financial investments	75	–
Financial assets measured at fair value through other comprehensive income	20,831	23,052
Financial assets mandatorily measured at fair value through other comprehensive income	20,831	23,052
Cash reserves	–	397
Loans and advances to customers	1	1
Financial investments	20,830	22,653
Derivative financial instruments in hedges (hedge accounting)	876	706
Positive fair values from derivative financial instruments (hedge accounting)	876	706
Liabilities		
Financial liabilities measured at fair value through profit or loss	17,058	19,150
Held-for-trading financial liabilities	9,380	10,312
Liabilities held for trading	9,374	10,312
Liabilities of disposal groups	6	–
Fair value option	7,678	8,838
Liabilities to banks	346	356
Liabilities to customers	3,864	4,283
Securitised liabilities	3,400	4,199
Other liabilities/non-controlling interests	68	–
Financial liabilities measured at amortised cost	222,886	188,428
Liabilities to banks	75,650	49,796
Liabilities to customers	105,915	96,153
Securitised liabilities	39,636	40,371
Subordinated capital	1,685	2,107
Derivative financial instruments in hedges (hedge accounting)	1,178	1,224
Negative fair values from derivative financial instruments (hedge accounting)	1,178	1,224

1 Not including deduction of loss allowances.

In addition, as at the reporting date there was a portfolio hedge adjustment asset of EUR 1,014 million (FY 2019: EUR 765 million) for hedged items for which fair value hedge accounting in the form of portfolio hedges was used. This is assigned to the “financial assets measured at amortised cost” category.

(65) 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:

- Level 1: Unadjusted quoted prices for identical financial instruments in active markets that the BayernLB Group can access at the measurement date
- Level 2: 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 3: Unobservable inputs

Financial instruments measured at fair value

Financial instruments measured at fair value by level

	Level 1		Level 2		Level 3		Total	
EUR million	2020	2019	2020	2019	2020	2019	2020	2019
Assets								
Cash reserves	–	397	–	–	–	–	–	397
Loans and advances to customers	–	–	–	–	127	191	127	191
Assets held for trading	720	1,932	11,282	11,834	109	159	12,110	13,925
Positive fair values from derivative financial instruments (hedge accounting)	–	–	876	706	–	–	876	706
Financial investments	15,677	17,760	5,802	5,502	326	300	21,805	23,561
Non-current assets or disposal groups classified as held for sale	–	–	26	–	–	–	26	–
Total	**16,397**	**20,089**	**17,986**	**18,042**	**563**	**650**	**34,946**	**38,781**
Liabilities								
Liabilities to banks	–	–	346	356	–	–	346	356
Liabilities to customers	–	–	3,864	4,283	–	–	3,864	4,283
Securitised liabilities	–	–	3,400	4,199[1]	–	-[1]	3,400	4,199
Liabilities held for trading	15	1,184	9,353	9,124	7	4	9,374	10,312
Negative fair values from derivative financial instruments (hedge accounting)	–	–	1,178	1,224	–	–	1,178	1,224
Liabilities of disposal groups	–	–	6	–	–	–	6	–
Other liabilities/non-controlling interests	–	–	68	–	–	–	68	–
Total	**15**	**1,184**	**18,214**	**19,186**	**7**	**4**	**18,236**	**20,374**

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

Reclassifications between Level 1 and 2

	Reclassifications			
	to Level 1 from Level 2		to Level 2 from Level 1	
EUR million	2020	2019	2020	2019
Assets				
Assets held for trading	16	121	2	23
Financial investments	632	9,576	1,785	861
Total	**648**	**9,698**	**1,787**	**885**
Liabilities				
Securitised liabilities	–	–	–	229
Liabilities held for trading	–	–	–	3
Total	**–**	**–**	**–**	**232**

In the reporting year, 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 reclassifications were mainly the result of changes in the bid-ask spreads and the number of available price contributors for bonds and equities. The amounts reclassified were calculated on the basis of the fair value as at the end of the reporting year.

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

	Interest rate risks		Currency risks		Equity and other price risks		Total	
EUR million	2020	2019	2020	2019	2020	2019	2020	2019
Assets								
Loans and advances to customers	127	191	–	–	–	–	**127**	**191**
Assets held for trading	94	158	15	1	–	–	**109**	**159**
Financial investments	25	26	–	–	301	274	**326**	**300**
Total	**246**	**375**	**15**	**1**	**301**	**274**	**563**	**650**
Liabilities								
Liabilities held for trading	1	3	6	1	–	–	**7**	**4**
Total	**1**	**31**	**6**	**1**	**–**	**–**	**7**	**4**

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

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		Financial investments		Non-current assets or disposal groups classified as held for sale		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
As at 1 Jan	**191**	**185**	**159**	**142**	**300**	**413**	**–**	**–**	**650**	**740**
Currency-related changes	–	4	(14)	(30)	(3)	1	–	–	**(16)**	**(25)**
Income and expenses recognised in the income statement	–	39[1]	59	114	36	(11)	–	–	**94**	**142**
Purchases	2	2	63	22	3	19	–	–	**69**	**43**
Sales	–	–	(89)	(30)	(5)	(122)	(2)	–	**(96)**	**(152)**
Settlements	(65)	(39)[1]	–	–	(3)	–	–	–	**(67)**	**(39)**
Reclassifications to Level 3 from Levels 1 and 2	–	–	6	13	–	–	–	–	**6**	**13**
Reclassifications from Level 3 to Levels 1 and 2	–	–	(102)	(138)	–	–	–	–	**(102)**	**(138)**
Transfers/other changes	–	–	25	66	(2)	–	2	–	**24**	**66**
As at 31 Dec	**127**	**191**	**109**	**159**	**326**	**300**	**–**	**–**	**563**	**650**
Income and expenses recognised in the income statement during the financial year for financial instruments held at 31 Dec	–	39	90	146	36	(13)	–	–	125	172

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

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

EUR million	Liabilities held for trading		Negative fair values from derivative financial instruments (hedge accounting)		Total	
	2020	2019	2020	2019	2020	2019[1]
As at 1 Jan	**4**	**8**	**–**	**–**	**4**	**8**
Currency-related changes	–	(1)	–	–	**–**	**(1)**
Income and expenses recognised in the income statement	(17)	19	–	–	**(17)**	**19**
Reclassifications from Level 3 to Levels 1 and 2	(4)	(57)	–	(31)	**(4)**	**(89)**
Transfers/other changes	24	34	–	31	**24**	**66**
As at 31 Dec	**7**	**4**	**–**	**–**	**7**	**4**
Income and expenses recognised in the income statement during the financial year for financial instruments held at 31 Dec	(17)	19	–	–	(17)	19

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

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.

Non-observable inputs were assessed for materiality at the end of the reporting period based on their fair value. As a result financial instruments were reclassified to Level 3 from Levels 1 and 2 and from Level 3 to Levels 1 and 2, as counterparty and own default risk continued to have or no longer had a significant influence on the fair value measurement as at the reporting date.

The models used to calculate fair value must conform with accepted 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 Development 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. Significant changes in fair values calculated on the basis of unobservable market data (Level 3) are communicated to the respective division managers and Board of Management separately on the reporting dates.

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 31 December 2020, the sensitivity of these credit transactions to changes in key factors was:

- for a 10-basis point increase (decrease) in the measurement spread:
  EUR 0.3 million (EUR 0.3 million) (31 December 2019: EUR -0.5 million (EUR 0.5 million))

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 31 December 2020, 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 -2.4 million (EUR 2.4 million) (31 December 2019: EUR -2.2 million (EUR 2.2 million))
- for a one notch improvement (deterioration) in the ratings:
  EUR 0.5 million (EUR -0.7 million) (31 December 2019: EUR 0.5 million (EUR -0.7 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 31 December 2020, 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 0.1 million (EUR -0.1 million) (31 December 2019: EUR 0.1 million (EUR -0.1 million))

The BayernLB Group holds various preferred stock in Visa Inc., San Francisco as a result of a former equity interest in Visa Europe Limited, London. The fair value of the preferred stock is based on the price of the Visa Inc. common stock, conversion ratios and potential risks from legal disputes, in respect of which a risk discount has been applied. As at 31 December 2020, 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 5.3 million (EUR -5.3 million) (31 December 2019: EUR 9.3 million (EUR -9.3 million))

As at 31 December 2020, the sensitivity of equity interests whose fair value is calculated using the German income method (Ertragswertverfahren) to changes in key factors was:

- for a 25-basis-point upward (downward) movement in the base interest rate:
  EUR -4.5 million (EUR 4.8 million) (31 December 2019: EUR -5.2 million (EUR 5.7 million)),
- for a 25-basis-point upward (downward) movement in the market risk premium:
  EUR -3.6 million (EUR 3.8 million) (31 December 2019: EUR -3.9 million (EUR 4.1 million))

The underlying base interest rate moved within a range of -0.45 to 0.05 percent (average: -0.2 percent) (31 December 2019: -0.05 percent to 0.45 percent (average: 0.2 percent)); the underlying market risk premium moved within a range of 7.75-8.25 percent (average: 8.0 percent) (31 December 2019: 7.25-7.75 percent (average: 7.5 percent)).

Financial instruments measured at amortised cost

In the overview below, the fair values of the financial instruments recognised at amortised cost 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	2020	2019	2020	2019	2020	2019	2020	2019
Assets								
Cash reserves	–	–	–	–	9,342	8,114	9,342	8,114
Loans and advances to banks	–	–	20,209	7,182	35,904	23,960	56,114	31,142
Loans and advances to customers	–	–	3,211	4,239	154,001	143,411	157,212	147,650
Financial investments	–	–	–	–	75	–	75	–
Total	**–**	**–**	**23,420**	**11,420**	**199,322**	**175,485**	**222,742**	**186,905**
Liabilities	**–**							
Liabilities to banks	–	–	21,268	12,489	55,863	38,590	77,131	51,078
Liabilities to customers	–	–	25,125	28,984	83,181	69,312	108,306	98,296
Securitised liabilities	11,154	14,035	29,332	26,949	–	–	40,486	40,984
Subordinated capital	–	–	1,671	2,124	77	145	1,748	2,269
Total	**11,154**	**14,035**	**77,395**	**70,546**	**139,122**	**108,047**	**227,671**	**192,627**

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

The maximum default risk for loans and receivables in the "fair value option" category was EUR 81 million as at the reporting date (FY 2019: EUR 89 million). The rating-related change in the fair value of these financial assets was EUR 3 million in the reporting year (FY 2019: EUR -3 million), and EUR 4 million (FY 2019: EUR 2 million) since designation.

The rating-related changes in fair value are calculated as the difference between the changes in the fair value of financial assets and the changes in the fair value of financial instruments measured on the basis of a risk-free yield curve. Only parameters observable on the market (prices of high-quality bonds) are used when determining rating-related changes in the fair value

For financial liabilities in the "fair value option" category, there were EUR 36 million in rating-related changes in fair value booked to the revaluation surplus within other comprehensive income (FY 2019: EUR 21 million). Due to the derecognition of financial liabilities in the reporting year, a reclassification was made within equity from the revaluation surplus to the retained earnings in the amount of EUR -1 million (FY 2019: EUR 5 million). The difference between the carrying amount of the financial liabilities in the "fair value option" category and the redemption amount at maturity was EUR 671 million as at the reporting date (FY 2019: EUR 706 million).

The rating-related changes in the fair value of the financial liabilities are calculated as the sum of the monthly changes in the fair value in the reporting period or from designation, taking into account the residual maturities of the liabilities and adjusted for portfolio changes. The monthly changes are calculated as the difference between the fair values, which – while retaining all other market parameters – are calculated on the 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. Only parameters observable on the market are used when calculating rating-related changes in the fair value; estimates are not employed.

The BayernLB Group held financial liabilities designated to the "fair value option" category primarily in connection with structured issues and liabilities with embedded derivatives. The BayernLB Group recognises credit rating-driven fair value changes in other comprehensive income rather than through profit or loss, as there are currently no reporting or measurement inconsistencies (see note 6 for more details). The determination as to whether this would give rise to or exacerbate a reporting or measurement inconsistency is to be made in the new product process, i.e. upon initial recognition of the financial instrument, and the choice maintained in subsequent periods. The determination is based on an analysis of whether the change in the fair value of a financial liability resulting from a change in its credit risk will be offset by the change in the fair value of another financial instrument (based on the change in its default risk). Such offsetting must be based on an economic relationship between the two financial instruments, including but not limited to contractual linkage.

(67) Hedging relationships (hedge accounting)

Derivative financial instruments are used for risk management purposes to hedge recognised financial assets and recognised financial liabilities to which hedge accounting can be applied under certain circumstances. Hedge accounting in the BayernLB Group is based on the decisions by Risk Management in Trading. Further information on the risk strategy and the management and monitoring of risks can be found in the risk report in the combined management report.

At present, only fair value hedges come under hedge accounting. This involves financial assets or financial liabilities (or a portion of them) recognised on the balance sheet, or a portfolio or group of financial instruments, being hedged against changes in fair value resulting from interest rate or currency risk which could affect the earnings for the period. Hedges must be proven to have a high prospective and, in the case of a portfolio fair value hedge in accordance with IAS 39, a high retrospective effectiveness. If this is not the case, the hedge must be terminated. The BayernLB Group measures effectiveness largely using a regression analysis and the critical term match method.

Hedging interest rate risks

Hedge accounting for interest rate risks is conducted in the BayernLB Group in the form of micro fair value hedges in accordance with IFRS 9 and portfolio fair value hedges in accordance with IAS 39. In its portfolio hedge accounting, BayernLB uses the percentage method and, since the second half of 2020, the bottom-layer method.

This involves the use of hedged items subject to interest rate risk. The entire interest rate risk is generally hedged. This means that most of the changes in fair value are covered by hedges. Interest rate derivatives are used as hedging instruments.

The changes in the value of the hedged items and the hedging instruments cancel each other out. Possible reasons for ineffective hedges during the term of the hedge include:

- The factors determining the value between a hedged item and a hedging instrument not being perfectly matched
- A multi-curve effect arising from the measurement of a hedged item and hedging instrument with different yield curves

As part of a portfolio fair value hedge based on the percentage method, interest rate risk is managed using interest rate swaps and a dynamic hedging strategy is employed. The pre-defined hedging period is one month. After this period ends, the respective hedges are recombined or adjusted, which in the latter case is primarily based on the variations on the hedged-items side. To determine the hedge ratio, the terms of the hedged items and hedging instruments are taken into account so that interest rate sensitivities are calculated for both sides and placed in relation to each other. The interest rate swaps are designated in full as hedging instruments.

Under the bottom-layer method, a portfolio fair value hedge is a dynamic hedging strategy in which a bottom layer is determined as a hedged item for each portfolio, corresponding to the amount to be hedged. Interest rate swaps are used as hedging instruments. The pre-defined hedging period is one month. An adjustment is made when the bottom layer has to be adjusted.

Hedging instruments for foreign currency risks

The BayernLB Group hedges currency risks using group fair value hedges in accordance with IFRS 9, where the bottom layer of a whole population of hedged items is designated. Currency swaps are used as hedging instruments. They are designated as group hedges by currency. The currency basis spread is separated from the currency swap and exempted from being designated as a hedging instrument. The entire spot rate-related change in the value of the bottom layer is hedged per currency.

The changes in the value of the hedged items and the hedging instruments cancel each other out. A hedge can become ineffective during its term if the gains or losses from the measurement of the rate from both variable legs of the currency swap do not offset the corresponding measurement gains or losses of the hedged items measured only at the spot rate.

Hedging instruments

			Carrying amount			
	Nominal value		Assets		Liabilities	
EUR million	2020	2019	2020	2019	2020	2019
Interest rate risks	24,686	39,200	670	647	1,144	1,018
Currency risks	4,397	5,163	206	60	33	206
Total	**29,083**	**44,364**	**876**	**706**	**1,178**	**1224**

The hedging instruments are shown in the balance sheet under “positive fair values of derivative financial instruments (hedge accounting)” and “negative fair values of derivative financial instruments (hedge accounting)”.

Hedging instruments by maturity

	Nominal value			
	Interest rate risks		Currency risks	
EUR million	2020	2019	2020	2019
Residual maturities				
Up to 3 months	687	830	392	195
Between 3 months and 1 year	2,920	3,245	763	1,076
Between 1 year and 5 years	11,723	16,930	1,675	2,355
More than 5 years	9,357	18,196	1,567	1,537
Total	**24,686**	**39,200**	**4,397**	**5,163**

The average price or rate of the instruments used to hedge interest rate risks was 1.73 percent (FY 2019: 1.81 percent). This does not include hedging instruments in dynamic hedges. The average price of instruments used to hedge CHF currency risks was EUR/CHF 1.14 (FY 2019: EUR/CHF 1.13), for GBP currency risks it was EUR/GBP 0.88 (FY 2019: EUR/GBP 0.88) and for USD currency risks it was EUR/USD 1.16 (FY 2019: EUR/USD 1.18).

Hedged items

	Carrying amount[1]		Fair value hedge adjustments in the carrying amount[2]	
EUR million	2020	2019	2020	2019
Assets				
Interest rate risks	28,307	26,594	1,208	1,086
Loans and advances to banks	108	106	–	(3)
Loans and advances to customers	15,929	14,597	836	756
Financial investments	11,596	11,891	372	334
Various[3]	675	–	–	–
Total	**28,307**	**26,594**	**1,208**	**1,086**
Liabilities				
Interest rate risks	13,566	14,446	1,007	907
Liabilities to banks	432	579	37	42
Liabilities to customers	3,440	3,921	565	528
Securitised liabilities	8,891	9,115	316	287
Subordinated capital	803	831	90	50
Total	**13,566**	**14,446**	**1,007**	**907**

1 Not including deductions of loss allowances for loans and advances to banks and/or loans and advances to customers in the "financial assets measured at amortised cost" category.

2 Not including fair value hedge adjustments for hedged items for which fair value hedge accounting in the form of portfolio hedges was used.

3 Bottom layer designated in the portfolio fair value hedge (bottom layer method) which covers the financial instruments in the loans and advance to banks and loans and advances to customers line items in the balance sheet.

Currency risks are also hedged using group fair value hedges, where the bottom layer of a population of hedged items recognised in loans and advances to banks, loans and advances to customers and financial investments is designated. Their nominal value was EUR 4,397 million as at the reporting date (FY 2019: EUR 5,163 million).

The fair value hedge adjustment[1] remaining on the balance sheet from terminated hedges comprised:

EUR million	2020	2019
Assets		
Interest rate risks	11	15
Loans and advances to customers	11	15
Total	**11**	**15**
Liabilities		
Interest rate risks	194	160
Liabilities to banks	46	25
Liabilities to customers	118	89
Securitised liabilities	30	46
Total	**194**	**160**

1 Not including fair value hedge adjustments for hedged items for which fair value hedge accounting in the form of portfolio hedges was used.

In addition, as at the reporting date there was a portfolio hedge adjustment asset of EUR 1,014 million (FY 2019: EUR 765 million) for hedged items for which fair value hedge accounting in the form of portfolio hedges was used. Of this, EUR 1,008 million (FY 2019: EUR 756 million) related to hedges still existing as at the reporting date and EUR 6 million (FY 2019: EUR 9 million) to hedges that had been terminated.

Hedge ineffectiveness

	Change in value of the hedging instruments		Change in value of hedged items		Hedge ineffectiveness	
EUR million	2020	2019	2020	2019	2020	2019
Interest rate risks	**(429)**	**(344)**	**440**	**331**	**11**	**(13)**
Gains or losses on hedge accounting	(429)	(344)	440	331	11	(13)
Micro fair value hedges	12	193	(4)	(202)	8	(8)
Portfolio fair value hedges	(441)	(537)	444	533	3	(4)
Currency risks	**302**	**(58)**	**(302)**	**58**	**(1)**	**–**
Gains or losses on hedge accounting	302	(58)	(302)	58	(1)	–
Group fair value hedges	302	(58)	(302)	58	(1)	–
Total	**(127)**	**(401)**	**138**	**389**	**11**	**(13)**

Hedging costs

The following table shows the changes in the fair value of currency swaps arising from currency basis spread fluctuations booked as hedging costs in the revaluation surplus. In the case of these group fair value hedges only period-related hedged items are hedged against changes in fair value arising from currency risk.

EUR million	2020	2019
As at 1 Jan	**(8)**	**–**
Hedging costs recognised through other comprehensive income	(4)	(8)
As at 31 Dec	**(12)**	**(8)**

Refer to the statement of comprehensive income for a breakdown of other comprehensive income in accordance with IAS 1.

(68) Net profit or loss from financial instruments

The net profit or loss on financial instruments in each category incorporates the gains or losses from measurement and realisation.

EUR million	2020	2019
Financial assets and financial liabilities measured at fair value through profit or loss	**109**	**95**
Financial assets mandatorily measured at fair value through profit or loss/held-for-trading financial liabilities[1]	123	7
Gains or losses on fair value measurement	88	7
Gains or losses on financial investments	34	–
Fair value option	(13)	88
Gains or losses on fair value measurement	(27)	(9)
Change in the revaluation surplus[2]	13	98
Financial assets measured at amortised cost	**431**	**909**
Net interest income	(1)	(1)
Risk provisions	(135)	316
Gains or losses on hedge accounting[3]	581	591
Gains or losses on derecognised financial assets	(14)	4
Financial assets measured at fair value through other comprehensive income	**192**	**319**
Financial assets mandatorily measured at fair value through other comprehensive income	192	319
Risk provisions	(3)	–
Gains or losses on hedge accounting[3]	45	109
Gains or losses on financial investments	34	40
Change in the revaluation surplus[4]	116	170
Financial liabilities measured at amortised cost	**(185)**	**(368)**
Gains or losses on hedge accounting[3]	(186)	(368)
Other income and expenses	2	–
Derivative financial instruments in hedges (hedge accounting)	**(429)**	**(176)**
Gains or losses on hedge accounting[3]	(429)	(176)

1 Includes current income from financial instruments held for trading purposes (except for derivatives in economic hedges) and gains or losses on foreign currency translation.
2 Rating-related changes in the fair value of financial liabilities recognised through other comprehensive income.
3 Not including group fair value hedges.
4 Gains or losses on fair value measurement recognised through other comprehensive income.

The BayernLB Group also hedges currency risks using group fair value hedges, where the bottom layer of a whole population of hedged items in the "financial assets measured at amortised cost" and "financial assets measured at fair value through other comprehensive income" measurement categories is designated. The measurement gains or losses on these hedged items recognised in gains or losses on hedge accounting stood at EUR -302 million in the reporting year (FY 2019: EUR 58 million).

The measurement gains or losses on hedging instruments in group fair value hedges that are shown in gains or losses on hedge accounting stood at EUR 302 million in the reporting year (FY 2019: EUR -58 million). Refer to note 67 for information on the fair value changes from currency basis spread fluctuations recognised in the revaluation surplus.

(69) Offsetting of financial instruments

When conducting derivatives transactions and securities repurchase transactions, the BayernLB Group regularly concludes bilateral netting agreements in the form of master agreements with business partners. Among the standard master agreements used are the ISDA Master Agreement for Financial Derivatives, the German Master Agreement for Financial Derivatives Transactions and the Global Master Repurchase Agreement for securities repurchase transactions. Agreements granting rights of set-off include the clearing conditions of Eurex Clearing AG, LCH.Clearnet Limited, European Commodity Clearing AG, and the client clearing agreements for indirect clearing. The netting agreements provide for conditional rights of set-off in the form of close-out netting for receivables and liabilities covered by these agreements, i.e. only if previously defined conditions (e.g. cancellation of the master agreement, default or insolvency) occur can the legal right of set-off be enforced.

Besides the master agreements for financial derivatives, collateral agreements are concluded with business partners to safeguard the net claim or liability left after offsetting. The main ones used are the Credit Support Annex to the ISDA Master Agreement and the collateral addendum to the German Master Agreement for Financial Derivatives Transactions. The master agreements for securities repurchase transactions and the derivatives clearing agreements contain similar collateral rules. Collateral agreements usually grant the protection buyer a position of ownership in the form of a title transfer collateral arrangement with an unrestricted right of disposal over the collateral, which is normally cash or securities collateral. Collateral agreements with no or a limited right of disposal are rare. Bilateral master agreements therefore largely provide for the realisation of collateral through offsetting, in that the fair value of the transferred security takes account of the calculation of the settlement payments at the termination of the contract.

The tables below give information on recognised financial instruments offset in accordance with IAS 32.42 and recognised financial instruments with a legally enforceable right of set-off or which are subject to a similar agreement. The “Set-off amount” column shows the amounts offset in accordance with IAS 32.42. These relate to transactions with central counterparties and bilateral repurchase agreements. The “Effect of netting agreements” column shows the amounts relating to financial instruments subject to a netting agreement, but not offset on the balance sheet as the criteria under IAS 32.42 were not met. The “Collateral” column shows the fair value of received or pledged financial collateral.

Offsetting of financial assets and financial liabilities as at 31 December 2020 – assets

EUR million	Gross carrying amount	Set-off amount	Net carrying amount recognised	Effect of netting agreements	Collateral	Net amount
Derivatives transactions	**22,262**	**(12,306)**	**9,956**	**(5,868)**	**(1,679)**	**2,409**
Assets held for trading/positive fair values from derivative financial instruments (hedge accounting)	22,236	(12,306)	9,930	(5,864)	(1,679)	2,387
Non-current assets or disposal groups classified as held for sale	26	–	26	(4)	–	22
Securities repurchase transactions	**4,036**	**–**	**4,036**	**–**	**(4,013)**	**23**
Loans and advances to banks	4,036	–	4,036	–	(4,013)	23
Loans and advances to customers	–	–	–	–	–	–
Total	**26,299**	**(12,306)**	**13,992**	**(5,868)**	**(5,692)**	**2,432**

Offsetting of financial assets and financial liabilities as at 31 December 2020 – liabilities

EUR million	Gross carrying amount	Set-off amount	Net carrying amount recognised	Effect of netting agreements	Collateral	Net amount
Derivatives transactions	**23,017**	**(13,481)**	**9,536**	**(5,868)**	**(1,787)**	**1,880**
Liabilities held for trading/negative fair values from derivative financial instruments (hedge accounting)	23,011	(13,481)	9,530	(5,864)	(1,787)	1,879
Liabilities of disposal groups	6	–	6	(4)	–	1
Securities repurchase transactions	**463**	**–**	**463**	**–**	**(462)**	**–**
Liabilities to banks	463	–	463	–	(462)	–
Liabilities to customers	–	–	–	–	–	–
Total	**23,479**	**(13,481)**	**9,998**	**(5,868)**	**(2,250)**	**1,880**

Offsetting of financial assets and financial liabilities as at 31 December 2019 – assets

EUR million	Gross carrying amount	Set-off amount	Net carrying amount recognised	Effect of netting agreements	Collateral	Net amount
Derivatives transactions	**21,563**	**(11,979)**	**9,583**	**(5,640)**	**(1,472)**	**2,471**
Assets held for trading/positive fair values from derivative financial instruments (hedge accounting)	21,563	(11,979)	9,583	(5,640)	(1,472)	2,471
Non-current assets or disposal groups classified as held for sale	–	–	–	–	–	–
Securities repurchase transactions	**3,852**	**–**	**3,852**	**(351)**	**(3,452)**	**49**
Loans and advances to banks	3,786	–	3,786	(351)	(3,387)	48
Loans and advances to customers	67	–	67	–	(65)	1
Total	**25,415**	**(11,979)**	**13,435**	**(5,991)**	**(4,924)**	**2,520**

Offsetting of financial assets and financial liabilities as at 31 December 2019 – liabilities

EUR million	Gross carrying amount	Set-off amount	Net carrying amount recognised	Effect of netting agreements	Collateral	Net amount
Derivatives transactions	**22,013**	**(12,833)**	**9,180**	**(5,640)**	**(1,967)**	**1,572**
Liabilities held for trading/negative fair values from derivative financial instruments (hedge accounting)	22,013	(12,833)	9,180	(5,640)	(1,967)	1,572
Liabilities of disposal groups	–	–	–	–	–	–
Securities repurchase transactions	**1,058**	**–**	**1,058**	**(351)**	**(697)**	**10**
Liabilities to banks	1,058	–	1,058	(351)	(697)	10
Liabilities to customers	–	–	–	–	–	–
Total	**23,071**	**(12,833)**	**10,238**	**(5,991)**	**(2,665)**	**1,582**

(70) 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	2020	2019	2020	2019	2020	2019
Interest rate risks	**495,663**	**612,031**	**20,140**	**19,399**	**20,791**	**19,466**
Interest rate swaps	405,732	474,855	18,750	18,287	18,583	17,843
Forward rate agreements	50,265	88,035	7	19	7	18
Interest rate options	18,314	21,823	1,262	962	1,873	1,414
Call options	6,865	7,916	981	737	174	150
Put options	11,449	13,907	281	224	1,699	1,264
Caps, floors	13,800	14,558	122	124	69	64
Exchange-traded contracts	6,504	11,331	–	–	–	–
Other interest-based forward transactions	1,048	1,429	–	7	258	127
Currency risks	**104,890**	**126,649**	**1,920**	**1,898**	**1,730**	**2,146**
Forward exchange deals	83,806	103,705	1,396	1,349	1,262	1,253
Currency swaps/cross-currency swaps	18,001	19,034	485	530	418	847
Foreign exchange options	1,246	1,723	20	10	22	7
Call options	730	1,045	20	10	–	1
Put options	516	677	–	–	21	6
Other currency-based forward transactions	1,837	2,187	20	8	28	39
Equity and other price risks	**6,087**	**6,606**	**188**	**232**	**349**	**370**
Equity forward transactions	214	318	–	–	51	29
Equity/index options	331	403	3	5	2	1
Call options	295	365	3	5	–	–
Put options	36	38	–	–	2	1
Exchange-traded contracts	2,916	2,378	–	–	8	17
Other forward transactions	2,625	3,507	185	226	288	322
Credit derivative risks	**310**	**255**	**3**	**–**	**6**	**6**
Protection buyer	310	255	3	–	6	6
Total	**606,950**	**745,541**	**22,252**	**21,529**	**22,876**	**21,987**

Derivatives transactions by maturity

	Nominal value							
	Interest rate risks		Currency risks		Equity and other price risks		Credit derivative risks	
EUR million	2020	2019	2020	2019	2020	2019	2020	2019
Residual maturities								
Up to 3 months	27,338	25,929	44,752	54,810	2,234	2,717	–	–
Between 3 months and 1 year	94,818	125,208	27,587	31,823	2,462	1,761	–	–
Between 1 year and 5 years	184,416	234,831	21,982	29,114	1,390	2,074	310	255
More than 5 years	189,091	226,064	10,569	10,902	–	53	–	–
Total	**495,663**	**612,031**	**104,890**	**126,649**	**6,087**	**6,606**	**310**	**255**

Derivatives transactions by counterparty

	Nominal value		Positive fair value		Negative fair value	
EUR million	2020	2019	2020	2019	2020	2019
OECD banks	352,982	445,057	9,723	10,084	11,018	11,505
Non-OECD banks	41	837	–	15	–	3
Public-sector entities within the OECD	7,785	8,752	715	667	536	464
Other counterparties[1]	246,142	290,895	11,814	10,762	11,322	10,016
Total	**606,950**	**745,541**	**22,252**	**21,529**	**22,876**	**21,987**

1 Includes exchange-traded contracts.

Derivatives for trading purposes

	Nominal value		Positive fair value		Negative fair value	
EUR million	2020	2019	2020	2019	2020	2019
Interest rate derivatives	349,538	403,890	14,343	12,996	14,256	12,518
Currency derivatives	96,151	117,320	1,639	1,561	1,669	1,915
Equity derivatives	3,718	4,326	72	164	139	222
Credit derivatives	310	255	3	–	6	6
Total	**449,718**	**525,791**	**16,056**	**14,721**	**16,070**	**14,661**

(71) Transfer of financial assets

The following transactions were executed at standard market terms and conditions.

Transferred financial assets that are not derecognised in their entirety

As at the reporting date the volume of financial assets transferred as collateral that are not derecognised was EUR 65,130 million (FY 2019: EUR 51,445 million).

These include genuine securities repurchase agreements where the BayernLB Group sold securities with a repurchase obligation. As the risks (interest rate, currency, equity and other price risks and credit risks) and rewards (particularly capital gains and current income) are largely retained by the BayernLB Group, the financial assets are not derecognised. The obligation of the lender to return the payment received as collateral for the transferred security is recognised as a financial liability. The lender has an unrestricted right of disposal over the securities once they are delivered.

The BayernLB Group also lends on funds received from development institutions for specific purposes on their own terms through savings banks or directly to end-borrowers. The loans and advances to savings banks and end-borrowers are recognised as assets and the liabilities to development institutions as liabilities. The loans and advances to savings banks and end-borrowers and any pledged collateral are assigned as collateral to the development institutions and may be realised by them in the event of loss. The BayernLB Group retains default risk in respect of the loans and advances to the savings banks and end-borrowers.

The BayernLB Group has also pledged collateral for funding, largely for tender operations with the European Central Bank. Collateral has also been pledged to the European Investment Bank and for transactions on other exchanges and clearing systems. The financial assets transferred as collateral for the corresponding (contingent) liabilities are not derecognised, as the risks and rewards are largely retained by the BayernLB Group.

The carrying amount of transferred financial collateral relates to the following items:

EUR million	2020	2019
Loans and advances to banks	20,171	18,511
Loans and advances to customers	30,097	20,309
Assets held for trading	403	557
of which:		
Collateral received which may be sold or pledged on	23	37
Financial investments	14,460	12,069
of which:		
Collateral received which may be sold or pledged on	221	779
Total	**65,130**	**51,445**

The transferred financial assets are matched against liabilities of EUR 48,008 million (FY 2019: EUR 20,091 million).

The assets in the cover pool are managed in accordance with the German Pfandbrief Act (Pfandbriefgesetz). As at the reporting date, the volume of the cover funds was EUR 47,487 million (FY 2019: EUR 45,377 million) for an outstanding volume of mortgage-backed Pfandbriefs and public Pfandbriefs of EUR 30,096 million (FY 2019: EUR 29,846 million).

The BayernLB Group also pledged collateral of EUR 187 million (FY 2019: EUR 137 million) for the utilisation of irrevocable payment obligations in connection with the bank levy and deposit guarantee scheme. Of this amount, cash collateral of EUR 66 million (FY 2019: EUR 54 million) was deposited for the bank levy and EUR 33 million (FY 2019: EUR 19 million) for the statutory deposit guarantee scheme which DKB belongs to. Securities collateral of EUR 89 million (FY 2019: EUR 63 million) was transferred for the bank-specific guarantee scheme BayernLB belongs to (see note 81).

Transferred financial assets that are derecognised in their entirety

As at the reporting date there was no material continuing involvement in transferred financial assets that are derecognised in their entirety.

Notes to the cash flow statement

(72) Notes on items in the cash flow statement

The cash flow statement shows the cash flows of the financial year classified into operating activities, investing activities and financing activities.

The “cash and cash equivalents” line item corresponds to the “cash reserves” item in the balance sheet and comprises cash and deposits with central banks, including the corresponding exchange rate gains of EUR 59 million (FY 2019: loss of EUR 5 million). Cash and cash equivalents are not subject to any drawing restrictions.

Cash flows from operating activities comprise payments from loans and advances to banks and to customers, from securities (not including financial investments), derivatives, and other assets. Payments from liabilities to banks/customers, securitised liabilities, and from other liabilities also fall under this category. Likewise included are interest and dividend payments from operating activities.

Cash flows from investing activities include payments for: financial investments; investment property; property, plant and equipment; and intangible assets. The impact from changes to the scope of consolidation is also reported under this line item.

Distributions to company owners and minority shareholders, and changes in subordinated capital and non-controlling interests are part of cash flow from financing activities. The non-cash changes in subordinated capital on the balance sheet were due to gains in fair value of EUR 40 million (FY 2019: EUR 76 million) and other gains or losses (including exchange rate gains or losses) of EUR -44 million (FY 2019: EUR 19 million).

Supplementary disclosures

(73) Subordinated assets

Subordinated assets are recognised in the following line items on the balance sheet:

EUR million	2020	2019
Loans and advances to banks	28	162
Loans and advances to customers	119	156
Financial investments	8	3
Total	**155**	**320**

(74) Assets and liabilities in foreign currency

EUR million	2020	2019
Foreign currency assets	**19,255**	**21,855**
CAD	410	394
CHF	897	1,673
GBP	4,771	5,151
HKD	8	7
JPY	59	54
USD	12,421	13,701
Other currencies	690	874
Foreign currency liabilities	**13,556**	**16,856**
CAD	89	75
CHF	175	249
GBP	2,298	2,393
HKD	5	26
JPY	132	161
USD	10,523	13,508
Other currencies	334	444

(75) Default risk

The impairment rules of IFRS 9 follow an approach in which 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 where the committor cannot unilaterally and unconditionally withdraw from its commitment at any time and which are not measured 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 allowances:

- general approach
- approach for purchased or originated credit-impaired financial assets
- simplified approach

General approach

Under the general approach, loss allowances are determined pursuant to the principle of a deterioration in creditworthiness. In essence, 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 12-month expected credit losses (Stage 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 credit-impaired financial assets (Stage 2)
- Loss allowances measured in the amount of the lifetime expected credit losses for financial assets that were credit-impaired as at the reporting date, but not at the time of purchase or origination (Stage 3)

Determining a significant increase in the default risk

On initial recognition, the respective financial instrument is assigned to Stage 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), which is calculated based on 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 statistically expected value of the change in default risk determined for the respective reporting date at the time of addition, the change in default risk is classified as significant (expected downgrade). The statistically expected change in default risk (rating significance thresholds) is calculated as a function of the current term of the financial instrument.

The main inputs for determining a significant increase in default risk are the customer-specific expected change in conditional 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 the absolute criterion in the form of 30-day payment arrears and the existence of the "problem loan handling" form of support. 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 Stage 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 Stage 2 to Stage 1 if the default risk as at the reporting date is no longer significantly higher than on initial recognition. The procedure for a stage transfer is the same for a non-significantly modified financial instrument.

If a financial asset is credit-impaired as at the reporting date, it is reclassified to Stage 3. To determine whether a financial asset is credit-impaired, the BayernLB Group implemented the following quantitative and qualitative criteria in particular:

- Payment arrears/overdraft > 90 days: 90-day payment arrears by the obligor in respect of a substantial amount of the contractually agreed payments
- Improbable repayment: Significant doubt as to the creditworthiness of the obligor
- Retail banking: Improbable repayment from a transfer
- Restructuring: inevitable restructuring as a result of a crisis resulting in losses
- Loss allowance or writedown: A loss allowance or a partial or full writedown due to a significant deterioration in credit quality
- Sale of receivables: Sale of receivables at a considerable, credit-related economic loss
- Insolvency: Application for the insolvency of the borrower or comparable protective measures
- Termination: Termination of the credit agreement or resolution of a bullet loan due to creditworthiness
- Default due to a transfer event

If at least one criterion is met, the credit analysts determine if there is an adverse effect on expected future cash flows by assessing the documents evidencing the credit quality of the respective financial instrument or business partner.

These criteria apply to all transactions in the BayernLB Group and are also used for 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 Stage 3, taking into account a good conduct period. The minimum term for a good conduct period is based on the respective default criterion and is 366 days if the reason for default is a restructuring and 92 days in the case of all other default criteria.

Determining the loss allowance

When determining the expected credit losses of a financial instrument in Stage 1 and Stage 2, the following parameters are multiplicatively linked:

- Probability of default: 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, which are based on cross-institutional data histories of the rating procedures used. In particular, macroeconomic developments based on BayernLB's economic forecasts are also included.
- 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, which is determined on the basis of historical practice). 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) calculated on the basis of historical drawings and the remaining open line.
- Loss given default (LGD): this shows the expected loss in the event of default, with a distinction being made between an LGD for the secured and unsecured parts of the EAD. In the case of the unsecured part of the EAD, the maturity component is modelled on the basis of the forecast change in the collateral's fair value (collateral value over time). The estimate is based on observed historical values over time.

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

To calculate the expected credit loss, 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 associated business partner or the respective financial instrument, 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 can be expected largely on the basis of various macroeconomic scenarios for the following years, are compared in a quantitative and qualitative expert-based 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 loss are approximated and taken into account by a post model adjustment. This allows forward-looking information on the individual characteristics of a particular financial instrument and enhanced forecasting quality at a higher aggregation level to be incorporated in the best possible way in a combined form.

In the case of Stage 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 (i.e. at least two) normally need to be defined and weighted with the expected probability of occurrence. The expected cash flow is discounted using the effective interest rate at the time of initial recognition or an approximation thereof.

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 is 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 recognised is utilised or a direct writedown is booked as a utilisation with a concomitant addition to the loss allowance, provided that no or insufficient loss allowances were recognised.

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

Procedure for purchased or originated credit-impaired financial assets

This method is used for purchased or originated credit-impaired financial assets (POCI). The BayernLB Group assumes that creditworthiness is impaired if the counterparty is assigned to a (non-performing) default category and the financial instrument was received with a big discount. 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, regardless of whether they contain a significant financing component. The loss allowances are always measured in the amount of the lifetime expected credit losses.

Loss allowances and gross carrying amounts/exposure

The following table shows the loss allowances and gross carrying amounts/exposure of financial instruments.

Loss allowances as at 31 December 2020

EUR million	Stage 1 2020	Stage 2 2020	Stage 3 2020	POCI 2020	Simplified approach 2020	Total 2020
Cash reserves	–	–	–	–	–	**–**
Loans and advances to banks	1	4	6	–	–	**12**
Loans and advances to customers	154	295	575	50	–	**1,074**
Financial investments	3	3	–	–	–	**5**
Other assets	–	–	–	–	–	**–**
Financial guarantees/credit commitments	26	56	30	1	–	**113**
Total	**184**	**357**	**611**	**51**	**–**	**1,204**

Loss allowances as at 31 December 2019

EUR million	Stage 1 2019	Stage 2 2019	Stage 3 2019	POCI 2019	Simplified approach 2019	Total 2019
Cash reserves	–	–	–	–	–	**–**
Loans and advances to banks	3	1	6	–	–	**10**
Loans and advances to customers	120	141	658	45	–	**964**
Financial investments	2	–	–	–	–	**2**
Other assets	–	–	–	–	–	**–**
Financial guarantees/credit commitments	28	15	64	5	–	**113**
Total	**154**	**157**	**729**	**49**	**–**	**1,090**

The total volume of non-discounted expected credit losses as at first-time recognition of purchased or originated credit-impaired financial assets in the reporting year was EUR 28 million (FY 2019: EUR 76 million).

For information on the changes in loss allowances, refer to notes 42, 57 and 62.

Gross carrying amounts/exposure as at 31 December 2020

EUR million	Stage 1 2020	Stage 2 2020	Stage 3 2020	POCI 2020	Simplified approach 2020	Total 2020
Cash reserves	9,342	–	–	–	–	**9,342**
Loans and advances to banks	50,734	5,437	7	–	–	**56,177**
Loans and advances to customers	136,584	13,379	1,317	134	–	**151,414**
Financial investments	18,744	1,583	–	–	–	**20,327**
Other assets	–	–	–	–	38	**38**
Financial guarantees/credit commitments	50,134	8,419	270	13	–	**58,836**
Total	**265,537**	**28,817**	**1,594**	**147**	**38**	**296,134**

Gross carrying amounts/exposure as at 31 December 2019

EUR million	Stage 1 2019	Stage 2 2019	Stage 3 2019	POCI 2019	Simplified approach 2019	Total 2019
Cash reserves	8,512	–	–	–	–	**8,512**
Loans and advances to banks	30,602	543	6	1	–	**31,151**
Loans and advances to customers	135,556	6,854	1,488	154	–	**144,051**
Financial investments	22,165	10	–	–	–	**22,175**
Other assets	–	–	–	–	37	**37**
Financial guarantees/credit commitments	54,802	1,545	175	11	–	**56,534**
Total	**251,637**	**8,952**	**1,670**	**165**	**37**	**262,461**

For information on the changes in gross carrying amounts and the exposure, refer to notes 42, 45, 57 and 62.

Gross carrying amount/exposure by rating category as at 31 December 2020

EUR million	Stage 1 2020	Stage 2 2020	Stage 3 2020	POCI 2020	Simplified approach 2020	Total 2020
Rating categories 0–7	184,091	13,238	–	8	16	**197,353**
Rating categories 8–11	56,942	6,192	–	6	–	**63,140**
Rating categories 12–17	20,912	7,250	–	9	–	**28,170**
Rating categories 18–21	156	1,931	–	4	–	**2,091**
Rating categories 22–24	1	–	1,594	121	–	**1,715**
Unrated	3,435	206	–	1	22	**3,664**
Total	**265,537**	**28,817**	**1,594**	**147**	**38**	**296,134**

Gross carrying amount/exposure by rating category as at 31 December 2019

EUR million	Stage 1 2019	Stage 2 2019	Stage 3 2019	POCI 2019	Simplified approach 2019	Total 2019
Rating categories 0–7	163,638	1,760	–	14	16	**165,428**
Rating categories 8–11	60,836	1,318	–	1	–	**62,155**
Rating categories 12–17	22,607	4,035	–	4	–	**26,646**
Rating categories 18–21	470	1,791	–	13	–	**2,274**
Rating categories 22–24	1	–	1,670	134	–	**1,804**
Unrated	4,085	48	–	–	21	**4,154**
Total	**251,637**	**8,952**	**1,670**	**165**	**37**	**262,461**

Adjustments as a result of the coronavirus pandemic

Due to the impact of the coronavirus pandemic, the regular review of the macroeconomic scenarios for the next few years determined that it was necessary to make changes to the post model adjustment that had been considered in the financial statements in financial year 2019 and in the consolidated half-yearly financial statements. The potential growth of an asset bubble in international real estate markets (real estate crisis) (probability of occurrence as at 31 December 2019: 35 percent) and impact of a disorderly exit by the United Kingdom from the EU (no-deal Brexit) (probability of occurrence as at 31 December 2019: 10 percent), which had been considered in the 2019 consolidated financial statements, have been mapped in the "global economic crisis" scenario as well as the baseline scenario by changing the framework parameters. Due to the changed macroeconomic and political environment in financial year 2020, the changed scenarios were taken into account in the consolidated half-year financial statements for 2020. The central parameters underlying the scenarios are the changes in gross domestic product (GDP), consumer prices, the unemployment rate and the leading stock market indices in Germany, Europe and the USA; the changes in yields on long-dated government bonds in Germany and Europe are also taken into account.

The baseline scenario reflects the economic trends which are currently expected to take place and upon which the pandemic has had a major bearing. As the pandemic is unlikely to be completely brought to an end by 2021, various regions will experience repeated lockdowns and the economic upturn will be weakened by the current uncertainty about the spread of the virus. As a large number of fiscal programmes come to an end, self-sustaining growth will set in from 2023, although with not such strong momentum. In Germany, current trends on the labour market are very closely entwined with state support. The sharp increase in short-time working prevented unemployment from significantly rising. In 2020, there were actually fewer company insolvencies than in the previous year. A major reason for this was the decision to suspend or loosen insolvency regulations. In 2021, it is expected that these rules will be activated again in stages. Monetary and regulatory countermeasures and the stabilisation of the economy have also helped limit corporate loan default rates. Inflation remains very low, even if there are upside risks from the massive expansion of the central banks' balance sheets, for example. However, as central bank purchases are scaled down, market spreads on corporate bonds will probably widen to some extent. With equities, the rapid bounce back will be followed by fresh gains from 2021, but at a slower pace. The probability of this scenario occurring has been adjusted to 65 percent from the

70 percent that was indicated in the consolidated half-yearly financial statements for 2020. The adjustment was necessary on account of the greater risks to economic growth based on current assessments of the coronavirus pandemic. However, uncertainty about how the pandemic will unfold and its impact on the economy despite the progress made in developing vaccines is still unusually high, as seen by large numbers of countries going back into lockdown to contain fresh rises in infection rates.

The baseline scenario has been supplemented by an additional "global economic crisis" scenario (probability of occurrence was adjusted to 35 percent from 30 percent due to the change in weighting compared with the consolidated half-yearly financial statements for 2020). In the "global economic crisis" scenario, it is anticipated that the coronavirus pandemic will not be brought to an end in the next few months, resulting in an economic shock that will last for some time to come. This will be aggravated by serious second-round effects as a global financial crisis spreads. Several regions of the global economy will tip back into a recession which will be deep and pronounced. In 2022, the downturn will reach its low point, with the aviation and cruise industries, along with hotels and shopping centres most affected. The limited elbow room for monetary and fiscal policy in many regions will see the economic crisis persist for an unusually long time. In 2023, the economy will recover gradually. In 2025, the GDP growth rates of all regions/countries will align again with the baseline scenario. However, unemployment will still be very high in 2025. Central banks will respond with an additional, broad-based easing of monetary policy, further cuts to interest rates and a significant expansion/relaunch of the asset purchase programmes. In many industrialised countries, key interest rates will remain negative or close to zero until 2024. On the fiscal policy front, more strongly expansive measures will be taken, leading to a huge increase in deficits and debt ratios. Stock markets will remain under heavy pressure for a sustained period and will not start posting gains until 2023. Risk premiums on government bonds of countries on the periphery of the eurozone and on corporate bonds in the eurozone will widen markedly despite the recovery fund and bigger purchases by the ECB in 2021. The latter will be accelerated by a huge increase in default rates.

The following, significant parameters were used for the baseline and "global economic crisis" scenarios as at 31 December 2020: the changes in gross domestic product (GDP), consumer prices, the unemployment rate and the leading stock market indices in Germany, Europe and the USA. A time horizon of five years (2021 to 2025) was observed. It was found that, based on the above assumption, the largest impact for the calculation of the post model adjustment will be on the first two years. This is mainly due to the BayernLB Group's portfolio structure and it becoming increasingly harder to forecast future years with certainty.

Annual average (baseline scenario/global economic crisis)		2021	2022	2023	2024	2025
Real GDP growth (%)	Germany	3.9/-0.6	1.9/-0.6	1.6/0.6	1.4/0.9	1.3/1.3
Price rise (consumer prices) (%)		2.2/0.7	1.7/-0.3	1.8/0.3	1.9/0.6	1.9/1.2
Unemployment rate (%)		6.5/7.3	6.0/7.6	5.5/7.5	5.2/7.3	5.2/7.3
Leading stock market index (%) - year-end price index		4.9/-19.7	2.9/-13.9	1.9/7.6	0.4/6.6	2.2/7.5
Real GDP growth (%)	Eurozone	3.9/-0.6	1.9/-0.6	1.5/0.5	1.4/0.9	1.3/1.3
Price rise (consumer prices) (%)		1.4/-0.1	1.5/-0.5	1.8/0.3	1.8/0.5	1.8/1.1
Unemployment rate (%)		8.3/9.9	7.7/10.2	7.5/10.3	7.5/10.5	7.5/10.5
Leading stock market index (%) - year-end price index		5.4/-17.5	5.1/-12.6	2.2/7.2	0.5/6.5	2.1/7.4
Real GDP growth (%)	USA	3.0/-1.5	2.0/-0.5	1.8/0.8	1.7/1.2	1.8/1.8
Price rise (consumer prices) (%)		1.5/0.0	1.6/-0.4	1.7/0.2	1.8/0.5	1.9/1.2
Unemployment rate (%)		7.0/9.6	6.0/10.0	5.0/9.6	4.5/9.3	4.5/9.3
Leading stock market index (%) - year-end price index		8.0/-21.2	5.1/-8.8	5.0/9.4	4.1/7.4	4.5/7.6
Capital market interest rates (as at year end)	Germany/ Eurozone					
Yields on government bonds (10Y)		(0.10)/-1.00	0.20/-0.90	0.50/-0.60	0.60/-0.40	0.80/-0.20

Depending on the scenario and sub-portfolio and based on the assumptions shown, it is anticipated the impacts on the key parameters, such as rating, loss ratio/loss given default (LGD) and collateral values will vary in strength. The effects are initially calculated in the form of a model and then subjected to a qualitative review. Expert-based adjustments were made in individual cases, most notably in the cruise industry and aviation sub-portfolios and within the real estate portfolio in the case of hotels and shopping centres. Overall, it is anticipated that the negative impact on the entire portfolio will be comparatively light in the baseline scenario. In the "global economic crisis" scenario, by contrast, significant additional default risks have been factored in, due to higher LGDs and falls in the values of collateral, and, in particular, to the marked deterioration in ratings. In the Corporates portfolio this is especially the case for companies in the tourism sector, most notably the cruise industry and aviation, while in the real estate portfolio this applies in particular to hotels and shopping centres. This resulted in increased reclassifications of financial instruments from Stage 1 to Stage 2 in the portfolios particularly affected.

Consequently, the BayernLB Group took account as at 31 December 2020 of the impact of the expected credit losses by setting up risk provisions of EUR 325 million (31 December 2019: EUR 71 million) in the form of a post model adjustment. As at 31 December 2020, these risk provisions included around 50 percent for the Corporates & Markets segment (31 December 2019: around 30 percent) and around 30 percent for the DKB segment (31 December 2019: around 20 percent). The risk provisions of EUR 325 million include an expert-based management adjustment of EUR 35 million, which also takes into account the extreme uncertainty about the current situation with regard to future economic growth.

Assuming a probability of occurrence of 100 percent, this would result in a post model adjustment of around EUR 160 million in the baseline scenario and around EUR 634 million in the "global economic crisis" scenario as at 31 December 2020.

A weighting of 65 percent was applied to the baseline scenario and a weighting of 35 percent to the "global economic crisis" scenario. A change in the described weighting between the baseline scenario and the "global economic crisis" scenario by 10 percentage points in favour or at the expense of the "global economic crisis" scenario would have an effect of EUR -52.8 million or EUR +52.8 million, respectively.

The support measures granted to borrowers to cope with the coronavirus pandemic, such as payment moratoriums, are described in the risk report.

Non-significant modifications

For financial instruments for which the contractually agreed cash flows were modified in the reporting year and whose loss allowance was measured in the amount of the lifetime expected credit losses, the amortised cost before modification amounted to EUR 854 million (FY 2019: EUR 216 million).

The gross carrying amount of financial instruments that were modified when the loss allowance was measured in the amount of the lifetime expected credit losses, and for which the loss allowance was adjusted in the amount of the 12-month expected credit losses in the reporting year, was EUR 116 million (FY 2019: EUR 31 million) as at the reporting date.

Maximum default risk

The following table shows the maximum default risk as at the reporting date for all financial instruments to which the impairment rules pursuant to IFRS 9 are applied. Collateral received or other loan collateral is not taken into account.

EUR million	2020	2019
Cash reserves	9,342	8,512
Loans and advances to banks	56,166	31,096
Loans and advances to customers	151,177	143,844
Financial investments	20,905	22,653
Other assets	38	37
Financial guarantees/credit commitments	58,836	56,534
Total	**296,463**	**262,675**

The BayernLB Group holds collateral to mitigate default risks. The principles for accepting and valuing collateral are embedded in the Bank's collateral policy.

The main types of collateral are real estate liens, which predominantly relate to domestic real estate properties, and guarantees. Guarantees include in particular standby letters of credit, directly enforceable guarantees and export guarantees. The main guarantors are monolines, the public sector and financial institutions, most of which have an investment grade credit rating. Liens are also accepted as collateral, in particular in the form of financial collateral, and transfers of title for collateral purposes and assignments.

Collateral is recognised on the basis of the liquidation value, which corresponds to the expected proceeds of collateral within an orderly realisation. The liquidation value is calculated by taking into account the fair value of the collateral and an expected recovery rate specific to each type of

collateral. For guarantees, the liquidation value is calculated on the basis of the recovery rate derived from the credit rating of the respective collateral provider and the size of the guaranteed loan amount.

In addition, the BayernLB Group holds securities as collateral in genuine repurchase agreements (reverse repo transactions). Only liquid marketable securities in currencies usually traded are accepted. The securities are measured at their fair value. Discounts for potential fluctuations in value are taken into account. Both concentration and correlation risk limits have been put in place and are regularly monitored.

In the case of credit-impaired financial assets, the default risk was reduced by collateral received and other loan collateral amounting to EUR 598 million (FY 2019: EUR 493 million). The collateral is broken down as follows:

EUR million	2020	2019
Loans and advances to customers	515	487
Financial guarantees/credit commitments	84	6
Total	**598**	**493**

As at the reporting date, BayernLB had financial instruments for which no loss allowances were made, as they were covered by collateral. Their gross carrying amount related to the following balance sheet line items:

EUR million	2020	2019
Loans and advances to banks	27	20
Loans and advances to customers	36,072	33,219
Financial guarantees/credit commitments	2,185	1,855
Total	**38,285**	**35,094**

The following table shows the maximum default risk as at the reporting date for all financial instruments to which the impairment rules pursuant to IFRS 9 are not applied. Collateral received or other loan collateral is not taken into account.

EUR million	2020	2019
Loans and advances to customers	126	189
Assets held for trading	11,780	13,259
Positive fair values from derivative financial instruments (hedge accounting)	876	706
Financial investments	485	682
Non-current assets or disposal groups classified as held for sale	26	–
Total	**13,294**	**14,837**

Derivatives transactions are often hedged. Collateral is principally in the form of cash in euros. In the case of cash collateral in foreign currencies and collateral in the form of securities, discounts are made to take account of fluctuations in value.

Foreclosure proceedings on written down financial instruments

In the case of financial instruments that were written down in the reporting year but still subject to foreclosure proceedings, the contractual amount outstanding stood at EUR 4 million (FY 2019: EUR 19 million) as at the reporting date.

(76) Collateral received

Certain assets that have been pledged as collateral through securities repurchase transactions may be sold on or repledged even if the collateral provider has not defaulted. As at the reporting date, their fair value was EUR 10,355 million (FY 2019: EUR 9,504 million).

EUR 7,092 million (FY 2019: 5,701 million) of this collateral was either sold on or repledged. An obligation to return this collateral exists.

These transactions were executed at standard market terms and conditions.

As part of its Pfandbrief business, BayernLB purchases municipal claims that are legally eligible as cover funds from the Savings Banks Association. In accordance with the terms, the economic ownership remains with the transferring bank, which continues to recognise the receivable from the respective municipalities in its balance sheet. BayernLB had no obligations to be recognised in the balance sheet as at the reporting date.

(77) Revenue from contracts with customers

The BayernLB Group recognises revenue from contracts with customers in the form of commission and fees from a wide range of services. As a rule, commissions and fees from one-off services are collected at specific points in time and from recurring services over time. Revenue from performance obligations fulfilled at specific points in time is recognised at the time of the transfer of control over the asset (essentially when the service is rendered), and revenue from performance obligations settled over time is recognised in accordance with the progress made. This is determined on the basis of the contract, according to which progress is generally even throughout the performance period. The amount of revenue recognised corresponds to the promised consideration contractually agreed by the customer for the transfer of the services. As a rule, the promised consideration can be clearly allocated to the individual performance obligations contained in the contract.

Depending on the contract, payment in advance or in arrears for the services is agreed with the customer.

In the BayernLB Group, commissions and fees are mainly recognised for the following services:

- *Securities business*
  In the securities business, revenue is generated in particular from securities custody and custody management, execution and settlement of spot and forward transactions, and the placement of Schuldschein note loans. As a rule, revenue from one-off services, such as the settlement of securities transactions, is recognised at a point in time and from recurring services, such as securities custody, over time.

- *Credit business*
  In the credit business, revenue is primarily received from the processing and administration of (syndicated) loans and the provision of guarantee loans. As a rule, one-off processing and syndicate fees are booked at a specific point in time, while revenues from recurring services, such as acting as an agent in a banking syndicate (e.g. as a collateral manager) and the provision of guarantee facilities, are booked over time. BayernLB Group primarily acts as an agent for subsidised loans.

- *Payments*

  In the case of payments, revenue is mainly produced from account management, the processing of transfers, and the collection and redemption of direct debits. As a rule, one-off revenue, such as fees for bank transfers and direct debits, is booked at a point in time, while revenue from recurring services, such as account management, is booked over time.

- *Documentary business*

  In the case of documentary business, revenue is primarily generated from the settlement of payments in international trade using letters of credit. As a rule, revenue from one-off services, such as the opening and processing of letters of credit, is recognised at a point in time, while revenue from recurring services, such as credit confirmations, is recognised over time.

- *Credit card business*

  In the credit card business, income is mainly generated from the issue of credit cards and services associated with credit cards, in particular settlement. As a rule, one-off fees, such as foreign usage fees and cash service fees, are booked at a point in time, while recurring charges, such as cardholder fees, are booked over time. The BayernLB Group primarily acts as an agent when brokering insurance benefits and other ancillary services, and revenue is recognised on a net basis in such cases.

- *Fund business*

  In the fund business, proceeds are primarily received from fund structuring and management, portfolio and asset management, and investor support. As a rule, one-off revenue, such as transaction fees, is recognised at a point in time, while revenue from recurring services, such as fund management, is recognised over time.

- *Trust transactions*

  In the trust transactions business, revenue is mainly generated from the granting and administration of trust loans. As a rule, revenue from one-off administrative cost contributions is recognised at a point in time and from recurring administrative cost contributions over time. In the trust transaction business, the BayernLB Group primarily acts as an agent, and revenue is recognised on a net basis in such cases.

The BayernLB Group makes use of the practical expedient under IFRS 15.63 and refrains from adjusting the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between when the entity transfers a promised service to the customer and when the customer pays for that service will be one year or less.

Breakdown of revenues

Revenue from contracts with customers booked to net commission income is broken down as follows:

EUR million	2020	2019
Commission income	**741**	**708**
Securities business	114	75
Credit business	188	172
Payments	44	40
Documentary business	7	9
Credit card business	165	211
Fund business	175	171
Trust transactions	16	15
Other	33	15
Commission expenses	**(340)**	**(354)**
Securities business	(65)	(41)
Broker fees	(7)	–
Credit business	(9)	(9)
Payments	(59)	(72)
Documentary business	–	(6)
Credit card business	(126)	(156)
Fund business	(68)	(65)
Other	(6)	(6)
Total	**401**	**354**

In the reporting year, revenue from contracts with customers of EUR 8 million (FY 2019: EUR 16 million) and related expenses of EUR 2 million (FY 2019: EUR 3 million) for various services, in particular IT and financial services, were recognised in other income and expenses.

The segment report (see note 26) shows net commission income and other income and expenses for each business segment of the BayernLB Group. This is presented in each case as a net figure consisting of commission income, commission expenses, other income and other expenses, and includes the revenue recognised from contracts with customers in accordance with IFRS 15.

Contract balances

The following table shows the opening and closing balances of receivables and contract liabilities from contracts with customers.

EUR million	2020	2019
Receivables	58	54
Contract liabilities	2	-

A receivable is recognised when invoiced by the BayernLB Group. Contract liabilities are shown in the case of payments received in advance and recognised in instalments over the period during which the service is rendered.

Transaction price allocated to remaining performance obligations

The BayernLB Group has made use of the practical expedient under IFRS 15.121 to refrain from disclosing the transaction price allocated to the remaining performance obligations for contracts with an original expected duration of one year or less and for contracts from which revenue can be recognised for simplification purposes in accordance with IFRS 15.B16 in the amount to which the entity has a right to invoice.

Capitalised costs

The BayernLB Group makes use of the practical expedient under IFRS 15.94 and recognises the incremental costs of obtaining a contract with a customer as an expense when incurred if the amortisation period will be one year or less.

(78) Leasing

The BayernLB Group as lessee

BayernLB Group's existing leasing activities mainly involve the leasing of office and parking spaces, vehicles, IT devices and other assets. The leases provide the Bank with flexibility it would not have if it had purchased the underlying assets, including the option to extend or terminate and, where applicable, to replace leased assets on a regular basis.

Right-of-use assets

EUR million	2020	2019
Property, plant and equipment	150	196
Total	**150**	**196**

Breakdown of the carrying amount of the right-of-use assets recognised under property, plant and equipment by class of underlying assets

EUR million	2020	2019
Property	145	192
Furniture and office equipment	2	2
Other assets	2	2
Total	**150**	**196**

Additions to right-of-use assets stood at EUR 35 million in the reporting year (FY 2019: EUR 12 million).

Breakdown of the depreciation amount of the right-of-use assets by class of underlying assets

EUR million	2020	2019
Property[1]	(24)	(21)
Furniture and office equipment	(1)	(1)
Other assets	(1)	(1)
Total	**(26)**	**(23)**

1 Not including investment property.

Lease liabilities

EUR million	2020	2019
Other liabilities	152	197
Total	**152**	**197**

Interest expenses for lease liabilities amounted to EUR 1 million in the reporting year (FY 2019: EUR 2 million).

No lease liabilities were recognised for short-term leases or for leases where the underlying asset is of low value. Instead, lease payments associated with these leases were recognised as expenses. In the reporting year, the costs for short-term leases stood at EUR 1 million (FY 2019: EUR 1 million), while for leases where the underlying asset is of low value the costs were EUR 2 million (FY 2019: EUR 2 million). Lease liabilities from short-term leases amounted to EUR 0 million as at the reporting date (FY 2019: EUR 1 million).

The total cash outflow for leases amounted to EUR 27 million in the reporting year (FY 2019: EUR 27 million).

The BayernLB Group as lessor

In the reporting year the BayernLB Group was a lessor in respect of operating leases. The leased property was real estate.

Breakdown of lease payments by maturity

EUR million	2020	2019
Residual maturities		
Up to 1 year	3	5
Between 1 year and 2 years	3	4
Between 2 years and 3 years	3	4
Between 3 years and 4 years	3	4
Between 4 years and 5 years	3	4
More than 5 years	15	19
Total	**31**	**40**

The total cash outflow for leases amounted to EUR 4 million in the reporting year (FY 2019: EUR 4 million).

(79) Trust transactions

EUR million	2020	2019
Assets held in trust	**5,552**	**5,093**
Loans and advances to banks	304	12
Loans and advances to customers	5,248	5,081
Liabilities held in trust	**5,552**	**5,093**
Liabilities to banks	315	10
Liabilities to customers	5,237	5,083

(80) Contingent assets, contingent liabilities and other commitments

EUR million	2020	2019
Contingent liabilities	**11,272**	**11,487**
Liabilities from guarantees and indemnity agreements	11,272	11,469[1]
Other contingent liabilities	1	18
Other commitments	**29,046**	**26,824**
Irrevocable credit commitments	29,046	26,824[1]
Total	**40,319**	**38,311**

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

Contingent liabilities and other commitments are for the most part potential liabilities arising from the occurrence of an uncertain future event whose settlement amount and date cannot be reliably estimated.

EUR 8,888 million (FY 2019: EUR 8,877 million) of contingent liabilities and EUR 15,122 million (FY 2019: EUR 14,554 million) of other commitments are due after more than 12 months.

(81) Other financial obligations

Other financial obligations arise principally from agency, rental, leasing, usage, service, maintenance, consulting and marketing agreements.

As at the end of the reporting period, there were call commitments for capital not fully paid up of EUR 6 million (FY 2019: EUR 13 million) and uncalled liabilities from German limited partnership (Kommanditgesellschaft) interests of EUR 15 million (FY 2019: EUR 17 million). Liabilities to subsidiaries not incorporated in the consolidated financial statements totalled EUR 20 million (FY 2019: EUR 17 million).

As at the reporting date, the BayernLB Group had EUR 187 million (FY 2019: EUR 137 million) of irrevocable payment obligations in connection with the bank levy and deposit guarantee scheme. Cash collateral of EUR 98 million (FY 2019: EUR 73 million) and securities collateral of EUR 89 million (FY 2019: EUR 63 million) were provided for these obligations (see note 71).

Following the implementation of the Deposit Guarantee Scheme Act (EinSiG), which entered into effect on 3 July 2015, agreement was reached on a new system for calculating the target volume in the guarantee scheme. Member institutions have until 3 July 2024 to achieve the target volume of funds for the guarantee scheme (the fill-up phase). The amount of the target volume is

calculated each year based on the data as at 31 December of the previous year. The German Savings Bank Association (DSGV), the body responsible for the guarantee scheme, calculates the mandatory annual contribution by 31 May of any given year.

Under the terms of the statutes of the deposit insurance fund run by the Association of German Public Banks, VÖB, e. V., BayernLB has undertaken to reimburse the fund for all payments made pursuant to the statutes on behalf of DKB to cover proven defaults as the fund is unable to enforce its rights of recourse against DKB.

(82) Letters of comfort

BayernLB provides its subsidiaries with significant benefits in the form of improved business terms and better financing conditions by issuing them and their creditors letters of comfort. BayernLB also benefits as the value of its subsidiaries is enhanced. At the same time, however, it is also potentially liable for losses.

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

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

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

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

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

(83) Shareholdings

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
Consolidated subsidiaries				
Bayern Card-Services GmbH - S-Finanzgruppe, Munich	Direct	50.1	30,583	6,252
BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich[1]	Direct	100.0	18,754	–
Deutsche Kreditbank Aktiengesellschaft, Berlin[1]	Direct	100.0	2,635,913	–
Subsidiaries included in the Deutsche Kreditbank Aktiengesellschaft sub-group:				
DKB Finance GmbH, Berlin	Indirect	100.0	17,100	–
DKB Grund GmbH, Berlin	Indirect	100.0	101	(1)
DKB Service GmbH, Potsdam	Indirect	100.0	7,100	–
FMP Forderungsmanagement Potsdam GmbH, Potsdam	Indirect	100.0	12,150	–
MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin	Indirect	100.0	3,110	19
PROGES EINS GmbH, Berlin	Indirect	100.0	480	–
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich[1]	Direct	100.0	45,455	–
Subsidiaries included in the Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich sub-group:				
Real I.S. Investment GmbH, Munich	Indirect	100.0	3,000	–
Consolidated structured entities				
DKB Nachhaltigkeitsfonds EUROPA AL, L - Luxembourg	Indirect	82.8	66,502	(8.210)
DKB Nachhaltigkeitsfonds Klimaschutz AL, L - Luxembourg	Indirect	63.3	53,520	(1.676)
DKB Nachhaltigkeitsfonds SDG AL, L - Luxembourg	Indirect	66.6	41,311	(3.431)
Non-consolidated subsidiaries				
Banque LBLux S.A. i.L., L - Luxembourg	Direct	100.0	42,687	(8.006)
Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich	Indirect	94.5	(2.687)	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH & Co. Objekt Fürth KG, Munich	Indirect	100.0	–	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH, Munich	Indirect	100.0	14	3
Bayerische Landesbank Europa-Immobilien-Beteiligungs-GmbH, Munich	Indirect	100.0	109	–
Bayerische Landesbank Immobilien-Beteiligungs-Gesellschaft mbH & Co. KG, Munich	Direct	100.0	47,228	1,555
Bayerische Landesbank Immobilien-Beteiligungs-Verwaltungsgesellschaft mbH, Munich	Direct	100.0	64	5
Bayern Bankett Gastronomie GmbH, Munich[1]	Direct	100.0	514	–
Bayern Corporate Services GmbH, Munich	Indirect	100.0	205	–
Bayern Facility Management GmbH, Munich[1]	Direct	100.0	2,560	–
BayernFinanz Gesellschaft für Finanzmanagement und Beteiligungen mbH i.L., München	Direct	100.0	725	–
Bayernfonds Immobilien Concept GmbH, Munich	Indirect	100.0	17	(18)
Bayernfonds Immobiliengesellschaft mbH, Munich	Direct and indirect	100.0	6,658	1,052
Bayernfonds Kambera GmbH, Munich	Indirect	100.0	25	–
Bayernfonds Opalus GmbH, Munich	Indirect	100.0	25	–
BayernImmo 2019 Joint Venture Verwaltungs GmbH, Munich	Indirect	100.0	25	–

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
BayernImmo 2. Joint Venture Verwaltungs GmbH, Munich	Indirect	100.0	14	(1)
BayernInvest Luxembourg S.A., L - Munsbach	Indirect	100.0	2,183	379
BayernLB Capital Partner GmbH, Munich	Direct	100.0	1,404	26
BayernLB Capital Partner Verwaltungs-GmbH, Munich	Direct	100.0	49	1
BayernLB DP GmbH, München[2]	Direct	100.0		
BayernLB Mittelstandsfonds GmbH & Co. Unternehmensbeteiligungs KG i.L., Munich	Direct and indirect	100.0	14,381	(8.461)
BayernLB Private Equity GmbH i.L., Munich	Direct	100.0	1,988	(13.377)
BayTech Venture Capital II GmbH & Co. KG i.L., Munich	Direct and indirect	47.6	845	(332)
BayTech Venture Capital Initiatoren GmbH & Co. KG i.L., Munich	Indirect	46.8	1	(8)
Berchtesgaden International Resort Betriebs GmbH, Munich[1]	Direct	100.0	9,368	–
BestLife 3 International GmbH & Co. KG Invest II, Munich	Indirect	50.4	7,139	198
BGV IV Verwaltungs GmbH, Munich	Indirect	100.0	47	1
BGV V Verwaltungs GmbH, Munich	Indirect	100.0	39	–
BGV VI Verwaltungs GmbH, Munich	Indirect	100.0	34	9
BGV VII Europa Verwaltungs GmbH, Munich	Indirect	100.0	35	8
BLB-Beteiligungsgesellschaft Sigma mbH, Munich[1]	Direct	100.0	971	–
BLB-VG22-Beteiligungsgesellschaft mbH, Munich	Direct	100.0	499	(3)
DKB BayernImmo Beteiligungs GmbH & Co. KG, Munich	Indirect	100.0	6,029	(267)
DKB Campus GmbH, Berlin	Indirect	100.0	450	–
DKB Code Factory GmbH, Berlin	Indirect	100.0	800	–
DKB Immobilien Beteiligungs GmbH, Potsdam	Indirect	100.0	2,188	180
DKB Stiftung Liebenberg gGmbH, Löwenberger Land OT Liebenberg[3]		100.0	379	244
DKB Stiftung Schloss Liebenberg GmbH, Fürth[3]		100.0	12	(2)
DKB STIFTUNG Jugenddörfer gemeinnützige GmbH, Fürth[3]		100.0	131	90
DKB Wohnen GmbH, Berlin	Indirect	100.0	25	–
DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin	Indirect	100.0	2,500	–
GbR Olympisches Dorf, Potsdam	Indirect	100.0	–	(696)
German Centre for Industry and Trade Shanghai Co. Ltd., PRC - Shanghai	Indirect	100.0	39,679	1,805
German Centre for Industry and Trade Taicang Co. Ltd., PRC - Taicang	Indirect	100.0	2,728	(396)
German Centre Limited, BVI - Tortola	Direct	100.0	28,443	1,532
gewerbegrund AIRPORT GmbH Beteiligungsgesellschaft, Munich	Indirect	100.0	53	(2)
gewerbegrund Bauträger GmbH & Co. Objekt IGG KG, Munich	Indirect	100.0	–	68
gewerbegrund Projektentwicklungsgesellschaft (gpe) mbH, Munich	Direct	100.0	6,051	4,301
Global Format GmbH & Co. KG, Munich	Direct	52.4	2,164	214
Global Format Verwaltungsgesellschaft mbH, Munich	Indirect	100.0	32	1
LB Immobilienbewertungsgesellschaft mbH, Munich[1]	Direct	100.0	827	–
LB-RE S.A., L - Luxembourg	Indirect	100.0	5,124	(129)

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
Melhoria Immobiliengesellschaft mbH, Potsdam	Indirect	100.0	3,102	–
Oberhachinger Bauland GmbH, Wohnbau- und Erschließungsgesellschaft, Munich	Indirect	100.0	(9)	428
Potsdamer Immobiliengesellschaft mbH, Potsdam	Indirect	100.0	140	42
PROGES DREI GmbH, Berlin	Indirect	100.0	1,262	5
PROGES ENERGY GmbH, Berlin	Indirect	100.0	921	121
PROGES Sparingberg GmbH, Berlin	Indirect	100.0	1,193	(36)
PROGES VIER GmbH, Berlin	Indirect	100.0	390	311
PROGES ZWEI GmbH, Berlin	Indirect	100.0	2,950	–
Real I.S. Australia 10 STC Pty. Ltd., AUS - Sydney	Indirect	100.0	–	–
Real I.S. Australia 10 Subtrust, AUS - Sydney	Indirect	100.0	18,813	728
Real I.S. Australia 10 TC Pty. Ltd., AUS - Sydney	Indirect	100.0	–	–
Real I.S. Australia 10 Trust, AUS - Sydney	Indirect	100.0	18,709	(30)
Real I.S. Australia Pty. Ltd., AUS - Sydney	Indirect	100.0	655	146
Real I.S. Australien 10 GmbH & Co. KG, Munich	Indirect	100.0	15,137	(397)
Real I.S. Beteiligungs GmbH, Munich	Indirect	100.0	98	7
Real I.S. Finanz GmbH, Munich[1]	Direct	100.0	25	–
Real I.S. Fonds Service GmbH, Munich[1]	Direct	100.0	177	–
Real I.S. France SAS, F - Paris	Indirect	100.0	1,458	509
Real I.S. Fund Management GmbH, Munich	Indirect	100.0	75	5
Real I.S. Gesellschaft für Immobilienmanagement mbH & Co. KG, Munich	Indirect	100.0	5,881	3
Real I.S. Gesellschaft für Immobilienmanagement und Verwaltung mbH, Munich	Indirect	100.0	56	(13)
Real I.S. GREF Verwaltungs GmbH, Munich	Indirect	100.0	16	–
Real I.S. Management Hamburg GmbH, Munich	Indirect	100.0	29	–
Real I.S. Management SA, L - Munsbach	Indirect	100.0	322	–
Real I.S. SMART Verwaltungs GmbH, Munich	Indirect	100.0	15	(1)
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie GmbH & Co. KG, Munich	Indirect	100.0	52	(7)
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie Verwaltungs-GmbH, Munich	Indirect	100.0	40	3
TEGES Grundstücks-Vermietungsgesellschaft mbH, Berlin	Indirect	100.0	25	2
TEGES Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Berlin KG, Berlin	Indirect	94.0	(6.372)	196
TFD und BGV VI Verwaltungs GmbH, Munich	Indirect	100.0	13	(4)
TFD und RFS Verwaltungs GmbH, Munich	Indirect	100.0	16	(4)
TFD Verwaltungs GmbH, Munich	Indirect	100.0	12	(5)

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
Joint ventures not measured at equity				
ABG Allgemeine Bauträger- und Gewerbeimmobiliengesellschaft & Co. Holding KG, Munich	Indirect	50.0	158	(11)
ABG Allgemeine Bauträger- und Gewerbeimmobiliengesellschaft mbH, Munich	Indirect	50.0	61	–
AKG ImmoPlus GmbH, Berlin	Indirect	50.0	559	59
BayernImmo 1. Joint Venture GmbH & Co. KG, Munich	Indirect	0.3	5,000	2,052
BayernImmo 1. Joint Venture Verwaltungs GmbH, Munich	Indirect	50.0	15	(3)
BayernImmo 2019. Joint Venture GmbH & Co. KG, Munich	Indirect	50.0	11,314	436
BayernImmo Böhmisches Viertel Beteiligungs GmbH & Co. KG, Munich	Indirect	50.0	12,153	(253)
CommuniGate Kommunikationsservice GmbH, Passau	Indirect	50.0	4,329	457
Einkaufs-Center Györ Verwaltungs G.m.b.H., Hamburg	Indirect	50.0	27	2
German Centre for Industry and Trade India Holding-GmbH i.L., München	Direct	50.0	43	(18)
GHM MPP Reserve GmbH, Regenstauf	Indirect	50.0	348	(2)
GHM MPP Verwaltungs GmbH, Regenstauf	Indirect	50.0	20	–
MTI Main-Taunus Immobilien GmbH, Bad Homburg v.d.H.	Indirect	50.0	57	(10)
S-Karten-Service-Management GmbH - Saarbrücken - München, Munich	Indirect	50.0	100	–
Associates not measured at equity				
Bayerngrund Grundstücksbeschaffungs- und -erschließungs-Gesellschaft mit beschränkter Haftung, Munich	Direct	50.0	7,258	(349)
Bayern Mezzaninekapital Fonds II GmbH & Co. KG Unternehmensbeteiligungsgesellschaft, Munich	Direct	40.0	3,193	(798)
Bayern Mezzaninekapital Verwaltungs GmbH, Munich	Direct	49.0	52	2
GHM Holding GmbH, Regenstauf	Indirect	40.0	17,179	(11)
RSU Rating Service Unit GmbH & Co. KG, Munich	Direct	20.0	9,061	(2.270)
Unconsolidated structured entities				
Baserepo No. 1 S.A., L - Luxembourg[4]			31	–
Bayern Invest Renten Europa-Fonds, Munich	Direct	8.8	112,307	4,874
DKB Stiftung für gesellschaftliches Engagement, Löwenberger Land OT Liebenberg[4]			16,434	(258)
EK-Fonds der BayernInvest, Munich	Indirect	100.0	20,342	23
Rosata GmbH & Co. Objekt Hammergarten KG[4]			–	46
Other investees				
AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main	Direct	7.2	253,193	10,621
Bau-Partner GmbH i.I., Halle (Saale)	Indirect	49.6	(245)	(1.475)
BayBG Bayerische Beteiligungsgesellschaft mbH, Munich	Direct	12.9	242,372	5,159
Bayerische Garantiegesellschaft mbH für mittelständische Beteiligungen, Munich	Direct	8.2	55,374	2,023
Bayernfonds Asia-Pacific Growth GmbH & Co. KG, Munich	Indirect	0.1	17,244	490
Bayernfonds Immobilien City-Investitionen Objekte Erfurt und Jena KG, Munich	Indirect	5.1	21,008	8,589
Bayernfonds Immobilien Dresden Bürozentrum Falkenbrunnen KG, Munich	Indirect	–	18,194	1,154

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
Bayernfonds Immobilien Fachmarktzentrum Erfurt, Leipziger Straße KG, Munich	Indirect	0.2	3,269	715
Bayernfonds Immobilien Jena Gewerbepark KG, Munich	Indirect	0.1	9,100	515
Bayernfonds Immobilienverwaltung Austria Objekt Bischofshofen KG i.L., Munich	Indirect	–	–	(298)
Bayernfonds Immobilienverwaltung Austria Objekte Salzburg und Wien KG, Munich	Indirect	0.1	3,242	3,472
Bayernfonds Immobilienverwaltung GmbH & Co. Australien 7 KG i.L., Munich	Indirect	–	–	(1.229)
Bayernfonds Immobilienverwaltung GmbH & Co. Australien 8 KG, Munich	Indirect	–	75,804	2,248
Bayernfonds Immobilienverwaltung GmbH & Co. Australien 9 KG, Munich	Indirect	–	77,548	2,874
Bayernfonds Immobilienverwaltung GmbH & Co. Hamburg Steindamm KG, Munich	Indirect	0.3	16,378	999
Bayernfonds Immobilienverwaltung GmbH & Co. Kambera KG, Munich	Indirect	–	124,255	8,924
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt Hamburg 3 KG, Munich	Indirect	5.3	21,933	403
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt Hamburg I KG, Munich	Indirect	0.3	7,345	(138)
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt München KG, Munich	Indirect	0.3	8,996	207
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt München Landsberger Straße KG, Munich	Indirect	0.3	21,125	1,191
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt München Ungerer Straße KG, Munich	Indirect	0.3	12,021	90
Bayernfonds Immobilienverwaltung GmbH & Co. Opalus KG, Munich	Indirect	–	96,917	7,758
Bayernfonds Immobilienverwaltung GmbH & Co. Regensburg KG, Munich	Indirect	0.3	29,068	319
Bayernfonds Immobilienverwaltung Objekt Bad Homburg KG i.L., Munich	Indirect	5.1	–	26
Bayernfonds Immobilienverwaltung Objekt Berlin Schönhauser Allee Arcaden KG, Munich	Indirect	5.7	(424)	1,014
Bayernfonds Immobilienverwaltung Objekt Düsseldorf Bonneshof GmbH & Co. KG, Munich	Indirect	0.3	22,945	669
Bayernfonds Immobilienverwaltung Objekt Wiesbaden, Hagenauer Straße 42, 44 und 46 KG, Munich	Indirect	5.1	9,873	2,065
Bayernfonds Pacific Growth GmbH & Co. KG, Munich	Indirect	–	16,222	415
BGV Bayerische Grundvermögen III SICAV-FIS, L - Luxembourg	Indirect	–	232,942	553
BGV Holding GmbH & Co. KG, Munich	Indirect	–	23,786	(1.757)
BGV III Feeder 1 S.C.S. SICAV-FIS, L - Luxembourg	Indirect	0.1	55,889	316
BGV IV LYON 1 SCI, F - Paris	Indirect	–	8,362	(693)
BGV IV PARIS 1 SCI, F - Paris	Indirect	–	5,777	(73)
BGV V LYON 1 SCI, F - Paris	Indirect	–	17,969	(1.287)
BGV V Paris 1 SCI , F - Paris	Indirect	–	2,343	27
BGV V PARIS 2 SCI, F - Paris	Indirect	–	20,756	(1.065)

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
BGV V ST GENEVIEVE 1 SCI, F - Paris	Indirect	–	1,126	(1.462)
BGV VI FAUBOURG SCI, F - Paris	Indirect	–	21,712	(594)
BGV VI Servon SCI, F - Paris	Indirect	–	6,012	(1.691)
BGV VII Europa Lyon 1 SCI, F - Paris	Indirect	–	23,301	(63)
BGV VII Europa Lyon 2 SCI, F - Paris[2,5]	Indirect	6.7	–	–
BGV VII Europa Paris 1 SCI, F - Paris	Indirect	–	15,746	(346)
Cap Decisif S.A.S., F - Paris	Indirect	6.0	781	(523)
CLS Group Holdings AG, CH - Zurich	Direct	0.7	530,322	1,202
Deutsche WertpapierService Bank AG, Frankfurt am Main	Direct	3.7	211,436	15,656
DKB Wohnimmobilien Beteiligungs GmbH & Co. KG, Potsdam	Indirect	5.1	36,746	2,409
Fondsbörse Deutschland Beteiligungsmakler AG, Hamburg	Indirect	12.5	4,303	4
Galintis GmbH & Co. KG, Frankfurt am Main	Direct	15.9	533,666	16,027
GbR Datenkonsortium OpRisk, Bonn[2,6]	Direct	–		
German Biofuels GmbH, Pritzwalk	Indirect	19.9	448	1,601
GESO Gesellschaft für Sensorik, Geotechnischen Umweltschutz und mathematische Modellierung mbH i.I., Jena	Indirect	43.1	(353)	–
GLB GmbH & Co. OHG, Frankfurt am Main	Direct	6.3	2,838	(53)
GLB-Verwaltungs-GmbH, Frankfurt am Main	Direct	6.2	58	2
JFA Verwaltung GmbH, Leipzig	Indirect	10.7	(12.982)	(122)
KGAL GmbH & Co. KG, Grünwald	Direct	3.4	79,445	34,852
Kreditgarantiegemeinschaft des bayerischen Gartenbaus GmbH, Munich	Direct	6.1	649	–
Kreditgarantiegemeinschaft des bayerischen Handwerks GmbH, Munich	Direct	9.9	4,846	–
Kreditgarantiegemeinschaft des Hotel- und Gaststättengewerbes in Bayern GmbH, Munich	Direct	6.9	4,359	–
Kreditgarantiegemeinschaft für den Handel in Bayern GmbH, Munich	Direct	5.8	6,317	–
LEG Wohnpark am Olympischen Dorf Grundstücksgesellschaft b.R., Berlin	Indirect	7.5	(4.314)	756
MVP Fund II GmbH & Co. KG, Munich	Direct	10.0	49,094	(4.001)
Neue Novel Ferm Verwaltungs GmbH, Berlin	Indirect	49.0	7	(2)
Novel Ferm Brennerei Dettmannsdorf GmbH & Co. KG, Berlin	Indirect	49.0	3,959	(12)
PARIS EDEN MONCEAU SCI, F - Paris	Indirect	–	50,021	(638)
RAC 2 N.V., B - Watermael-Boitsfort	Indirect	–	(1.253)	(735)
Real Exchange AG, Hamburg[2]	Indirect	15.0		
Real I.S. Grundvermögen GmbH & Co. geschlossene Investment-KG, Munich	Indirect	5.4	83,818	5,398
Real I.S. Institutional Real Estate 1 GmbH & Co. geschlossene Investment-KG, Munich	Indirect	–	65,161	2,346
Real I.S. Westbahnhof Wien GmbH & Co. geschlossene Investment-KG, Munich	Indirect	–	69,816	6,165
S CountryDesk GmbH, Köln[7]	Direct	2.5	564	66
SIZ GmbH, Bonn	Direct	5.0	6,256	610

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
Sophia Euro Lab S.A.S. i.L., F - Sophia Antipolis Cedex	Indirect	32.3	(195)	(33)
SOUTH CITY OFFICE FONSNY S.A., B - Watermael-Boitsfort	Indirect	–	30,988	708
Swiss Fintech AG, CH - Zurich	Indirect	3.8	15,826	(6.033)
TAG Wohnungsgesellschaft Berlin-Brandenburg mbH, Potsdam	Indirect	5.2	18,676	3,643
THE GREEN CORNER S.A., B - Watermael-Boitsfort	Indirect	–	5,602	(279)
True Sale International GmbH, Frankfurt am Main	Direct	7.7	4,864	248
Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	11,863	(1.528)
Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	24,462	1,728
Visa Inc., USA - San Francisco	Direct and indirect	–	31,852,328	11,093,764

1 A profit and loss transfer agreement has been concluded with the company.
2 Approved annual accounts are not available yet.
3 Control through a structured entity of the BayernLB Group.
4 Structured entity under IFRS 10 with no equity interests held by the BayernLB Group.
5 Share of voting rights: the BayernLB Group 0.0 percent, third party 100.0 percent.
6 Share of voting rights: the BayernLB Group 11.1 percent, third party 88.9 percent.
7 Share of voting rights: the BayernLB Group 2.6 percent, third party 97.4 percent.

Equity interests in large limited companies (including credit institutions and investment companies) exceeding 5 percent of the voting rights

Name and location of the investee
AKA Ausfuhrkredit Gesellschaft mbH, Frankfurt am Main
BayBG Bayerische Beteiligungsgesellschaft mbH, Munich
Bayerische Garantiegesellschaft mbH für mittelständische Beteiligungen, Munich
Bayern Card-Services GmbH - S-Finanzgruppe, Munich
Bayern Facility Management GmbH, Munich
BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich
BayernInvest Luxembourg S.A., L - Munsbach
Deutsche Kreditbank Aktiengesellschaft, Berlin
DKB Service GmbH, Potsdam
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich
Real I.S. Investment GmbH, Munich

Companies for which BayernLB or a consolidated subsidiary acts as a partner with unlimited liability

Name and domicile of the companies
ABAKUS GbR, Hannover
GbR Datenkonsortium OpRisk, Bonn
GLB GmbH & Co. OHG, Frankfurt am Main

(84) Unconsolidated structured entities

The BayernLB Group maintains business relationships with structured entities. These are contractual and non-contractual business relationships with entities which are structured so that they are not controlled by voting or comparable rights, with voting rights relating only to administrative tasks. The structured entity's relevant activities are directed by means of contractual arrangements.

Some of the main features common to structured entities are:

- restricted activities
- a narrow and precisely defined purpose
- insufficient equity to fund their own activities
- funding in the form of multiple instruments contractually linked to investors that pool together credit or other risks (tranches)

The BayernLB Group's interests in unconsolidated structured entities include debt or equity instruments, liquidity facilities, guarantees and various derivative instruments through which the BayernLB Group absorbs risks from unconsolidated structured entities.

Securitisation vehicles

The BayernLB Group's business activities with securitisation vehicles is mainly in the form of securitisations structured for customers (customer transactions) with the ABCP programme Corelux S.A., Luxembourg that was set up exclusively for this purpose. The securitisation vehicle Corelux S.A. purchases trade and leasing receivables from the BayernLB Group's core customers and funds them by issuing asset-backed securities and through credit facilities from BayernLB. This financing had a weighted average term of 2 years (FY 2019: 2 years). The value of the unconsolidated securitisation vehicles with which the BayernLB Group has business relationships is based on the sum of their assets and was EUR 5,136 million (FY 2019: EUR 5,547 million).

Investment funds

The BayernLB Group invests in funds launched by its investment companies Real I.S. and BayernInvest. As a member of the Savings Banks Finance Group, Real I.S. is the BayernLB Group's asset manager and fund service provider for real estate. It invests to a limited extent in equity instruments, for example, in its capacity as a managing limited partner. In certain cases it extends loans to the investment company's special funds. BayernInvest is the centre of expertise for institutional asset management within the BayernLB Group and a master investment company. Equity interests in certain special funds exist to an insignificant extent. These investments are usually secured by the fund's underlying pool of assets. The weighted average term of funding for investment funds was 9 years (FY 2019: 9 years). The value of the investment funds with which the BayernLB Group has business relationships is based on their fund assets and was EUR 381,013 million (FY 2019: EUR 293,179 million[3]).

Other financing

The BayernLB Group lends to structured entities which may hold a wide variety of assets. In all cases these loans are secured by these assets. This includes commercial real estate, property, project and leasing financing, as well as fund-based financing of commercial real estate. This financing had a weighted average term of 9 years (FY 2019: 10 years). The size of the structured entities in the form of other financing is based on the sum of their assets and was EUR 8,894 million (FY 2019: EUR 8,127 million).

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

Assets and liabilities from interests in unconsolidated structured entities recognised on the balance sheet

	Securitisation vehicles		Investment funds		Other financing		Total	
EUR million	2020	2019	2020	2019	2020	2019	2020	2019
Assets								
Loans and advances to customers	900	1,215	3,662	3,757	1,564	1,730	**6,126**	**6,701**
Risk provisions	–	–	16	10	19	37	**35**	**47**
Assets held for trading	181	35	16	67	38	67	**235**	**169**
Financial investments	75	–	38	195[1]	195	283	**308**	**477**
Other assets	–	–	35	33[1]	–	–	**35**	**33**
Liabilities								
Liabilities to customers	102	31	5,070	4,710	110	81	**5,283**	**4,822**
Liabilities held for trading	–	–	38	40	2	1	**39**	**41**
Provisions	–	–	–	2	3	3	**3**	**4**

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

Contingent liabilities and other liabilities from interests in unconsolidated structured entities

	Securitisation vehicles		Investment funds		Other financing		Total	
EUR million	2020	2019	2020	2019	2020	2019	2020	2019
Contingent liabilities	–	–	15	23	3	18	**18**	**41**
Other commitments	962	1,271	351	279	328	159	**1,641**	**1,710**

The maximum risk of loss the BayernLB Group is exposed to from its business activities with structured entities depends on the carrying amount of receivables from the credit business, assets held for trading and financial investments on their balance sheets. These carrying amounts do not reflect the BayernLB Group's economic risk as they do not take account of collateral or hedges.

The maximum risk of loss of off-balance sheet transactions is reflected by their nominal value. The nominal values do not represent the economic risk as they do not take account of the impact of collateralisation or securitisation, or the probability of losses that could arise.

Gains or losses on interests in unconsolidated structured entities

	Securitisation vehicles		Investment funds		Other financing		Total	
EUR million	2020	2019	2020	2019	2020	2019	2020	2019
Net interest income	18	16	88	60	51	31	**157**	**107**
Risk provisions	–	2	(6)	21	(25)	(11)	**(31)**	**12**
Net commission income	4	3	177	175[1]	3	1	**184**	**180**
Gains or losses on fair value measurement	2	3	(43)	(11)[1]	(82)	122	**(124)**	**113**
Gains or losses on hedge accounting	–	–	2	–	–	–	**2**	**–**
Gains or losses on derecognised financial assets	–	–	–	–	4	–	**4**	**–**
Other income and expenses	–	–	1	(1)[1]	–	–	**1**	**(1)**

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

(85) Capital management

The aim of capital management is to preserve capital over the long term.

Capital management is based on a Group-wide planning process that incorporates strategic, risk-based and regulatory factors into a multi-year operational plan (economic and normative perspective of the ICAAP). Regulatory capital is allocated in the Group planning process to the individual planning units. The planning units (Group units) are the defined business segments of BayernLB, BayernLabo and DKB. Regulatory capital is allocated to the Group units on a top-down basis approved by the BayernLB Board of Management, through limits on RWAs combined with an internally set capital ratio.

Capital management deals with, among other things, the planning and development of regulatory capital ratios, the type and amount of the capital base and the allocation of RWAs, and entails ongoing monitoring of changes.

In addition to the Capital Requirements Regulations (CRR), BayernLB is subject to the European Central Bank's supervisory review and evaluation process (SREP). As a result of the outcome of the SREP, BayernLB was assigned a total capital ratio of 10.0 percent on a consolidated basis and taking into account the transitional provisions in CRR.

The SREP capital ratio is used in BayernLB's capital management. It is used to determine the planned capital ratio set in the planning process; monitored on an ongoing basis and regularly reported to management.

Management structure

The Board of Management of BayernLB is updated monthly in a combined management report covering a range of issues. This report includes information on performance, capital, liquidity and risk trends. As a component of the integrated reporting, the combined management report

provides an initial impression of the current situation with key figures and ratios. Additional detailed information focused on the four key areas is then presented and commented on. Decisions and recommended capital management actions are also prepared for approval by the Board of Management taking account of framework conditions such as directives from the Bank's owners and regulatory or EU requirements.

The Capital Board also provides detailed information on the performance of RWAs. The Capital Board comprises senior management from risk control and financial controlling, the Group strategy and key business areas. It monitors and manages RWA trends across the Group, particularly RWA plan utilisation at segment level.

Key banking regulatory data

The BayernLB Group's supervisory capital is calculated on the basis of CRR/CRD IV.

Own funds are defined as Common Equity Tier 1 capital (CET1), Additional Tier 1 capital and Tier 2 capital. Common Equity Tier 1 capital comprises subscribed capital plus reserves, the capital contribution of BayernLabo and various supervisory adjustments and deductions. The Additional Tier 1 capital is made up of dated silent partner contributions. Tier 2 capital comprises primarily long-term subordinated liabilities.

Banking supervisory capital of the BayernLB Group (as per consolidated financial statements)

EUR million	2020	2019
Total RWAs	**64,974**	**64,604**
Own funds	**11,993**	**11,821**
of which:		
Tier 1 capital	10,302	10,266
Common Equity Tier 1 capital (CET1 capital)	10,301	10,264

Banking supervisory ratios of the BayernLB Group (as per consolidated financial statements)

in %	2020	2019
Total capital ratio	18.5	18.3
Common Equity Tier 1 (CET1) capital ratio	15.9	15.9

The BayernLB Group complied at all times with the external capital requirements under Art. 92 para. 1 CRR, sections 10c to 10i KWG and the minimum requirements under SREP in the reporting year.

(86) Administrative bodies of BayernLB

Supervisory Board

Dr Wolf Schumacher
Chairman of the BayernLB Supervisory Board
Munich

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

Jan-Christian Dreesen
Deputy Chairman of the Executive Board
FC Bayern München AG
Munich

Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

Dr Ute Geipel-Faber
Independent management consultant
Munich

Dr Kurt Gribl
Former Lord Mayor
Augsburg

Harald Hübner
Deputy Secretary
Bavarian State Ministry of Finance
and Regional Identity
Munich

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

Dr Jörg Schneider
Lawyer
Munich

Judith Steiner
Under Secretary
Bavarian State Ministry of Finance
and Regional Identity
Munich

Christian Wiglinghaus
since 20 October 2020
Member of the BayernLB Supervisory Board
Chairman of the General Staff Council
BayernLB
Munich

Henning Sohn
until 20 October 2020
Member of the BayernLB Supervisory Board

Board of Management (including allocation of responsibilities)

Stephan Winkelmeier
CEO
Corporate Center
Deutsche Kreditbank Aktiengesellschaft
Group Treasury

Dr Edgar Zoller
Deputy CEO
Real Estate & Savings Banks/
Financial Institutions
Bayerische Landesbodenkreditanstalt[1]
Real I.S. AG Gesellschaft für Immobilien
Assetmanagement
BayernInvest Kapitalverwaltungs-
gesellschaft mbH

Marcus Kramer
CRO
Risk Office

Michael Bücker
Corporates & Markets

Dr Markus Wiegelmann
CFO/COO
Financial Office
Operating Office

[1] *Dependent institution of the Bank.*

(87) 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, subsidiaries, joint ventures, associates, Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich and Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich and BayernLB Treuhand e.V., 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.

The list of shareholdings gives an overview of BayernLB's investees (see note 83).

Relationships with the Free State of Bavaria

EUR million	2020	2019
Loans and advances	2,822	3,254
Assets held for trading	41	105
Financial investments	179	4
Liabilities	517	510
Securitised liabilities	15	16
Liabilities held for trading	8	11
Liabilities held in trust	5,018	4,844
Contingent liabilities	5	5
Other commitments	1,066	1,066

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	2020	2019
Loans and advances to customers	535	462
Assets held for trading	66	158
Financial investments	–	30
Liabilities to banks	3,687	3,232
Liabilities to customers	125	65
Securitised liabilities	103	109
Assets held in trust	444	419
Contingent liabilities	8	6
Other commitments	128	75

Relationships with the Association of Bavarian Savings Banks

EUR million	2020	2019
Loans and advances	–	4
Liabilities	30	159
Other liabilities	7	7

Relationships with investees

EUR million	2020	2019
Loans and advances to customers	**107**	**128**
Non-consolidated subsidiaries	75	65
Joint ventures	4	31
Associates	28	32
Risk provisions	**12**	**12**
Non-consolidated subsidiaries	12	–
Joint ventures	–	11
Financial investments	**76**	**41**
Non-consolidated subsidiaries	76	41
Other assets	**5**	**6**
Non-consolidated subsidiaries	5	6
Liabilities to customers	**151**	**151**
Non-consolidated subsidiaries	128	131
Joint ventures	4	5
Associates	18	16
Provisions	**4**	**3**
Non-consolidated subsidiaries	4	1
Joint ventures	–	2
Other liabilities	**1**	**5**
Non-consolidated subsidiaries	1	4
Joint ventures	–	1
Contingent liabilities	**4**	**13**
Non-consolidated subsidiaries	1	7
Associates	4	5
Other commitments	**4**	**20**
Non-consolidated subsidiaries	4	7
Associates	–	13

An expense of EUR 3 million (FY 2019: EUR 31 million) was recognised for non-recoverable or doubtful receivables in the reporting year.

In the reporting year, capital contributions were made to unconsolidated entities, joint ventures and associates in the amount of EUR 2 million (FY 2019: EUR 14 million). These investees repaid capital in the amount of EUR 3 million (FY 2019: EUR 4 million).

Relationships with other related parties

EUR million	2020	2019
Liabilities to customers	1,230	27

There were liabilities to benefit plans.

The contribution to the plan assets of Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich, in the amount of EUR 2 million (FY 2019: EUR 1 million) and the plan assets of the BayernLB Treuhandverein e.V., Munich in the amount of EUR 2,427 million were recognised through other comprehensive income as a reduction in pension provisions. In the reporting year, staff costs of EUR 5 million (FY 2019: EUR 4 million) arose for the contribution to the plan assets of Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich.

Relationships with members of the BayernLB Board of Management and Supervisory Board and their close family members

EUR million	2020	2019
Members of the BayernLB Board of Management		
Loans	1	1
Deposits	2	2
Members of the BayernLB Supervisory Board		
Deposits	1	–

Remuneration of members of the BayernLB Board of Management and Supervisory Board

EUR k	2020	2019
Members of the BayernLB Board of Management	**6,723**	**8,150**
Short-term benefits	4,803	5,667
Post-employment benefits	1,920	2,483
Defined benefit plan costs	1,605	2,325
Defined contribution plan costs	315	158
Members of the BayernLB Supervisory Board	**991**	**968**
Short-term benefits	991	968
Former members of the BayernLB Board of Management and their surviving dependants	**5,658**	**4,825**
Pension provisions established for members of the BayernLB Board of Management [1]	**28,858**	**24,791**
Pension provisions established for former members of the BayernLB Board of Management and their surviving dependants [2]	**143,897**	**129,025**

1 Pension obligations of EUR 28,668,000 (FY 2019: EUR 24,629,000) were offset in the balance sheet against claims from reinsurance (EUR 30,697,000 (FY 2019: EUR 26,466,000)).

2 Pension obligations of EUR 15,624,000 (FY 2019: EUR 14,345,000) were offset in the balance sheet against claims from reinsurance (EUR 18,239,000 (FY 2019: EUR 16,845,000)).

(88) External auditor's fees

The external auditor's fees recognised as an expense in the reporting year comprise:

EUR k	2020	2019
Financial statements audit services	(7.244)	(7.113)
Other assurance services	(1.109)	(643)
Tax consultancy services	(23)	(50)
Other services	(466)	(2.287)
Total	**(8.842)**	**(10.093)**

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited BayernLB's consolidated financial statements as at 31 December 2020 and also audited its subsidiaries' annual financial statements.

The audit services included in particular the auditing of BayernLB's annual financial statements and consolidated financial statements and the annual financial statements of the other Group companies, including statutory amendments and key audit areas agreed with the Supervisory Board. The review of the half-yearly financial statements was also included in the auditing mandate. Other assurance services included the auditing process pursuant to section 89 of the German Securities Trading Act (WpHG), issuing comfort letters pursuant to IDW PS 910 and other certifications as required under supervisory law. Other services included in particular supplying its auditing expertise during the implementation of statutory and regulatory requirements.

(89) Human resources

Average headcounts for the reporting year were:

	2020	2019
Full-time employees (not including trainees)	**6,069**	**5,701**
Female	2,470	2,327
Male	3,599	3,374
Part-time employees (not including trainees)[1]	**2,241**	**2,231**
Female	1,726	1,722
Male	515	509
Trainees[2]	**83**	**85**
Female	32	32
Male	51	53
Total	**8,393**	**8,017**

1 Part-time headcount equated to 1,560 full-time employees (FY 2019: 1,544).
2 Includes students on a work/study programme.

Responsibility statement by the Board of Management

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

Munich, 15 March 2021

Bayerische Landesbank
The Board of Management

Stephan Winkelmeier

Dr Edgar Zoller

Marcus Kramer

Michael Bücker

Dr Markus Wiegelmann

Independent Auditor's Report

The following copy of the auditor's report also includes a "Report on the audit of the electronic renderings of the financial statements and the management report prepared for disclosure purposes in accordance with § 317 Abs. 3b HGB" ("Separate report on ESEF conformity"). The subject matter (ESEF documents to be audited) to which the separate report on ESEF conformity relates is not attached. The audited ESEF documents can be inspected in or retrieved from the Federal Gazette.

To Bayerische Landesbank, AöR, Munich

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of Bayerische Landesbank AöR, Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Bayerische Landesbank AöR, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2020.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards

for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 201920. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Risk provisions in the customer lending business

❷ Pension provisions

❸ Restructuring provisions in the context of the "Focus 24" transformation programme

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matters:

❶ Risk provisions in the customer lending business

① In the Company's consolidated financial statements loan receivables amounting to € 152,4 billion (59,5% of the balance sheet total) are reported under the "Loans to customers" balance sheet item. The associated risk provisions amount to € 1.072,8 million and are reported in a separate line item. In addition, financial guarantees and loan commitments exist in the amount of € 58,8 billion with associated loan loss provisions amounting to € 113,0 million. The Group calculates risk provisions in accordance with the applicable provisions of IFRS 9 using a three-stage model based on the expected credit loss system. For financial instruments at levels 1 and 2, mathematical-statistical methods are used; for financial instruments at level 3, expected

credit losses are determined on the basis of estimates of future cash flows at the level of the individual financial instrument. The measurement of the expected credit loss is determined in particular by the estimates of the executive directors with regard to the level allocation as well as certain parameters such as the exposure at default, the probability of default and the loss given default and – in the case of level 3 cases – by assessments of the future cash flows taking into account existing collateral, among other things also against the background of the expected effects of the ongoing Corona pandemic on the customer lending business. When calculating the risk provision, risk factors were taken into account within the framework of so-called post-model adjustments, insofar as they were not already included in the calculation parameters of the models. These serve to take into account the existing uncertainties as a result of the Corona pandemic and the expectations of the executive directors that have not yet been taken into account in the models. The calculation of risk provisions is, on the one hand, of great importance for the Group's assets, liabilities and financial performance in terms of amount and, on the other hand, is associated with considerable judgement. The estimation of the aforementioned parameters as well as the consideration of forward-looking macroeconomic information have, also against the background of the Corona pandemic, a significant influence on the recognition and amount of risk provisions. With this background, this matter was of particular significance during our audit.

② As part of our audit, we initially assessed the appropriateness of the design of the controls in the relevant internal control system and tested the controls' effectiveness taking into account our understanding of the business organisation, the IT systems in place and the measurement models used. Moreover, we evaluated the measurement of the customer loans, including the appropriateness of estimated values, on the basis of sample testing of loan exposures. For this purpose, we assessed, among other things, the available documentation with respect to the economic circumstances as well as the recoverability of the related collaterals. In the case of property collaterals for which we were provided with valuation reports, we obtained an understanding of the underlying starting data, the valuation parameters applied and the assumptions made, critically assessed them and evaluated whether they were within a reasonable range. With the support of our financial mathematics specialists, we examined the models used to determine risk provisions for suitability and functionality. In addition, we examined the assumptions and the derivation of the parameters used for the allocation of levels and for determining the expected credit loss. In particular, we evaluated the assessment of the executive directors with regard to the effects of the Corona pandemic on the economic situation of the borrowers and the recoverability of the corresponding collateral, and assessed their consideration in the valuation of the loans and advances to customers. We questioned the necessity of the formation of post-model adjustments and assessed the determination of their amount. Based on the audit procedures we performed, we were able to satisfy ourselves overall of the justifiability of the assumptions made by the executive directors in the impairment test of the loan portfolio as well as of the appropriateness and effectiveness of the controls implemented.

③ The information of the executive directors of the Company on risk provisions in the customer lending business are contained in the numbers (6), (9), (28), (42), (57) and (75) of the notes to the consolidated financial statements.

❷ Pension provisions

① There are various pension plans with active, former and retired employees of the Group with vested entitlements, which are reported under the balance sheet item provisions at the balance sheet date with a total of € 2,0 billion. The pension provisions consist of obligations from defined benefit plans amounting to € 4.7 billion and plan assets amounting to € 2.7 billion. The amount of the provision is determined on the basis of actuarial reports commissioned by the Company using the projected unit credit method, taking into account existing plan assets. For the calculation the pension obligations are based in particular on assumptions regarding the long-term salary and pension trends, fluctuation, the development of pensions in the statutory pension insurance, inflation and biometric probability. The discount rate must be determined by reference to market yields on high-quality corporate bonds with matching currencies and consistent maturities. This usually requires the data to be extrapolated, since sufficient long-term corporate bonds do not exist. During the financial year, the Company contributed assets to the established trust BayernLB Treuhand e.V.. These qualify as plan assets and are therefore deducted from the obligations from defined benefit plans. The plan assets are measured at fair value, which in turn involves making estimates that are subject to estimation uncertainties. From our point of view, these matters were of particular significance in the context of our audit because the recognition and measurement of this significant item in terms of its amount are based to a large extent on estimates and assumptions made by the Company's executive directors.

② As part of our audit we evaluated the actuarial expert reports obtained and the professional qualifications of the external experts. We also examined the specific features of the actuarial calculations and assessed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based on for accuracy and appropriateness, respectively, in addition to other procedures. On this basis, we examined the calculation of provisions and the presentation in the balance sheet and notes to the consolidated financial statements. We have evaluated whether the assets held by Treuhandverein BayernLB Treuhand e.V. fulfil the requirements for recognition as plan assets. For the audit of the market values of the plan assets, we inspected and assessed asset statements.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

③ The information of the executive directors of the Company on the pension provisions are contained in the numbers (21) and (57) of the notes to the consolidated financial statements.

❸ Restructuring provisions in the context of the "Focus 24" transformation programme

① In 2019, the Company decided on a strategic realignment of the BayernLB Group with a 2024 vision. In the financial year, the implementation of the "Focus 24" transformation programme began and a restructuring plan was adopted that expands on the restructuring plan adopted in 2019 for the strategic alignment of the capital market business and provides for a significant redimensioning of the product portfolio and significant savings in administrative costs. Among other things, the number of employees is to be reduced in this context. In the 2020 financial year, the Company communicated the restructuring plan to the employee representative bodies and communicated the workforce reduction targets to the employees as part of the "Focus 24" transformation programme.The human resources instruments agreed with the employee representative bodies in 2019 form the basis for the Company's targeted job reductions.In

connection with the planned restructuring measures, the Company has recognised a restructuring provision of € 286.2 million as an expense in 2020. The total amount of the restructuring provision recognised in 2019 and 2020 is € 479.0 million. From our point of view, this matter was of particular significance for our audit, as on the one hand, the valuation of the restructuring provisions is of material importance in terms of the amount, and on the other, the valuation is based upon the estimates and assumptions of the executive directors.

② The requirement for recognizing a restructuring provision is that the definition of restructuring measures within the meaning of IAS 37.10 has been met. According to that, the general recognition and measurement criteria for provisions according to IAS 37.14 and the more detailed criteria in IAS 37.72 have to be assessed. If the provision is a provision for termination benefits, the requirements of IAS 19 apply. In the course of our audit, we assessed whether the individual recognition criteria were met and whether the measurement of the restructuring provision was appropriate. For this purpose, we obtained and evaluated relevant evidence from the executive directors of the Company. We were able to satisfy ourselves that the matter as well as the estimates and assumptions made by the executive directors were sufficiently documented and substantiated for the recognition and measurement of a restructuring provision. The measurement is within the ranges we consider to be acceptable.

③ The information of the executive directors of the Company on provisions is contained in the numbers (21), (37) and (57) of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report, and the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of

the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform au-

dit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective infor-

mation from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Assurance Report in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes

Reasonable Assurance Conclusion

We have performed an assurance engagement in accordance with § 317 Abs. 3b HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file „BayernLB_KA+LB_ESEF-2020-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above.

Basis for the Reasonable Assurance Conclusion

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file in accordance with § 317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below in the "Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents" section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Assurance Engagement on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.

- Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as at the balance sheet date on the technical specification for this electronic file.

- Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 2 April 2020. We were engaged by the board of management on 20 May 2020. We have been the group auditor of the Bayerische Landesbank AöR, Munich, without interruption since the financial year 2019.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Sven Hauke.

Munich, 15 March 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Sven Hauke
Wirtschaftsprüfer
[German Public Auditor]

Anne Witt
Wirtschaftsprüferin
[German Public Auditor]

Country by country reporting pursuant to section 26a para. 1 sentence 2 of the German Banking Act (KWG) as at 31 Dec 2020

This report shows revenues, number of employees, profit or loss before taxes, taxes on profit or loss and state aid received for the reporting year by country on an unconsolidated basis. It covers the companies fully included in the IFRS consolidated financial statements.

The revenue shown is profit/loss before taxes, without accounting for risk provisions, administrative expenses, expenses for the bank levy and deposit guarantee scheme and gains or losses on restructuring as reported in the consolidated financial statements. Taxes on profit or loss include current income taxes reported in the consolidated financial statements. The number of employees is shown in full-time equivalent positions.

Country	Revenue EUR million	Number of employees	Profit or loss before taxes EUR million	Taxes on profit or loss EUR million	State aid received EUR million
Germany	2,033	7,690	- 6	– 42	0
United Kingdom	17	50	– 2	0	0
Italy	4	12	0	0	0
France	0	17	– 1	0	0
Spain	0	1	0	0	0
Netherlands	1	5	0	0	0
USA	50	84	1	0	0

Name of foreign branch/ investee	Type of business	Location	Country
Foreign branch offices of Bayerische Landesbank			
BayernLB London	Financial institution	London	United Kingdom
BayernLB Milan	Financial institution	Milan	Italy
BayernLB Paris	Financial institution	Paris	France
BayernLB New York	Financial institution	New York	USA
Foreign branches of Real I.S. AG			
Real I.S. France	Asset management company	Paris	France
Real I.S. Spain	Asset management company	Madrid	Spain
Real I.S. Netherlands	Asset management company	Amsterdam	Netherlands

Supplementary information

Financial measures not calculated in accordance with IFRS

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

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 may 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)

The 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). 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 14.0 percent (31 December 2019: 14.0 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 Consolidation.

RoE reconciliation calculation (as at 31 December 2020)

EUR million	Real Estate & Savings Banks/ Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consoli-dation	Group
Profit/loss before taxes	**175**	**(58)**	**264**	**(191)**	**4**	**195**
Average risk-weighted assets (RWAs)	12,048	24,424	24,714	5,247	-	66,434
Target CET1 ratio (%)	14.0	14.0	14.0	14.0	-	-
Average economic/regulatory capital	**1,687**	**3,419**	**3,460**	**735**	**726**	**10,027**
Return on equity (RoE) (%)	**10.4**	**(1.7)**	**7.6**	**(26.0)**	**-**	**1.9**

RoE reconciliation calculation (as at 31 December 2019)[1]

EUR million	Real Estate & Savings Banks/ Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consoli-dation	Group
Profit/loss before taxes	**314**	**(30)**	**301**	**65**	**5**	**656**
Average risk-weighted assets (RWAs)	12,345	25,117	24,202	5,290	-	66,954
Target CET1 ratio (%)	14.0	14.0	14.0	14.0	-	-
Average economic/regulatory capital	**1,728**	**3,516**	**3,388**	**741**	**387**	**9,761**
Return on equity (RoE) (%)	**18.2**	**(0.8)**	**8.9**	**8.8**	**-**	**6.7**

1 Except for DKB, the new segment structure led to an adjustment to all segments in accordance with IFRS 8.29

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 31 December 2020)

EUR million	Real Estate & Savings Banks/ Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consoli-dation	Group
Administrative expenses	**(418)**	**(327)**	**(653)**	**(127)**	**4**	**(1.520)**
Net interest income	324	293	956	168	31	1,772
Net commission income	240	105	12	(27)	1	331
Gains or losses on fair value measurement	67	59	19	(56)	(28)	62
Gains or losses on hedge accounting	-	2	3	5	-	11
Gains or losses on derecognised financial assets	-	(19)	5	-	-	(14)
Gains or losses on financial investments	2	(2)	37	31	-	68
Other income and expenses	13	-	24	43	(4)	75
Gross earnings	**646**	**438**	**1,057**	**164**	**-**	**2,304**
Cost/income ratio (CIR) (%)	**64.7**	**74.6**	**61.8**	**77.4**	**-**	**66.0**

CIR reconciliation calculation (as at 31 December 2019)[1]

EUR million	Real Estate & Savings Banks/ Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consoli-dation	Group
Administrative expenses	**(404)**	**(365)**	**(577)**	**(103)**	**5**	**(1.446)**
Net interest income	298	281	954	173	21	1,726
Net commission income	229	90	(2)	(30)	-	287
Gains or losses on fair value measurement	63	38	30	(110)	(24)	(2)
Gains or losses on hedge accounting	1	-	(4)	(9)	-	(13)
Gains or losses on derecognised financial assets	-	1	3	-	-	4
Gains or losses on financial investments	2	3	15	20	-	40
Other income and expenses	**7**	**3**	**(12)**	**157**	**4**	**159**
Gross earnings	**599**	**416**	**984**	**201**	**1**	**2,201**
Cost/income ratio (CIR) (%)	**67.4**	**87.8**	**58.7**	**51.6**	**-**	**65.7**

1 Except for DKB, the new segment structure led to an adjustment to all segments in accordance with IFRS 8.29

Combined separate non-financial report of the BayernLB Group for 2020

Combined separate non-financial report of the BayernLB Group for 2020

Preliminary note

GRI
102-1 to 102-10
102-14
102-15
102-18
102-22
102-23
102-44
417

For a detailed description of the segments, please see the section entitled "Foundations of the BayernLB Group – Business model and Group strategy" in the combined management report.

For a description of the Bank's strategic direction and transformation process "Fokus 2024" (including its clear, strategic focus on sustainability, the creation of the Sustainability Executive Unit and handling of the Covid-19 pandemic), refer to the "Foundations of the BayernLB Group – Business model and Group strategy" section in the combined management report.

For information on regulatory developments with respect to climate and environmental risks and their implementation, refer to the "Regulatory developments" section in the combined management report (risk report).

To meet the requirements of sections 315b and 315c in conjunction with sections 289b and 289e of the German Commercial Code (HGB), the separate non-financial report of the parent company Bayerische Landesbank, Munich (BayernLB or Bank) is presented below with the separate non-financial report of the BayernLB Group (hereinafter shortened to "non-financial report [NFR]"). The information in the report always relates to both BayernLB and the Group, unless expressly stated otherwise.

The NFR deals with the following topics:

- A description of the material content of BayernLB's NFR
- The BayernLB Group's sustainability ratings (how successful its efforts have been to create a sustainable banking business and a range of suitable financial solutions)
- BayernLB's various systems to manage non-financial aspects:
  - Reputational risk, sustainability and environmental management system and internal guidelines/solutions for a sustainable banking business
  - Human resources management system
  - Compliance management system

The NFR's content is based on the specific materiality approach taken under HGB, which is not equivalent to the understanding of materiality under the current Global Reporting Initiative (GRI) Standards or other frameworks.[5] For this reason, only certain GRI standards (see margin note) were referred to when preparing the BayernLB Group's NFR and therefore full use has not been made of any framework. Commercial law requires information to be provided so that an understanding can be gained of business operations, business performance, the company's situation and the impact of its activities, especially on non-financial aspects, i.e. environmental, employee and social issues, respect for human rights and the fight against corruption and bribery.

[5] *BayernLB reports in detail on all topics identified as material for the Bank under GRI in its sustainability report (www.bayernlb.de/csr), while DKB provides this information in its sustainability report pursuant to the German Sustainability Code (DNK) (www.dkb.de/nachhaltigkeit). DKB also collects non-notifiable information and data (among other things) on equality and employee health, and voluntarily reports on this in its annual report. All references to information not in the combined management report do not form part of the non-financial report.*

It is expected subsequent changes will be made with respect to the impact on climate and the definition of materiality from a regulatory perspective. The CSR Directive is currently being revised and the European Financial Reporting Advisory Group (EFRAG) is drafting the scope, content and structure of a non-financial reporting standard. BayernLB is constantly monitoring these developments and taking them into account when planning and implementing its future reporting.

In addition, at the end of 2020 the final ECB Guide on climate-related and environmental risks was published. This formulates various expectations, such as how banks can comprehensively identify, manage and disclose these risks. BayernLB is implementing as planned the actions needed, which were identified in a gap analysis. It has also chosen an interdisciplinary approach (especially risk controlling, Group development, leadership by the Sustainability Executive Unit). In 2021, the Bank is analysing systematic physical and transition risks for new and existing business, as one of the aspects of the ESG assessment (see table in the "Sustainable products and services" section, BayernLB initiatives).

GRI 201-2

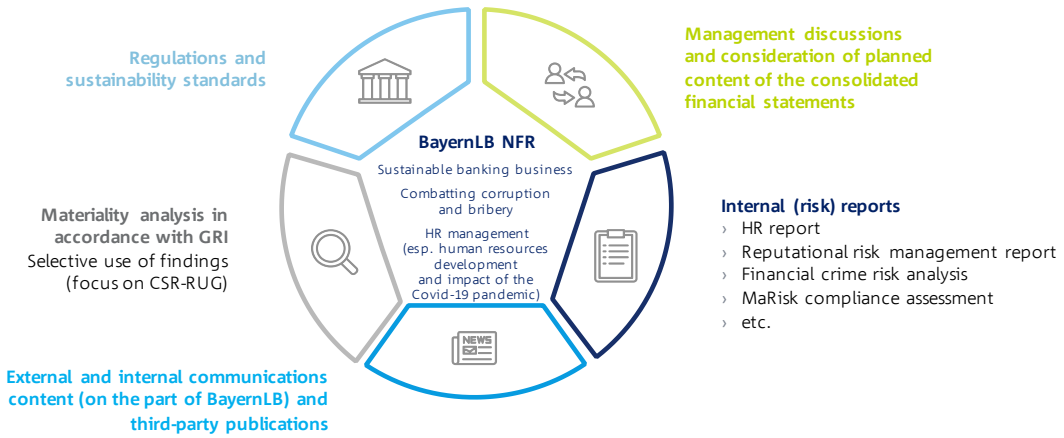
Materiality analysis

BayernLB's sustainability management regularly conducts a materiality analysis pursuant to GRI with all relevant Group units in order to identify for their reports relevant topics related to non-financial aspects. It also determines the most material overlapping topics for BayernLB and its stakeholders.

GRI 102-40 102-42 102-43 102-44 102-46 102-47

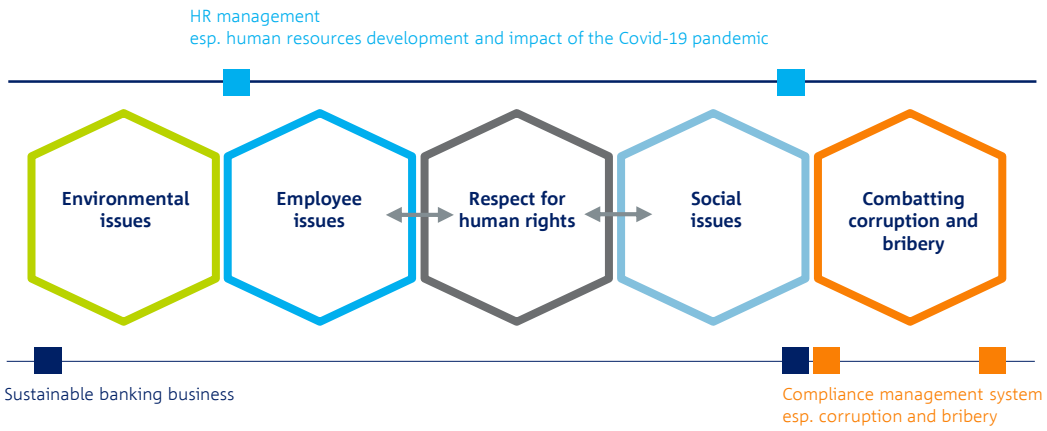
BayernLB initially determined material content in accordance with HGB and therefore for its NFR in 2017, and has revised and updated this for every reporting year since. As part of this process, it has especially considered current regulations, planned content in the management report/annual financial statements, internal management meetings and reviews that have been conducted, the analysis of internal (risk) reports, internal and external communications content from BayernLB and publications of third parties. The Bank has also included the results of the materiality analysis under GRI on a selective basis.

Materiality analysis for 2020 under HGB



This analysis found that the topics that were material for BayernLB in 2020 were “sustainable banking business”, “combatting corruption and bribery” and “human resources management (especially human resources development and the impact of the Covid-19 pandemic)” and noted there had been changes compared with the previous year, in particular in connection with the pandemic. The following graphic assigns these topics to each of the non-financial aspects.

Mapping HGB minimum aspects to material BayernLB topics



The following overview lists these topics which are assigned to the non-financial aspects and described in greater detail later on in this report (material for BayernLB under HGB). It also shows which topics are not material under HGB from BayernLB’s perspective. BayernLB provides a transparent report on these in other publications.

Assignment of topics that are (not) material for BayernLB under HGB to non-financial aspects

Non-financial aspects	Material for BayernLB pursuant to section 289c HGB	Non-material for BayernLB pursuant to section 289c HGB
Environmental issues	• Correlation to impact of products and services • Avoidance of (reputational) risks and negative impact on the environment by observing environmental standards in financing • Promotion of environmentally responsible developments → *Further information in "Sustainable banking business"*	• Impact of a company's activities on the environment (e.g. through water & energy consumption) → *Information on this topic in BayernLB's and DKB's certified environmental statements* • Guarantee of high (environmental) standards from suppliers and external service providers by focusing on regional purchasing wherever possible and obtaining sustainability agreements → *Information on this topic in BayernLB's sustainability reporting and DKB's sustainability report*
Employee issues	• Qualitative and quantitative development of human resources • Attracting & retaining qualified personnel • Equipping staff with the necessary skills and qualifications • Health management & occupational safety → *Further information in "Human resources management"* • Compliance with fundamental labour laws in financing through compliance with World Bank standards and ILO core labour standards → *Further information in "Sustainable banking business"*	• Guarantee of high (labour) standards on the part of suppliers and external service providers by focusing on regional purchasing wherever possible and obtaining sustainability agreements → *Information on this topic in BayernLB's sustainability reporting and DKB's sustainability report*
Social issues	• Protection of local communities/indigenous peoples in financing through compliance with World Bank standards • Contribution to safeguarding and improving living conditions including at municipal and regional level through financing particularly in the areas of municipal development and housing, social affairs and health, and energy supply → *Further information in "Sustainable banking business" & closely linked to the minimum aspect "respect for human rights"*	• Social commitment and corporate citizenship → *Information on this topic in BayernLB's sustainability reporting and on the homepage* • Guarantee of high (social) standards from suppliers and external service providers by focusing on regional purchasing wherever possible and obtaining sustainability agreements → *Information on this topic in BayernLB's sustainability reporting and DKB's sustainability report*

Non-financial aspects	Material for BayernLB pursuant to section 289c HGB	Non-material for BayernLB pursuant to section 289c HGB
Respect for human rights	• Protection of local communities/indigenous peoples in financing (in emerging and developing countries in particular) through compliance with World Bank standards → *Further information in "Sustainable banking business" & closely linked to the minimum aspect "Social issues"* • Infringement of employees' right of assembly → *Further information in "Human resources management" & closely linked to the minimum aspect "Employee issues"*	• Guarantee of high (human rights) standards from suppliers and external service providers by focusing on regional purchasing wherever possible and obtaining sustainability agreements → *Information on this topic in BayernLB's sustainability reporting and DKB's sustainability report*
Combatting corruption and bribery	• Compliance with legal and supervisory requirements with regard to the combating of corruption and bribery to avoid sanctions and loss of reputation • Monitoring these risks in Purchasing through risk analyses → *Further information in "Compliance management system", in particular "Corruption and bribery"*	• Social commitment and corporate citizenship → *Information on this topic in BayernLB's sustainability reporting and on the homepage* • Guarantee of high (social) standards from suppliers and external service providers by focusing on regional purchasing wherever possible and obtaining sustainability agreements → *Information on this topic in BayernLB's sustainability reporting and DKB's sustainability report*

The BayernLB Group's ratings

The success of efforts to achieve sustainable banking activities and the corresponding range of financial solutions is regularly analysed and evaluated by independent sustainability rating agencies. These sustainability ratings are based on comprehensive lists of criteria relating to environmental, social and governance – i.e. responsible corporate management – (ESG) aspects, which regularly cover the aspects referred to in HGB.

BayernLB Group, BayernLabo and DKB all continue to hold the Prime rating from ISS ESG. DKB's B- rating in the "Financials/Public & Regional Banks" sector corresponds to the Rank 1 decile and a classification as an "Industry Leader".

Other ratings are also shown in the table below. BayernInvest has been an ESG Platinum Leader since May 2020 according to the independent rating agency Telos.

Sustainability ratings

	BayernLB Group	DKB
ISS ESG	Prime	Prime
(Scale: D- - A+)	C+	B-
	As at: Jan 2020	As at: Feb 2020
MSCI ESG	AA	---
(Scale: CCC-AAA)	As at: Oct 2020	
imug rating	48.69% (category: savings banks)	43.61% (category: credit institution)
(Scale: 0-100 and	Sustainability rating: "neutral" (CCC)	Sustainability rating: "positive" (BB)
D-AAA)	Public Pfandbriefs: "positive" (BBB)	Public Pfandbriefs: "very positive" (A)
	Mortgage Pfandbriefs: "positive" (BB)	Mortgage Pfandbriefs: "positive" (BBB)
	As at: Mar 2020	As at: Mar 2019

BayernLB uses the net method when calculating risks that must be reported under HGB. Having considered mitigation measures, the Bank did not from its findings identify any risks that very probably have or will have a severe negative impact on the aspects that must be reported. The relevant risks of the individual aspects are addressed in the separate sections of the report.

Where applicable, references to relationships to figures in the annual financial statements of the BayernLB Group are stated in the text of the non-financial report under the relevant issue.

Managing non-financial aspects

Management systems for managing and handling non-financial aspects

Within the BayernLB Group, various units manage the above-mentioned aspects in accordance with HGB. The main units in charge of these matters such as Reputational Risk Management, Sustainability Management (during a reorganisation in July 2020, these two units brought together under the umbrella of the Sustainability Executive Unit), Human Resources and Compliance are shown here, along with the requirements for the banking business.

The various management components are intertwined. For example, Sustainability Management coordinates the sustainability report under GRI, which reports on a number of areas including compliance, reputational risk and human resources. Sustainability Management also uses Reputational Risk and Compliance Management policies.

The Group is managed using sets of indicators based on IFRS accounting (see "Foundations of the BayernLB Group – Group management" in the combined management report). The Bank is currently preparing a management approach based on non-financial performance indicators, which it will implement in stages.

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Sustainable banking business: internal requirements and financial solutions

The goal of creating sustainable banking products has been defined in both BayernLB's Code of Conduct and in the sustainability policy adopted by the Board of Management. Since 2020, it has also been set out in BayernLB's mission statement and in the sustainability Group strategy (see the "Sustainable products and services" section):

Code of Conduct

We acknowledge our responsibility by taking ecological, economic and social issues into consideration along the entire value chain. [...]

We also consider sustainability issues when looking at (business) transactions. Our actions, as well as our business relationships and transactions, are always guided by ethical principles and sustainability aspects. We ensure that these are compatible with the relevant international environmental, ethical and social standards we have signed up to.

Sustainability policy

Because we integrate social and environmental aspects into our financing and capital market products, both we and our customers weigh the risks and opportunities that come with such global challenges as climate change and dwindling resources and thus make an active contribution to sustainable development. In addition to setting and continuously improving basic social and ecological standards for our financing and capital market transactions, we set out to serve companies and projects that explicitly tackle these global challenges through, for instance, renewable energy.

A sustainable banking business and the corresponding financial solutions at BayernLB therefore cover the following areas:

- Financing companies and projects to address societal challenges such as climate change and the energy transition
- Offering sustainable investment products for retail and institutional investors
- Complying with environmental, social and ethical standards in financing and capital market transactions

The corresponding standards and guidelines of the BayernLB Group are divided into three categories:

- Overarching ESG standards that apply to all business activities within the BayernLB Group (see Appendix 1)
- External standards that must be observed when carrying out the respective business activities concerned (see Appendix 2)
- Internal policies for especially sensitive sectors and topics that go beyond the standards of the World Bank (see below and also Appendix 3); the policy guidelines relate to both earmarked individual transactions (financing) and corporate banking. Certain subsidiaries (DKB and BayernInvest) have adopted specific content for specific financing guidelines that have been singled out.

These guidelines ensure that BayernLB takes sufficient account of the non-financial aspects that are material for it in its banking products and services.

Most of the responsibility for reviewing existing and formulating new policies has been assigned to the Sustainability Executive Unit, and in part to Group Compliance (currently: "offshore"). All of BayernLB's policies were approved by the Board of Management and apply throughout the Group. The respective specialist divisions and subsidiaries are responsible for implementing the guidelines and policies. If it is unclear whether a transaction falls within the scope of the policies, the Sustainability Executive Unit will provide an opinion at the request of the person responsible.

BayernLB keeps a constant eye on current developments, the global political situation and the expectations of various stakeholder groups so that it can make the necessary changes, for example to its policies. At the end of 2020 for example, it revised its armaments and weapons policy in view of its new strategic direction and the requirements of its stakeholders. Since February 2021, a general prohibition has been in place on financing armament weapons.

The risks related to non-financial aspects material for BayernLB that mainly arise in the business relationships, products and services are thus minimised by the full range of measures described in this section. This functioning risk management system covers risks related to all HGB aspects material for BayernLB.

Sustainable products and services

BayernLB uses the option of actively promoting environmentally responsible developments such as the climate-friendly restructuring of the energy supply or social projects by means of suitable products and services, thereby opening up business potential. The Company's specific contribution here is based on the respective Group unit's business model.

The following overview shows BayernLB's mission statement and the goals derived from it pursued by the units at BayernLB Bank, DKB, BayernInvest and Real I.S., as well as selected initiatives and examples for products from the reporting year.

BayernLB Bank – "Financing progress" ***Committed to sustainability***	
Goals	• Significantly increase portfolio share of ESG-compliant financing by 2023 • Continue the climate protection strategy and long-standing climate neutrality
Initiatives (from 2020)	• Piloting the ESG assessment: Tool for enhanced identification of sustainability risks and applications of funding to promote certain non-financial aspects (e.g. by taking account of the EU regulations on sustainable finance); future assessment of both new and existing exposure • Boosting sales of ESG topics in the Sales areas for 2021 by means of the Sustainable Finance Initiative - Supporting (potential) customers by providing funding for the transformation of their business models, processes and products within the framework of decarbonisation - Refining the product and service range - Expanding BayernLB's positioning as a centre of expertise for sustainable finance • Supporting the Green Recovery Alliance • Renewing membership of the Umwelt- und Klimapakt Bayern (Bavarian environmental and climate pact)
Examples of products (from 2020)	• Corporate Schuldschein note loans (SSDs), including: - Joint lead arranger for ESG-linked SSD by Arcadis NV (EUR 150 million, term 3, 5, 7 years) - Joint lead arranger for ESG-linked SSD by Schaeffler AG (EUR 300 million, term 3, 5, 8 years) • Green & Social Bonds, including: - Joint lead manager for social bond issue by Landeshauptstadt München (City of Munich) (EUR 120 million, term 12 years) - Joint lead manager for green bond issue by Hypo NOE Landesbank für Niederösterreich und Wien AG (EUR 500 million, term 4 years) • Sustainable funds: Exclusive distributor for one of the largest renewable energy funds in Europe, "Encavis Renewables Europe II (EIF II)" (EUR 480 million) • Housing in the Free State of Bavaria; municipal loans and own development programmes in areas such as barrier-free access and energy-efficiency improvements for buildings (BayernLabo[1])

GRI 413-1

1 Body charged with implementing government housing policy, a municipal and development bank for the Free State of Bavaria (see "Foundations of the BayernLB Group – Business model and Group strategy" section in the combined management report).

DKB – "Das kann Bank" – #geldverbesserer ***Financially strong with "blue sustainability" and acting responsibly***	
Goals	• Increase the portfolio share that contributes to SDG to 85 percent and increase the volume of sustainable financing/products to at least EUR 80 billion by 2030 • Further strengthen the Bank's position as the most sustainable of Germany's top 20 banks
Initiatives (from 2020)	• Updating the green bond programme, which is based on the EU taxonomy • Supporting the Green Recovery Alliance
Examples of products (from 2020)	• DKB sustainability funds: Above-average growth in all categories, solid foundation for further growth with over 4,300 savings plans and an annual savings volume of over EUR 6.5 million • Crowdfunding platform: Funding of sustainable projects/smaller-scale measures with the help of private investors (e.g. regenerative energy or social infrastructure)

BayernInvest – "Nachhaltig.Zukunft.Gestalten" ***100% ESG integration in the investment process and gradual build-up of the product landscape (funds/reporting)***	
Goals	• Achieve operational climate neutrality by 2022 • Align all portfolios to the 1.5°C cap set under the Paris Climate Agreement • Become a market leader in ESG/CO_2 reporting • Prepare annual reports in accordance with the German Sustainability Code (DNK) and as part of PRI membership • Improve data quality and quantity for sustainability-related publications • Base investment strategy on social and governance issues in addition to climate issues • Assign sustainability regulations (Disclosure Regulation (OffenlegungsVO), SFDR, MIFID II) play a crucial role in product alignment
Initiatives (from 2020)	• New positioning: "We make sustainability profitable and profitability sustainable." • BayernInvest transformation programme "Impact 2022" • Renewing CDP membership • Supporting the Green Recovery Alliance • Supporting TCFD
Examples of products (from 2020)	• Above-average positive feedback in the PRI Assessment Report 2020 compared to its competitors • Sustainability advisory services aimed at improving the portfolio quality and aligning it with regulatory requirements • The DKB Nachhaltigkeitsfonds Klimaschutz fund managed by BayernInvest named best sustainable equity fund over a five-year term by "Das Investment" • Innovative reporting formats for sustainability figures on the PRI, ESG distributions and UN Social Development Goals (SDG)

Real I.S. – "Wir vereinen Immobilie & Zukunft" ***We want to create added value for society and the environment***	
Goals	• Achieve climate neutrality at Real I.S. (as a company excluding the real estate portfolio) by 2030 and climate neutrality of the real estate portfolio by 2050 (in accordance with the Paris climate pathway) • Increase the proportion of ESG-compliant products
Initiatives (from 2020)	• Signatory of the UN PRI (since January 2021) to emphasise our commitment to responsible investment • Involvement in the sector initiative ECORE to devise and pilot an ESG assessment standard for real estate
Examples of products (from 2020)	• Outlook: The open-ended retail real estate fund REALISINVEST EUROPA issued by Real I.S.) will be offered as an ESG strategy product (Art. 8 SRDR) from 10 March 2021

The following chart shows the volumes of the sustainable products listed:

Product area (volumes)	BayernLB Group financial year 2020	of which BayernLB financial year 2020	of which DKB financial year 2020	BayernLB Group financial year 2019	of which BayernLB financial year 2019	of which DKB financial year 2019
Sustainability instruments issued or arranged by the BayernLB Group	EUR 1.8 bn[2]	EUR 1.8 bn[2]	-	EUR 3.4 bn	EUR 2.9 bn	EUR 0.5 bn
New subsidised loans business (e.g. the relevant KfW programmes) targeting ecological applications (including through the increased use of renewable energy/energy-saving measures)	EUR 2.0 bn	EUR 0.3 bn	EUR 1.7 bn	EUR 1.4 bn[1]	EUR 0.3 bn	EUR 1.0 bn

1 When added up, the total figures for BayernLB and DKB do not equal those reported for the BayernLB Group due to rounding differences.
2 Including self-issued sustainability instruments in the amount of EUR 0.2 billion.

In 2020, the BayernLB Group issued or arranged the issue of sustainable bonds in the volume of EUR 1.8 billion, a decrease overall on the previous year on account of the geopolitical situation (see "Macroeconomic conditions – Financial and capital markets, monetary policy and inflation" in the combined management report [report on the economic position]). The Group's social and green bonds are reported separately in accordance with the Green & Social Bond Principles.

The product range is being expanded, based also on corresponding Bond Frameworks.

Research services

For more than five years the megatrends of energy and climate change, demographic change, digitalisation, political and regulatory frameworks, low interest rates and debt, and the move to passive investing have been an integral part of BayernLB Research's analyses and service offering. At the same time BayernLB Research is analysing the financing side (green loans, green bonds and social bonds). Besides special megatrend publications, regular publications (including country and sector analyses) are increasingly looking at the impact of megatrends on economies, sectors and financial markets. BayernLB Research is therefore making an important contribution to the sustainability management of the Bank and its customers.

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Reputational risk, sustainability and environmental management

In July 2020, BayernLB assigned the topics of reputational risk management and sustainability and environmental management to a new organisation unit, the Sustainability Executive Unit, which reports directly to the Chairman of the Board of Management.

The topic of sustainability has an important place in the transformation of BayernLB's business model. In 2020, the Bank's committees and boards adopted a mission statement and Group strategy. Consequently, BayernLB's bank-specific sustainability strategy is currently being revised and will be presented in its modified form to the Bank's governing bodies in 2021 for approval. The

sustainability strategy will be closely entwined with the business and functional strategies. In addition, new sustainability guidelines have been issued in accordance with the uniform Group management requirements, which govern the collaboration between the sustainability units in the institutions within the Group and forms part of the Group-wide internal control system.

Reputational risk within the BayernLB Group is managed through an in-house set of rules containing, among other things, a (Group and Bank) strategy, specific guidelines, various theme-specific policies, official instructions and the definition of tasks and competencies for employees, managers and other reputational risk-specific roles. The functions of Central Reputational Risk Management (CRRM) are now carried out by the new Sustainability Executive Unit.

Definition of reputational risk within the BayernLB Group

Reputational risks can arise in all matters related to business activities. Business activities are all activities within or in connection with the BayernLB Group along the entire value chain that may have an impact on the perception of its stakeholders (stakeholder groups) such as the conclusion of business or transactions (with existing or potential customers, other business partners such as suppliers or external service providers), [...] human resources policy or corporate citizenship (e.g. donations, sponsorship)) [...].

The Sustainability Executive Unit is continuously involved in assessing and managing event and transaction-based matters in order to manage the situation guided by a consideration of sustainability and reputational risk aspects. It must be consulted in all (planned) business activities that (potentially) fall within the scope of current ESG standards and policies related to environmental and social topics and/or which potentially could give rise to social or environmental risks, as well as all events and processes that pose a medium or high reputational risk. To carry out its duties, the Board of Management has delegated it the right to prohibit activities or to grant approval but with conditions.

In the guidelines[6] that were valid as at the end of 2020, the following ecological, social and governance-related (ESG) topics that could give rise to reputational risks were listed:

[6] *The guidelines were updated and the corresponding content was transposed into the new "Sustainability guidelines of the BayernLB Group" in November 2020.*

Group Reputational Risk Guidelines

- Climate and environmental protection (protecting the atmosphere, water, etc.)
- Conservation of natural resources/avoiding damage to ecosystems
- Preservation of natural habitats and biodiversity/animal protection [...]
- Protection of human rights/non-discrimination
- Compliance with fair labour conditions/provision of a safe and healthy working environment
- Prohibition of forced labour and exploitative child labour
- Preservation of cultural heritage/fair treatment of indigenous peoples/prevention of displacement, forced resettlement and land seizure
- Freedom of the press and opinion/freedom of assembly and the freedom to form trade unions
- Consumer protection [...]
- Prevention of financial crime, corruption and the financing of terrorism [...]

The guidelines therefore cover the aspects that are material for BayernLB under HGB. Transactions include all types of business activities and relationships along the value chain of the Group. These are set out in more detail in an internal Group-wide sustainability management instruction.

The CRRM also conducts a reputational risk inventory every year, both at BayernLB and the relevant Group companies. This means that CRRM's findings relating to the estimation of risks from business activities pursuant to HGB can be incorporated into the non-financial report. The Sustainability Executive Unit is also in regular contact with Communications and Press, Investor Relations and decentralised reputational risk managers.

CRRM gave its approval to the matters being examined, partially subject to certain conditions. Furthermore, CRRM, Sustainability Management, the Compliance function or the functional unit itself declined to approve certain matters, e.g. due to governance requirements, in particular guidelines or sector policies.

There is one single sustainability policy for the BayernLB Group, which the Group units DKB and BayernInvest have also each adopted as their own and published.

To make it operational, BayernLB Bank[7] has implemented a sustainability programme which details all goals and measures for each relevant topic area and is a key tool for making further improvements to BayernLB's sustainability performance. It designates goals, measures and a deadline by which the goals are to be achieved. The final status report for the 2016-2020 programme is being drafted and refinements to the programme are being prepared.

BayernLB Bank and DKB also have their own environmental policy and environmental programme. All documentation is published on their respective websites.

[7] *BayernLB Bank comprises BayernLB core Bank and Bayerische Landesbodenkreditanstalt (BayernLabo).*

Sustainability Management is responsible for the design of the environmental management system validated in line with the Eco Management and Audit Scheme (EMAS) and certified to international standard ISO 14001, which covers large parts of the Group.

GRI 300

These sustainability activities help reduce the relevant risks, which are classed as low in the case of social and environmental issues with a bearing on the BayernLB Group's business operations.

HR management

Human resources development and policy

GRI 102-16 401

The BayernLB Group's employees play a key role in BayernLB's strategic direction. The foundations of human resources (HR) policy and employee management are defined in various principles and guidelines:

Principles/guidelines	Contents
Chapter in the Code of Conduct	• "Individual rights and protection from discrimination"
	• "Responsibility for employees"
Management principles	• Basis for management training at all levels as well as for feedback tools and the staff appraisal
	• Key aspects of employee management
Directive regulating cooperative behaviour	• Principles governing interaction between women and men
General Act on Equal Treatment (Allgemeines Gleichstellungsgesetz (AGG))	• Transposition of European guidelines on the implementation of the principle of equal treatment (no discrimination on the grounds of race or ethnic origin, sex, religion or belief, disability, age or sexual identity)

GRI 102-8 401-1

The BayernLB Group's headcount changed over the year as follows:

Headcount	BayernLB Group financial year 2020	Of which BayernLB financial year 2020	Of which DKB financial year 2020	BayernLB Group financial year 2019	Of which BayernLB financial year 2019	Of which DKB financial year 2019
Number of employees	8,532	3,317	4,500	8,316	3,491	4,149
of which women	4,278	1,511	2,425	4,200	1,588	2,296
of which men	4,254	1,806	2,075	4,116	1,903	1,853
of which in Germany	8,359	3,150	4,500	8,123	3,303	4,149
of which abroad	173	167	-	193	188	-
of which full-time	6,326	2,369	3,425	6,054	2,464	3,091
of which part-time	2,206	948	1,075	2,262	1,027	1,058
Average age (in years)	43.5	45.2	42.6	43.3	44.7	42.7

GRI 405 406

Although the workforce contains almost equal numbers of men and women (see table above), the same is not true of management roles. BayernLB has set itself a target to increase the number of women in management positions to 30 percent in the medium term. To make this a reality, the Bank has initiated a series of voluntary development measures, which will be further expanded in the following year.

DKB is also taking steps to further equalise the ratio of women and men in management positions in the company. Women currently make up 17.8 percent of the first management level at DKB AG. By 30 June 2022 the proportion is set to rise to at least 20 percent. The DKB network for women in management was also strengthened further in the reporting year. This provides a platform for networking, new incentives and greater visibility in the company. A systematic approach to talent management will also help identify and encourage potential candidates for management positions in a more equitable ratio of women to men.

Management positions: share of women	BayernLB Group financial year 2020	BayernLB financial year 2020	DKB financial year 2020	BayernLB Group financial year 2019	BayernLB financial year 2019	DKB financial year 2019
1st management level[1]	16.0%	0.0%	21.4%	13.0%	0.0%	25.0%
All other management levels	35.2%	32.2%	37.5%	31.5%	24.5%	36.0%

1 1st level management = Board of Management/company management.

GRI 102-18 102-22

BayernLB's Supervisory Board comprises 11 members (DKB: 16), two members are women (DKB: 4). This means women account for a share of 18.2 percent (DKB: 25.0 percent; this currently corresponds precisely to the target minimum ratio for 30 June 2022).

A key tool of staff management and development is the development and performance dialogue. This tool promotes an open and constructive development dialogue between managers and employees and ensures they have a common focus. It governs the systematic transformation of the objectives derived from the Bank's business strategy and risk culture to employee level.

On the basis of the objectives agreement reached at the beginning of the year, employees are given feedback each year in the appraisal on areas such as the degree to which targets were achieved as well as guidance to enable them to determine where they currently stand in terms of their personal development and to reconcile their career and personal development objectives. Individual development planning highlights prospects and areas for development.

With the help of an appropriate further training budget, BayernLB offers a range of training and qualification programmes for this purpose. This helps employees achieve and implement the individually tailored objectives agreed in the development and performance dialogue. **GRI 404**

BayernLB also set up the Digital Academy to enable employees to meet the demands they are placed under in their everyday work as digitalisation becomes ever more mainstream. This will provide them with the tools they need to constructively manage the digital change in culture and actively shape digitalisation at BayernLB. The Academy teaches "digital expertise", which are key qualifications that are crucial for working efficiently and with a forward-looking approach during an era of digitalisation as the Group realigns itself under the "Fokus 2024" programme. BayernLB considers digital expertise to be key knowledge and skills in the areas of technology, innovation and agility that will enable employees to successfully embed the business strategy and the related "Fokus 2024" in their daily work.

The DKB MANAGEMENT SCHOOL, which is an internal further training academy, offers seminars, specialist coaching and team development sessions to all employees at DKB. In 2020, it organised 365 seminars, which means each employee had on average three days of training.

Further training budget

Further training	BayernLB Group financial year 2020	Of which BayernLB financial year 2020	Of which DKB financial year 2020	BayernLB Group financial year 2019	Of which BayernLB financial year 2019	Of which DKB financial year 2019
Training budget[1]	EUR 7.1 m	EUR 2.2 m	EUR 4.3 m	EUR 6.4 m	EUR 2.4 m	EUR 3.5 m

1 BayernLB's further training budget also includes the budget for the foreign branches. DKB's further training budget also includes the budget for DKB Service GmbH.

Health management

GRI 403

The BayernLB Group faces the challenge of maintaining and promoting the health of its staff.

Code of Conduct

It is essential that occupational health and safety and workplace security regulations are observed by all employees. It is one of the management tasks of BayernLB to provide a healthy and hazard-free working environment. [...] In turn, we expect that our employees take a responsible approach to their health and fitness.

The Bank has an integrated health management system. This includes company doctors, nurses and human resources managers specialised in health management. They work closely with the Staff Council, occupational safety officers, BayernLB's sports club and the nutritional specialists for the employee canteen. There is also an occupational safety committee in accordance with occupational safety law, which supports the monitoring of occupational health and safety programmes and also has an advisory role. Members from the Staff Council and therefore the workforce sit on the committee. There are no indications of relevant (mainly health-related) risks in the area of health and safety at work.

Health rates

Health	BayernLB Group financial year 2020	BayernLB financial year 2020	DKB financial year 2020	BayernLB Group financial year 2019	BayernLB financial year 2019	DKB financial year 2019
Health rate[1]	96.2%	96.3%	96.2%	95.3%	95.6%	95.3%

1 Ratio of absences due to illness (with and without continued payment of salary, regardless of insurance status) to planned working days.

To prevent "typical" health problems associated with activities performed mainly while sitting at computer workstations, the health and safety officers pay attention to the ergonomic design of workstations. As part of its healthcare management the Bank also offers its employees opportunities for sports activities and holds regular Health Days, focusing on topics such as exercise and a healthy diet.

As a result of the Covid-19 pandemic, virtual Health Days were held during the reporting year, as were virtualsports courses for the employees. Some initiatives to help employees deal with the challenge of staying healthy while working from home were even made available at the start of the pandemic, including webinars on topics such as "How to manage stress while working at home during the pandemic".

BayernLB offers comprehensive services and support for the issues of mental health problems, coping with stress and burn-out, in part by providing extensive information on the intranet and holding seminars for employees and managers on topics such as "stress, burn-out and depression". It also has an advice centre to assist employees with psychological issues. The Bank has also successfully implemented an operational integration management programme (Betriebliches Eingliederungsmanagement (BEM)) pursuant to section 84 (2) of the Social Security Code (Sozialgesetzbuch (SGB)) IX, in which its employees can request professional support when reintegrating after a long illness.

DKB also takes preventative healthcare and health promotion for its employees seriously. DKB's health management regularly received top marks and was classed as excellent in the 2020 Corporate Health Audit.

Opportunities and challenges

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For more information on the "Fokus 2024" transformation programme, refer to the "Foundations of the BayernLB Group – Business model and Group strategy" section in the combined management report.

There is also information (including figures) in the notes to the annual financial statements of the BayernLB Group on provisions for restructuring expenses, pensions and similar obligations.

In the wake of its strategic realignment, BayernLB Bank decided at the end of 2019 to substantially reduce the size of the workforce. The NFR 2019 contains detailed information on the initial step to reduce headcount by 400 FTE and an announcement of an increase in the scope. According to this, the workforce will be reduced by around 940 FTE in total in a socially responsible manner (no redundancies prior to autumn 2022, use of tools mutually agreed with the General Staff Council [including severance, pre-retirement, partial retirement, early retirement and training to take on other types of tasks]) by the end of 2023. As a result, in the 2020 annual financial statements restructuring provisions were created for a mutually agreed further reduction in headcount (see the information (including figures) in the notes to the annual financial statements of the BayernLB Group on provisions for restructuring expenses, pensions and similar obligations).

As was the case in the previous reporting year, this is therefore a matter of concern to employees, i.e. a relevant number under HGB are at risk of losing their job. By agreeing the aforementioned wide-ranging provisions with the Staff Council this risk has, however, been mitigated, so there are no major risks at present and none are anticipated. In 2020, the reductions were made as planned.

The "Fokus 2024" transformation programme was implemented hand in hand with robust change measures, for example to safeguard operational stability and keep BayernLB's remaining employees motivated. The whole workforce is involved through regular "pulse checks" to evaluate and assess the individual steps in the transformation process. The findings from this were used to draw up measures to make improvements. The divisions are provided with extensive support in the form of change workshops to help them make changes to their operations as part of the strategy to create a streamlined specialist bank. The particular focus here is on the introduction of a new teamwork model in the Corporates & Markets segment. The Bank is systematically working on and implementing topics with importance for the future, such as expanding digital and agile expertise. Employees and management receive ongoing training at the Digital Academy (see above) to build up this expertise that will be so critical for the company's success.

Besides the implementation of the Group-wide "Fokus 2024" strategic programme, the main takeaway for the year 2020 was managing the effects of the Covid-19 pandemic.

Principally to protect employees' health, both BayernLB and the BayernLB Group moved very quickly at the start of the pandemic to maintain a stable business environment while allowing most of the workforce to work from home. The concept of working from home is not new to the Bank. Employees have been using this arrangement for many years with excellent results, and it has now been expanded as a result of the pandemic, so that on average around three-quarters of the workforce were able to work from home. The rules in employment contracts dealing with

mobile working were already comprehensive before the pandemic. Upon joining, all new employees must familiarise themselves with the health and safety at work regulations, how to record working hours, how to deal with all issues such as data protection and the Code of Conduct. They are also given further grounding in these areas through periodic online training and internal awareness reports.

In March 2020, a cross-divisional working group and "Corona" business continuity team was set up (with the support of the Board of Management and sales units). Among the measures implemented were the creation of a comprehensive hygiene concept, the issuing of additional licences for remote access, stress testing of the technical infrastructure to safeguard employees' ability to work from home, assistance for families through the provision of additional support days, and providing an ongoing assessment of the Covid-19 situation. The already existing pandemic planning, including process-related business continuity planning, was updated. Over the whole period, all Group companies kept their employees abreast of developments with reliable, current and transparent information.

Human resources management therefore mainly helps reduce HGB-related risks in the area of employee issues primarily by introducing measures to improve the balance between family and work lives, to further equality, and to promote the health, skills and professional and personal further development of the employees. At the same time it is responsible for structuring the salary, bonus and pension systems.

GRI 102-35 102-41

Another risk is that the remuneration system might encourage inappropriate risk conduct in certain circumstances. To manage this particular risk, a Group Remuneration Strategy and Guidelines are in place which specify in detail the requirements under the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung) stipulating appropriate remuneration and defining them for BayernLB. BayernLB and DKB provide detailed information on this matter in their respective remuneration reports. During the course of the year, at both DKB and BayernLB the relevant documentation demonstrating the suitability of the remuneration system is presented to a compensation committee that meets on several occasions.

GRI 102-11

The Code of Conduct and the works and staff councils in many organisational units and levels are just some of the systems in place to counter the risk of employees' human rights and right of assembly being infringed. Other risks arise from the national specifics of employment law. These are specifically monitored by the above-mentioned risk instruments.

GRI 102-11 102-17

Compliance management system

Compliance with rules, provisions and standards is standard practice for BayernLB and taken very seriously. Besides the ever increasing numbers of guidelines, directives, recommendations for action, etc., it is also becoming very much more important to meet the expectations of stakeholder groups stemming partly from societal shifts over the past few years. This is evident in the growth in activity of groups within civil society with respect to the financial industry.

To satisfy these requirements, BayernLB has also been continuously refining its risk and compliance management system. Key tasks of the Compliance Division are to prevent, audit and sanction breaches of the rules and to promote a uniform understanding of values and integrity in order to safeguard BayernLB's reliable market presence, which is shaped by compliance with statutory and regulatory requirements, and to protect it against illegal activities. Besides fighting money laundering, financial crime and the financing of terrorism, its remit also includes combatting corruption and bribery. It also regularly reports to the Board of Management and the Audit Committee of the Supervisory Board on the relevant topics by means of the annual compliance report. The independent Compliance function is considered to be a trustworthy and fair point of contact, both inside and outside the Bank. A whistleblowing system has also been instituted.

Group companies and foreign branch offices each have their own compliance units.

Code of Conduct

GRI
102-16
102-17
412
412-2
417

BayernLB and its employees regard acting lawfully, ethically and responsibly as an elementary and indispensable part of their personal, corporate and social responsibilities.

BayernLB's Code of Conduct is a key component of its compliance culture. It serves as a set of standards for day-to-day activities and lists the most important legal and social requirements, e.g. in relation to inside knowledge, competition law, intellectual property protection, data protection and information security, responsibility for employees, individual rights and protection from discrimination, transparent (internal and external) communication, managing conflicts of interest, sustainability and ethics, social responsibility and a risk and compliance culture. The rules formulated in the Code of Conduct are necessary minimum standards in the BayernLB Group. They apply in dealings with colleagues, customers, suppliers, service providers, business partners, competitors, market participants, shareholders, the public and official bodies.

All BayernLB's business areas, all employees and the members of the Board of Management and Supervisory Board must observe the Code of Conduct. New members of staff are made aware of the Code of Conduct when they take up their position. It is also published on BayernLB's website and serve as a template for the codes of conduct of the Group units.

The Code of Conduct is supplemented by guidelines such as Management Principles, the environmental policy and the sustainability policy, which are also publicly available, and by internal regulations, for issues such as equal treatment and managing conflicts of interest, including the "regulations on accepting and granting benefits (including gifts and invitations) ". These are implemented in the respective Group units in line with their business model and local needs. DKB and BayernInvest also publish their own environmental and sustainability policies and/or respective guidelines on their websites.

The Code of Conduct is also an important component of BayernLB's "risk culture" principles. The risk culture has equal standing with BayernLB's mission and values and describes how risk awareness and conduct must be implemented in practice at BayernLB.

GRI
102-25

Managing conflicts of interest

Group guidelines are in effect to manage conflicts of interest, and these are applied at BayernLB Bank and the subsidiaries DKB, BayernInvest, Real I.S. and BCS with their own respective system of rules. These systems of rules bring together the relevant parts of existing detailed regulations. To appropriately deal with (potential) conflicts of interest, a multi-stage procedure is followed that may ultimately mean the Bank not conducting particular transactions or business.

A reporting office has been set up to identify and manage conflicts of interest. It investigates and evaluates conflicts of interest and decides, together with the units concerned, on necessary measures and consequences. The reporting office also documents key circumstances that can cause a conflict of interest in a conflicts of interest catalogue. A conflict of interest arises when there is a risk that the capacity for professional judgement or action could be compromised by one or more interests.

For example, BayernLB's Corporate Governance Principles and the Statutes of Bayerische Landesbank provide for the abstention of Board of Management members in respect of decisions affecting them or their family members. Furthermore, at BayernLB all ancillary activities must be approved in writing by the employer based on specific assessment criteria.

In accordance with the "Guidelines for employee transactions" which are embedded in all relevant Group units, employees may not, for example, buy or sell securities they deal with professionally, in line with the prohibitions and rules contained therein. Furthermore, staff transactions may not be in conflict with the interests of customers or the Bank.

In addition to requirements under criminal and tax law that must be observed, the internal instruction "Regulations on accepting and granting benefits (including gifts and invitations)" provides employees with a code of conduct and support for dealing with the acceptance and granting of gifts and invitations (see also "Combatting corruption and bribery").

GRI
102-16
102-17
205

Combatting corruption and bribery

One of the key objectives of BayernLB's compliance management system is combatting corruption, bribery and other criminal offences in all locations and subsidiaries. Compliance with the relevant standards ensures legal or regulatory sanctions and loss of reputation can be avoided. At the BayernLB Group, various measures related to this issue have been implemented.

For example, the written organisational rules enshrine the principle that the Group may not enter into any business relationship with persons who have been legally convicted of corruption or with companies managed by such persons.

The "Regulations on accepting and granting benefits (including gifts and invitations)" make it clear that any gifts, invitations or benefits which could limit the personal independence of the recipient or raise doubts among the public about the integrity of BayernLB or the recipient are not permitted. This applies to the acceptance and granting of benefits in the banking business and internal processes, such as purchasing goods and services. Donations and sponsoring are

also subject to clear rules and must be strictly separated from each other. Appropriate measures are set out in the rules for pricing and new lending.

Within the framework of the regular training courses for all employees, which are prescribed and obligatory in accordance with section 6 para. 2 no. 6 of the German Money Laundering Act (GWG) (in accordance with the risk-oriented cycle), the existing regulations and conduct in the fight against corruption are also discussed. Examples are used to illustrate how to recognise corruption and conduct/events that are out of the ordinary, and it is discussed what options are available in the existing whistleblowing system.

New employees and temporary staff are also subjected to an intensive checking process, including submission of a police clearance certificate. Certain employee groups regularly undergo a reliability assessment.

The Group-wide review and monitoring of all corruption risks is carried out by the respective compliance units. Based on regular risk analyses, these draw up appropriate precautionary measures to combat financial crime, corruption and bribery and report on their effectiveness and any events on an ad hoc basis and annually to the Audit Committee of BayernLB's Supervisory Board.

All in all, so far as the aspect "corruption and bribery" is concerned, no risks were identified in the business activities of the BayernLB Group that are notifiable under HGB. During the reporting period no violations of the law relating to corruption at or by BayernLB were identified by the courts.

MaRisk compliance risk identification

Pursuant to AT 4.4.2 MaRisk the MaRisk compliance function is responsible for identifying and analysing the material legal rules and requirements. Non-observance of applicable regulations and the risk of BayernLB suffering losses as a result is deemed a compliance risk (which is classed as a component of legal risk).

Group Compliance conducts a risk survey into this matter at least once a year in collaboration with the divisions and units at BayernLB responsible for compliance with the specific rules and regulations.

Definition of compliance risk within the BayernLB Group

Compliance risk is a component of legal risk and includes the risk that the Group will incur losses as a result of non-compliance with applicable legal regulations. This does not include breaches of contractual arrangements or internal rules. Compliance risk is characterised as a breach of duty or omission that results in sanctions, particularly in the form of fines or compensation claims. Compliance risk does not include risk of losses as a result of inappropriate conduct when providing banking or financial services (conduct risk).

Legal rules and regulations are also assessed whose non-compliance could have a serious adverse impact on the aspects under HGB that are material for BayernLB.

To identify risks both to BayernLB itself and to "third parties" such as the environment, employees or other persons, this risk survey by Group Compliance and the annual inventory by Reputational Risk Management mentioned above are therefore used as a basis for the NFR. To classify the size of the damage to "third parties" certain criteria were drawn up that take account of the specific intentions of HGB.

GRI 418

Information security

The Group's information security officer (CISO) and BayernLB's information security officer (ISO) at the Group Compliance Division are responsible for preparing, adapting and updating all aspects of Group-wide information security, conducting controls on compliance with implementation planning and developing and conducting protection requirement analyses and evaluations on security assets.

Using the international ISO/IEC 27000 series as a reference, BayernLB's ISMS information security management ensures the confidentiality, integrity/authenticity and availability protection objectives are met and provides protection against dangers and threats, avoids economic losses and minimises risks. The employees at the BayernLB Group with responsibilities in this areas meet at the Group Information Security Forum to exchange experiences and ideas. Reports on risks, measures and incidents are sent to the Board of Management on an ad hoc and regular basis.

The level of information security risk was again classified as moderate in the reporting year. With the expansion in remote working from home as a result of the Covid-19 pandemic, the Bank also introduced awareness measures (in particular internet announcements, staff information on managers) and increased the level of screening and monitoring with respect to IT security.

GRI 102-26

Overarching control mechanisms

Besides the usual control mechanisms for financial institutions (Supervisory Board, Board of Management decisions based on the multi-control principle, etc.), BayernLB as a public-sector institution is subject to the legal supervision of the Bavarian Ministry of Finance and Regional Identity (supervisory authority). The supervisory authority has extensive rights to information and regularly participates in General Meetings and Supervisory Board meetings. It can lay down all necessary regulations to ensure that BayernLB's business operations meet the laws, articles of incorporation and other statutory requirements.

By law, BayernLB is subject to auditing by Bavaria's supreme audit institution. In particular the audit covers compliance with the regulations and principles governing business management, i.e. amongst other things whether management has acted economically and frugally.

All monitoring functions mentioned in the report ensure overall that HGB-relevant matters are given special consideration.

Appendices

Appendix 1: Overarching ESG standards for all business activities within the BayernLB Group

- Compliance with all embargoes and sanctions imposed by the EU and the UN and, if necessary, local regulations
- No business activities of any kind with persons (or companies run by persons) who have been legally declared bankrupt or insolvent or convicted of serious offences against property, or financial crimes
- No business activities of any kind that serve to evade and/or reduce duties or taxes or to conceal and/or unfairly and significantly encourage such actions in its own or a foreign country
- No business activities of any kind connected with a deliberate breach of copyright and industrial property rights
- No business activities of any kind connected with illegal forms of business (such as drug, human or organ trafficking, slavery), prostitution, sexual exploitation or pornography, or exploitative (child) labour or forced labour

Appendix 2: External standards for the respective business activities within the BayernLB Group

Standard	Brief description
LBMA (London Bullion Market Association)	The LBMA standards apply to physical trading in gold. They ensure that the gold delivered does not originate from sources associated with money laundering, terrorism financing or abuses of human rights.
Modern Slavery Act	British law obliges companies (with branches/equity interests in the UK) to maintain greater transparency in the supply chain.
World Bank standards	Group-wide compliance with the World Bank's ecological and social standards in all relevant financing, in particular special-purpose project financing. The standards include criteria for the observance of human and employee rights, the protection of indigenous peoples, the inclusion and protection of the population (such as local communities) affected by the projects as well as the protection of biotopes and habitats.
Green bond principles, social bond principles	Voluntary guidelines that recommend transparency, disclosure and reporting and thus encourage integrity on the market for green and social bonds.
UN PRI[1]	United Nations Principles for Responsible Investment.
Codes of conduct of the BVI Bundesverband Investment und Asset Management e.V.[1]	Voluntary standards that exceed the legal obligations that fund managers are subject to. These take account of their role as trustees, setting out particularly stringent requirements regarding their conduct towards their investors.

1 Applies to BayernInvest

Appendix 3: Policies (core contents) for especially sensitive sectors and topics that go beyond the standards of the World Bank

Policy	Barred as a point of principle	May be permitted following an individual review

Nuclear power	• Projects (earmarked financing) and related goods/services
	  • for mining/extracting nuclear fuels
	  • for building new nuclear power plants
	  • In protected/excluded locations1
	• New customers that generate their sales exclusively from products and services employed in areas excluded from financing
		• Investments to ensure the secure operation of nuclear power plants and compliance with the highest safety standards
		• Decommissioning of nuclear power plants
		• Treatment, temporary storage and disposal of nuclear waste

Coal	• Projects (earmarked financing) and related goods/services
	  • for lignite mining and the development of new coal mines
	  • for the construction of new and expansion of existing coal-fired power plants
	  • for the construction of new coal infrastructure in connection with new coal-fired power plants
	  • in protected natural and cultural environments1
	• New customers that generate their sales exclusively (from 2025 > 30%) from products and services employed in areas excluded from financing
		• Modernising/refitting of existing coal-fired power plants only to achieve efficiency gains/higher efficiency and/or reduce environmentally harmful emissions

Oil & gas	• Projects (earmarked financing) and related goods/services
	  • related to extraction of crude oil from tar sands and/or fracking
	  • in protected/excluded locations1
	  • for the construction of oil-fired power plants within the EU, the European non-EU countries Iceland, Norway and Switzerland, and the US and Canada, worldwide from 2025
	  • for the construction of new transport infrastructure used exclusively to transport oil/gas obtained through fracking, extraction from tar sands or in protected areas
	  • for the construction of new processing plants used to process oil or gas obtained through fracking, extraction from tar sands or in protected areas
	• New customers that generate their sales exclusively (from 2025 > 30%) from products and services employed in areas excluded from financing
		• Construction of oil-fired power plants except in the countries listed on the left until the end of 2024, employing state-of-the art technology

Armaments & weapons2	• Financing of controversial or prohibited weapons and their key components • BayernInvest: exclusion of companies that produce controversial or prohibited weapons in all actively managed investments	• Financing of national defence in safe target countries with an unambiguous final destination
Foodstuffs	• Speculative transactions/investment products/ financing of speculative transactions involving staple foodstuffs • BayernInvest: investment in individual commodity exposures to foodstuffs in actively managed strategies	• Hedging prices of agricultural commodities to hedge physical underlying transactions (focused on the needs of agricultural holdings, mills, bakeries and comparable market participants)

Policy	Barred as a point of principle	May be permitted following an individual review
Forests	• Business activities involving illegal deforestation, slash-and-burn clearance, violations of labour and human rights • Business activities involving forested areas that are protected or worthy of protection when clearing land for plantations (especially to cultivate palm oil & soya)	• Management of forests and plantations in which recognised environmental and social standards are complied with
Gambling	• Activities in the gambling sector	• Offered by a public or non-profit body or organisation In compliance with specific requirements
Offshore	• Support for any business relationships/transactions that entail or are based on specific indications suspected to entail money laundering or tax evasion or any other illegal use of offshore companies. • Procurement, either directly or indirectly, of offshore companies • Arranging of contact with specialised service providers or law firms in this regard.	• Conducting legal business transactions with an offshore connection, at the customer's request and where this is the market standard in that industry or no competitive product range is available without an offshore connection
Wind power *(separate DKB financing guidelines)*	• Wind power projects outside Germany • Offshore wind power projects	• Approval granted under the German Federal Immission Control Act

1 Protected/excluded locations: areas that are designated as UNESCO World Heritage or protected by the International Union for Conservation of Nature (IUCN) or the Ramsar Convention, or that are in the Arctic or Antarctic.

2 Valid for reporting year 2020; since February 2021, a general prohibition has been in place on financing armament weapons (see "Sustainable banking" section).

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting

To Bayerische Landesbank Anstalt des öffentlichen Rechts, Munich

We have performed a limited assurance engagement on the combined separate non-financial report pursuant to §§ (Articles) 340a Abs. (paragraph) 1a and 340i Abs. 5 in conjunction with §§ 289b Abs.3 and 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of Bayerische Landesbank Anstalt des öffentlichen Rechts, Munich, (hereinafter the "Company") for the period from 1 January to 31 December 2020 (hereinafter the "Non-financial Report").

Management's Responsibility

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement, we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's professional judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of the legal representatives and personnel involved in the preparation of the Nonfinancial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the consolidated financial statement and in the combined management report
- Evaluation of the presentation of the non-financial information

Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January to 31 December 2020 has not been prepared, in all material aspects, in accordance with §§ 315c in conjunction with 289c to 289e HGB.

Purpose of the Assurance Statement

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement.

The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt, 15th March 2021

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The translation of the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the management report and the report by the Supervisory Board of Bayerische Landesbank as well as the auditor's report is for convenience only; the German versions prevail.

BayernLB

Financing progress.

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