Group Half-Yearly Financial Report 2020

BayernLB

Contents

BayernLB Group – the first half of 2020 at a glance

Income statement (IFRS)

EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019	Change in %
Net interest income	873	867[1]	0.8
Risk provisions	(75)	(10)	>100
Net interest income after risk provisions	**799**	**856**	**(6.7)**
Net commission income	154	141	9.1
Gains or losses on fair value measurement	51	(23)	–
Gains or losses on hedge accounting	(9)	(4)[1]	>100
Gains or losses on derecognised financial assets[2]	(1)	3	–
Gains or losses on financial investments	31	50	(37.3)
Administrative expenses	(764)	(713)	7.2
Expenses for the bank levy and deposit guarantee scheme	(142)	(119)	19.4
Other income and expenses	38	131[1]	(70.7)
Gains or losses on restructuring	–	(7)	–
Profit/loss before taxes	**158**	**316**	**(50.1)**
Cost/income ratio (CIR)	67.2%	61.2%	6.0 pp[3]
Return on equity (RoE)	3.2%	6.5%	(3.3) pp[3]

Quarterly comparison

The table below compares performance in the first and second quarters of 2020:

EUR million	Q2 2020	Q1 2020
Net interest income	447	426
Risk provisions	(2)	(72)
Net interest income after risk provisions	**445**	**354**
Net commission income	83	71
Gains or losses on fair value measurement	116	(65)
Gains or losses on hedge accounting	10	(19)
Gains or losses on derecognised financial assets[2]	(1)	–
Gains or losses on financial investments	20	11
Administrative expenses	(374)	(390)
Expenses for the bank levy and deposit guarantee scheme	(27)	(115)
Other income and expenses	36	2
Gains or losses on restructuring	–	–
Profit/loss before taxes	**309**	**(151)**

Balance sheet (IFRS)

EUR million	30 Jun 2020	31 Dec 2019	Change in %
Total assets	258,035	225,965	14.2
Business volume	301,348	269,368	11.9
Credit volume	209,804	188,538	11.3
Total deposits	183,696	150,588	22.0
Securitised liabilities	43,261	44,570	(2.9)
Subordinated capital	1,726	2,107	(18.1)
Equity	11,618	11,537[1]	0.7

Banking supervisory capital and ratios under CRR/CRD IV

EUR million	30 Jun 2020	31 Dec 2019	Change in %
Common Equity Tier 1 capital (CET1 capital)	10,129	10,264	(1.3)
Own funds	11,604	11,821	(1.8)
Total RWAs	67,593	64,604	4.6
Common Equity Tier 1 (CET1) capital ratio	15.0%	15.9%	(0.9) pp[3]
Total capital ratio	17.2%	18.3%	(1.1) pp[3]

Employees

	30 Jun 2020	31 Dec 2019	Change in %
Number of employees	8,422	8,316	1.3

Current ratings

	Issuer rating	Short term, unsecured	Pfandbriefe[4]
Fitch Ratings	A- (negative)	F1	AAA
Moody's Investors Service	Aa3 (stable)	P-1	Aaa

Rounding differences may occur in the tables.

1 Adjusted as per IAS 8.

2 For financial assets measured at amortised cost.

3 Percentage points.

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

Group interim management report

Overview of the BayernLB Group

Key changes in the scope of consolidation and the investment portfolio

There were no significant changes in the scope of consolidation and portfolio of equity interests from 31 December 2019 onwards.

Please refer to the Group management report and financial statements for 2019 and the report on expected developments and opportunities for information on the business model, strategy and internal Group management system.

Report on the economic position

Macroeconomic environment

The coronavirus pandemic plunged the global and German economies into a deep recession. Even in the first quarter of 2020, economic output was 2.2 percent lower than in the previous quarter.[1] All demand components were in retreat. The biggest collapse was in spending on plant and equipment and in exports. However, the scale of the slump in production and demand did not become apparent until the second quarter as the broad shutdown of the economy to curb the numbers of infections did not start until March. Almost all parts of the economy were severely affected by these measures, with hospitality, hotels and retail particularly hard hit. In the end, output in the second quarter fell by by 10.1 percent on the previous quarter.[2] Corporate sentiment has been badly shaken since the start of the year, and unemployment has increased significantly.[3] The number of jobless would have been considerably higher had it not been for the extensive use of short-time working payments. This has also helped to ensure that companies will be in a position to rapidly ramp up production once the crisis passes.

While the initial shock was to the supply side of the economy as a result of halts to production along the supply chain, the demand side is also now affected. One reason for this is the persistent uncertainty about how the pandemic will unfold, considering the fact that sufficient quantities of any prospective vaccine will not be available in the short term. Another is the deep economic slump, the impact of which has fed through to the incomes and prospective incomes of consumers due to the danger of increasing number of jobs vanishing and the use of short-time working payments. All this is reining in consumption, which has been one of the support pillars of the economy in recent years. Besides the towering impact of the coronavirus pandemic, economic sentiment is being depressed by the Brexit process and the trade dispute with the USA, which has effectively become a “sword of Damocles”.

The inflation rate has fallen sharply since the start of the year and stood at 0.9 percent in June.[4] This is mainly due to lower energy prices caused by the drop in global energy demand in the wake of the coronavirus pandemic and disagreements within OPEC. The ECB’s inflation target is therefore very far off.

Governments have put together packages of fiscal measures on an unprecedented scale to support the economy. In Germany, VAT has been cut from 19 percent to 16 percent from 1 July 2020 to the end of the year (the lower rate of VAT has been dropped from 7 percent to 5 percent). To fund the additional spending during a period of much lower tax receipts, every European country has been borrowing frantically, causing public debt to balloon. In Germany, the government is budgeting for record debt levels of more than 6 percent of GDP in 2020. In response to the pandemic and to support fiscal programmes, the ECB has agreed an extensive package of accommodative measures. Besides deep discounts on the TLTRO refinancing transactions launched in September 2019 to encourage banks to lend to companies, the current asset purchase programme (APP) has been extended to the end of the year, an emergency purchase programme (PEPP) has been agreed and an additional long tender for banks (PELTRO) set up.[5] The Federal

[1] German Federal Statistical Office, press release 180/2020
[2] German Federal Statistical Office, press release 287/2020
[3] Federal Employment Agency Monthly Report, June 2020
[4] German Federal Statistical Office, press release 239/2020
[5] ECB press releases of 12 March 2020, 18 March 2020, 30 April 2020 and 4 June 2020

Reserve Bank (Fed) in the USA has also agreed extensive monetary measures. Besides hacking interest rates to 0.25 percent, these included a corporate bond purchase programme and buying unlimited volumes of government bonds.[6]

Bunds initially received a boost on bond markets in the first quarter due to their status as a safe haven. By the start of March, yields on 10-year Bunds had slipped back more than 60 basis points from -0.19 percent at the end of 2019.[7] In the weeks that followed, Bunds were caught in a tug of war between the revised economic outlook, the ECB's bond purchase programmes and the prospect of increases in bond issues to fund the extensive fiscal programmes, which led to high levels of yield volatility. At the middle of 2020, 10-year Bunds fluctuated around the mid trading range of the first half of the year, with a yield of -0.50 percent.

On stock markets, after what had been a positive start to the year, prices nosedived from mid-February to mid-March in the wake of the coronavirus pandemic. However, share indices regained their footing in the weeks that followed and recovered a lot of lost ground thanks to large-scale monetary and fiscal support programmes. Both the collapse in prices and their subsequent recovery were extraordinary in their size and speed. Overall, the German Dax fell by 7.1. percent from 13,249 to 12,311 over the first half of 2020.[8] A 25.0 percent contraction in the first quarter was followed by an expansion of 23.9 percent in the second.

The coronavirus pandemic and its effects also took a serious toll on the euro-US dollar exchange rate in the first half of 2020. Up to around April, the greenback benefited from its role as a safe haven during strong risk-off periods. At the end of February and start of March, the euro initially appreciated as large numbers of investors scrambled to cover open short positions in euros. Overall, demand for the safe haven of the US dollar more than compensated both for this and the Fed's cuts in interest rates. From May and June, the value of the US dollar again fell significantly as markets drifted out of risk-off mode. At the end of June, one euro was exchanging for 1.123 US dollars, virtually the same rate as at the start of the year.[9]

Course of business

Following a first quarter in which high charges from the bank levy and deposit protection scheme weighed heavily on the results, the BayernLB Group achieved a profit before taxes of EUR 158 million in the first half of 2020 (H1 2019: EUR 316 million) despite the additional risk provisions which had to be created owing to a potential negative impact from the coronavirus crisis. Aside from the risk provisions in the credit business created primarily for as yet unspecified risks, the coronavirus pandemic had not had any significant impact on earnings.

At EUR 258 million, total assets were 14.2 percent higher as at 30 June 2020 than they were at the end of the previous year. The lending business continued to account for a major part of the Group's assets. The financial position was sound in the first six months of the year under review,

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[6] Federal Reserve press releases of 15 March 2020, 23 March 2020; https://www.federalreserve.gov/monetarypolicy/files/monetary20200315a1.pdf; https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200323a1.pdf

[7] See yields of benchmark 10-year Bunds, taken from Refinitiv Datastream on 8 July 2020

[8] See Deutsche Börse: DAX 30 performance closing price, taken from Refinitiv Datastream on 8 July 2020.

[9] See EUR-USD Exchange Rate, taken from Refinitiv Datastream on 8 July 2020.

and sufficient liquidity was on hand at all times. The economic situation of the BayernLB Group remained stable.

The BayernLB Group's capital base remains solid with a slight fall in the CET1 ratio to 15.0 percent (31 December 2019: 15.6 percent). The decline was largely the result of an increase in risk positions.

Results of operations

Despite the challenging conditions, net interest income rose slightly to EUR 873 million (H1 2019: EUR 867 million).

Looking to the expected collateral damage from the coronavirus pandemic, BayernLB created additional risk provisions in the credit business, although the underlying reasons for them have yet to be specified (post model adjustments). Overall, allocations to risk provisions in the credit business amounted to EUR -75 million in the first half of 2020 (H1 2019: EUR -10 million).

Net commission income rose by 9.1 percent to EUR 154 million, which all Group units contributed to. Most of this increase was due to the performance of the securities business, which includes earnings from the fund business of the two subsidiaries Real I.S and BayernInvest.

Gains or losses on fair value measurement was a positive EUR 51 million (H1 2019: EUR -23 million), largely owing to the performance of other financial transactions, which generated EUR 44 million, most notably through the precious metals business (EUR 35 million), as a result of the increase in demand for gold as a crisis currency. Gains or losses on hedge accounting amounted to EUR -9 million (H1 2019: EUR -4 million), thus remaining within the normal range of fluctuation.

As in the previous year, gains or losses on financial investments (EUR 31 million), was mainly the result of sales proceeds from securities (H1 2019: EUR 50 million).

Most of the increase in administrative expenses of EUR 764 million (H1 2019: EUR 713 million) was due to capital spending on DKB's expansion strategy. The costs of meeting regulatory requirements also rose again. Some of the impact of measures taken to cut costs at BayernLB, especially in the workforce, will not be felt immediately, and, in fact, temporarily resulted in an increase in administrative expenses in the first half of the year, e.g. due to costs associated with the termination of employment of some staff.

Expenses for the bank levy and deposit guarantee scheme rose by EUR 23 million to a total of EUR 142 million. This included EUR 68 million for the bank levy (H1 2019: EUR 56 million) and EUR 74 million in contributions to the deposit guarantee scheme (H1 2019: EUR 63 million). The increases are due to the higher allocation needed as a result of the cases requiring support in the previous year and a higher contribution for hedged liabilities.

Other income and expenses amounted to EUR 38 million, partly due to income and expenses from non-banking activities. The figure for the first half of 2020 included a one-off gain in connection with legal disputes relating to preceding periods. Most of the high previous year's figure of EUR 131 million was related to a tax-related issue.

Return on equity (RoE)[10], which is based on regulatory capital, stood at 3.2 percent in the first half of 2020 (H1 2019: 6.5 percent). The cost/income ratio (CIR)[11] increased to 67.2 percent from 61.2 percent in the previous year.

More detailed information can be found in the notes.

Segments

The segment report is based on the monthly internal management report to the Board of Management and reflects the BayernLB Group's segments. The 2019 segment structure of the BayernLB Group was restructured 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. As of 30 June 2020 they are

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

The 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 subsidiary 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 included in 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 158 million (H1 2019: EUR 316 million) are shown below:

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[10] *RoE = profit before taxes/average CET1 capital*

[11] *CIR = administrative expenses / (net interest income + net commission income + gains or losses on fair value measurement + gains or losses on hedge accounting + gains or losses on derecognised financial investments + gains or losses on financial assets + other income and expenses).*

EUR million	1 Jan - 30 Jun 2020	1 Jan - 31 Dec 2019
Real Estate & Savings Banks/Financial Institutions	112	117
Corporates & Markets	(8)	26
DKB	115	147
Central Areas & Others (including Consolidation)	(61)	26

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.
- BayernLabo's earnings down on previous year due to measurement losses caused by mark-to-market losses caused by fluctuations in yields.

The Real Estate & Savings Banks/Association segment's profit before taxes was EUR 112 million (H1 2019: EUR 117 million), which was more or less in line with the previous year.

The Real Estate Division again made a significant contribution to the segment's earnings with a profit before taxes of EUR 67 million (H1 2019: EUR 79 million). The main reason for the fall was the net negative risk provisions of EUR 9 million (H1 2019: net positive EUR 18 million), in part to cover expected losses from the coronavirus crisis. Net interest and commission income went up to EUR 117 million (H1 2019: EUR 100 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 21 million (H1 2019: loss of EUR 4 million) compared with the previous year. Earnings from net interest and commission income came in at EUR 60 million (H1 2019: EUR 63 million), 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 48 million (H1 2019: EUR 19 million).

BayernLabo posted profit before taxes of EUR 12 million (H1 2019: EUR 28 million). The main reason for the fall was a loss on fair value measurement of EUR 8 million (H1 2019: gain of EUR 3 million) due to mark-to-market losses caused by fluctuations in yields. Administrative expenses stood at EUR 28 million (H1 2019: EUR 26 million) and were up on the previous year largely as a result of additional expenses in connection with Baukindergeld and home ownership subsidies, which were reimbursed by the Free State of Bavaria on the earnings side, and project expenses.

Real I.S.'s profit before taxes was on par with the previous year at EUR 9 million (H1 2019: EUR 9 million). The rise in administrative expenses resulting from strategic investments was offset by growth in net commission income.

BayernInvest posted a profit before taxes of EUR 2 million, which was lower than its previous year's figure of EUR 5 million. Besides the impact of the volatile market situation, earnings were dented by investment on IT infrastructure.

Corporates & Markets segment

- Net interest and commission income marginally down on the previous year due to a challenging market environment.
- Gains or losses on fair value measurement benefited from measurement gains from the termination of a bid/ask reserve and a good performance by exchange rate and interest rate derivatives.
- Risk provisions impacted by the expected losses from the coronavirus crisis. In the previous year risk provisions were positive as a result of releases and recoveries on written-down receivables.

The Corporates & Markets segment generated profit before taxes of a negative EUR 8 million (H1 2019: a positive EUR 26 million). The main reason for the decline was the creation of net risk provisions of EUR 65 million to cover expected losses from the coronavirus crisis, following positive net risk provisions in the previous year of EUR 9 million resulting from releases and recoveries on written-down receivables. Net interest and commission income of EUR 184 million (H1 2019: EUR 190 million), which was slightly lower than in the previous year due to a drop in high commission-earning new business. Gains or losses on fair value measurement rose to EUR 38 million (H1 2019: EUR -2 million) despite market turmoil triggered by the coronavirus crisis. This was mainly due to measurement gains from the termination of a bid/ask reserve and a good performance by exchange rate and interest rate derivatives. The fall in administrative expenses to EUR 167 million (H1 2019: EUR 176 million) reflects the initial results of the measures introduced to focus the capital market business.

DKB segment

- As expected, the DKB segment's profits declined due primarily to strategic investments in sales and digitalisation, measurement effects and the rising costs of the bank levy and deposit guarantee scheme
- Number of retail customers around EUR 4.5 million
- BCS posts stable earnings

The DKB segment's profit before taxes amounted to EUR 115 million, falling short of the previous year's good performance of EUR 147 million in line with expectations.

The majority of the profit before taxes was accounted for by the DKB sub-group with EUR 114 million (FY 2019: EUR 149 million). Net interest and commission income remained stable year on year at EUR 470 million (H1 2019: EUR 464 million). However, it was more than offset by the net deterioration in measurement gains and losses as the significantly positive measurement effects from funds and investments on the previous year's figure were not repeated in 2020 due to the market turmoil triggered by the coronavirus pandemic. Net risk provisioning stood at EUR +2 million, far exceeding the EUR -42 million posted in the year before. This good outcome was due in part to releases and recoveries on written down receivables. DKB's status as Germany's second-largest online bank was further cemented by an increase in retail customer numbers to around 4.5 million (FY 2019: approx. 4.2 million). Administrative expenses rose to EUR 316 million (FY 2019: EUR 273 million) largely due to strategic investments in sales and digitalisation.

There was also an increase in expenses for the bank levy and the deposit guarantee scheme, with the total amount reaching EUR 37 million (H1 2019: EUR 32 million).

BCS's profit before taxes amounted to EUR 1 million, largely in line with the previous year (H1 2019: EUR 2 million). The number of cards served rose by around 5 percent on the previous year to 11.1 million.

Central Areas & Others segment

- Segment earnings strongly dented by charges for the bank levy and deposit guarantee scheme
- Despite an increase in market turmoil as a result of the coronavirus pandemic, the Group Treasury Division increased earnings due to a positive performance by the money market business.

The Central Areas & Others segment produced a profit before taxes of EUR -61 million (FY 2019: EUR 26 million). This was again mainly due to a charge totalling EUR 104 million (H1 2019: EUR 87 million) for the bank levy and deposit guarantee scheme, not including DKB's share.
Despite a one-off gain in connection with the legal disputes of the previous periods, the segment benefited to a much lower extent from one-off gains than in the comparison period.
The Group Treasury Division increased profit before taxes to EUR 40 million (H1 2019: EUR 34 million). Key drivers of the growth were income from money market transactions, which more than offset the measurement losses that were largely the result of market turmoil caused by the coronavirus pandemic.
The net figures reported in the Consolidation column amounting to EUR 12 million (H1 2019: EUR 7 million) were largely generated by measurement differences.

Financial position

Total assets at the BayernLB Group rose by 14.2 percent to EUR 258.0 billion. Around half of the increase came from BayernLB's participation in the third tranche of the ECB's long-term tender (TLTRO) amounting to EUR 17.0 billion, which was utilised in June 2020 because of the attractive financing conditions despite the Bank's good liquidity situation. The use of these funds and their investment were the main reasons for the increase in credit volumes, as well as loans and advances and liabilities to banks.

The credit volume, defined as loans and advances to banks and customers plus contingent liabilities from guarantees and indemnity agreements, increased to EUR 209.8 billion (31 December 2019: EUR 188.5 billion) due to higher receivables.

Loans and advances to banks, which stood at EUR 45.1 billion as at 30 June 2020, also rose significantly (31 December 2019: EUR 31.1 billion). Loans and advances to customers increased by EUR 4.9 percent to EUR 152.1 billion (31 December 2019: EUR 145.0 billion).

Financial investments were almost unchanged at EUR 23.8 billion (31 December 2019: EUR 23.6 billion). Assets and liabilities held for trading were unchanged on the previous year (assets held for trading rose by EUR 0.8 billion to EUR 14.7 billion, while liabilities held for trading increased by EUR 0.6 billion to EUR 10.9 billion).

Liabilities to banks rose to EUR 71.6 billion (31 December 2019: EUR 50.2 billion), mainly as a result of short-term money market transactions. Likewise liabilities to customers, which is the largest source of funding, rose to EUR 112.1 billion (31 December 2019: EUR 100.4 billion).

Securitised liabilities retreated slightly by 2.9 percent to EUR 43.3 billion in the first half of 2020 due to maturities.

Subordinated capital decreased to EUR 1.7 billion due to maturities (31 December 2019: EUR 2.1 billion).

Including the consolidated profit of the first half of 2020, equity rose overall by EUR 0.1 billion to EUR 11.6 billion.

Further information can be found in the notes.

General overview of financial performance

The BayernLB Group's financial position and financial performance remained sound overall in the first half of 2020 despite an environment badly shaken by the crisis. The risk report contains additional information on the financial position.

Report on expected developments and on opportunities and risks

Report on expected developments including opportunities and risks

Economic environment

The impact of the coronavirus pandemic is overshadowing the economic outlook. Despite the economic recovery and, to a large degree, containment of the pandemic in the EU (although an increase in case numbers is again evident), no all-clear can be sounded at a global level. While many countries in South America and Africa are reporting a further acceleration in their first wave of infection, a second wave is materialising in Asia (which has to date been better pinpointed) and there has again been a jump in cases in the USA as well. As no vaccine is likely for the foreseeable future despite the progress being made, most regions will have to keep stricter hygiene and social distancing rules in place, which will dampen economic activity. Supported by monetary and fiscal policy measures on a massive scale, BayernLB is, however, expecting a stronger rebound effect in the third quarter, which should be followed in the subsequent quarters by above-average growth. However, most countries will not see their GDPs return to pre-crisis levels until 2023. Averaged out for 2020 as a whole, BayernLB is forecasting calendar-adjusted GDP growth of -6.3 percent. In 2021, the growth rate will likely be 3.9 percent due to catch-up effects. This is on the assumption that growth will be boosted by the EU's recovery fund, which covers transfers to countries particularly affected, and will thus act to support the European economy.

Due to the risks associated with how the pandemic unfolds, the outlook for the economy is highly uncertain. As there are increasing doubts that he will be re-elected, US President Trump may well rattle the sabre abroad even more, especially in China's face, while Europe will probably find the risk of a hard Brexit back in its in-tray in the autumn.

Inflation in Germany is likely to sink to zero percent at an annualised average due to softening in demand and a temporary cut in VAT. In 2021, the Bank expects inflation to climb to 2.2 percent, owing to VAT being raised again to its former rate and a recovery effect from higher energy prices, which is hardly an indication of sustained inflationary pressure in light of the huge slack in the economy. Given mushrooming debt levels, the ECB's monetary policy will remain ultra-expansive for a long time to come. Another base rate cut may be on the cards if inflation expectations subside even further and should financial market stress resulting in less favourable financing conditions be identified, the tool of choice will be another extension to the purchase programmes. Even if fiscal measures are expanded on the back of debt financing, the ECB will respond by scaling up the PEPP purchase programme to ensure that financing conditions remain favourable in all member states. The same prediction holds true for the Fed, which we do not expect to hike rates for the foreseeable future.

On bond markets, Bunds will probably be punished by the increase in volumes of issues to fund the extensive fiscal programmes, economic recovery and communitisation in the eurozone. However, in BayernLB's view, yields will stay under pressure due to the low-interest policy being extended yet again, coupled with the ECB's bond purchase programmes. According to the Bank, the yield curve will be very flat until the end of 2020, with yields on 10-year Bunds climbing to just -0.3 percent. The Bund curve (difference between 10 and 20-year yields) is likely to steepen slightly.

Following their dynamic recovery in the second quarter, BayernLB expects more volatile conditions to return to the stock markets in the second half of the year, with temporary setbacks. However, the massive expansion in the liquidity of the central banks combined with the extensive fiscal programmes should hold up share values over the longer term. BayernLB also believes that the resolution of the global recession shows that the share price recovery will remain intact despite temporary corrections. It forecasts the DAX will be at 13,000 at the end of 2020, which is higher than its mid-year position, but below what it was at the start of the year.

On the currency front, the Bank believes the US dollar will weaken slightly further against the euro as the recovery starts to take control, causing economic concerns to fade and risk aversion on markets to diminish, with the euro worth USD 1.19 by the year-end. Under these circumstances, support for the US dollar is likely to fall back as demand for safe havens drops, and the extensive rate cuts to date, including other expansionary measures undertaken by the Fed, should increasingly impact on the exchange rate. The start of a depreciation in the value of the greenback could be reinforced by foreign investors opting to wind down their holdings to avoid exchange-rate losses as the currency weakens.

The BayernLB Group's future performance

BayernLB has continuously posted solid earnings in past years, despite a tough and competitive market environment. Due to the ongoing changes and huge challenges currently facing the entire banking sector, in 2019 BayernLB implemented a comprehensive project to strategically realign its business model and agreed new strategic objectives on that basis. These objectives were fleshed out during 2019 on the basis of comprehensive analyses and an in-depth and detailed study of the market and competitive situation and what will be needed for the Bank to stay successful in the years ahead. The main element is to focus on high-growth future-oriented areas, while cutting the cost base: as a streamlined specialised bank, BayernLB will focus its lending business on five promising sectors of the Bavarian and German economies in particular. Another priority will be commercial real estate finance in Germany and selected foreign markets. DKB will continue to position itself as a modern tech bank and aim to double its customer base to 8 million by the end of 2023.

It will take several years to complete the process of transforming the BayernLB Group, with all the changes expected to be in place by 2024. To help achieve this end, the Bank set up the comprehensive transformation programme "Fokus 2024" at the start of 2020. The project will coordinate numerous individual projects across the whole Bank. In the first six months of the year, the Bank already achieved its first key milestones, such as the implementation of the initial measures to increase earnings in the BayernLB Group's business areas, the development of specific measures to meet cost targets and the adoption of the first efficiency-boosting initiatives in all units of the Bank.

The economic environment was heavily affected by the turmoil caused by the coronavirus pandemic in the first half of 2020. BayernLB therefore decided to undertake a far-reaching Group-wide strategy review of the impact of coronavirus on the new strategic direction in the second quarter of 2020. This generally confirmed the long-term strategic objectives for the BayernLB Group and its segments. The Bank proved to be on the right track by holding early discussions on a new strategic direction for the Group and the decision to focus on high-margin, forward-looking products in selected sectors, while pulling out of cost-intensive, low-margin business without sufficient economies of scale, and this has been reaffirmed by the impact of the coronavirus pandemic. Except for a few minor adjustments, such as striving to stand out more in sectors on which the Bank will be focusing in the future, this will be developed further. The Bank will also keep to its financial guidelines for 2024, such as an RoE before taxes of about 8 percent, a CIR of below 55 percent, a CET1 minimum ratio of more than 14 percent and an updated RWA ceiling of around EUR 70 billion. For details about the business model and strategy, refer to the notes in the consolidated management report for 2019, which are still valid.

The assessment of opportunities and risks in the consolidated management report for 2019 is also still relevant. Most notably, the BayernLB Group's portfolio has so far proved resilient to the impact of the coronavirus pandemic. The Bank will, however, pay close attention to current events and the market environment to ensure that it is able to respond appropriately to new developments at all times. The crisis also offers opportunities, for example due to new market dynamics. Based on its new sector approach, BayernLB is well positioned in the focus sectors of energy, technology and construction & basic materials to take advantage of the acceleration in key trends such as the energy transition and investments within the scope of economic programmes. Thanks to the specialised business model, the public sector's greater medium to long-term financing and capital market needs present BayernLB with good opportunities to increase profits, as do real estate asset classes such as residential housing and logistics.

The high level of uncertainty triggered by the coronavirus crisis and the tangible effects of the transformation which are now coming to the fore and which were referred to in the forecasts in the consolidated financial statements for 2019 make it hard to predict BayernLB Group's business performance in financial year 2020. Owing to the marked negative impact on the global economy which is now emerging, it is almost certainly to be expected that the net profit for 2020 as a whole will be below the figure stated in the report on expected developments and opportunities at the end of 2019.

The CET1 ratio is likely to dip temporarily below the medium-term target of 14 percent in 2020, but the minimum regulatory requirements will be met at all times.

Risk report

Principles

The Group management report for financial year 2019 gives a detailed description of the principles, methods, procedures and organisational structures of the risk management used within the BayernLB Group and of the internal control and risk management system for ensuring the accounts have been properly prepared and are reliable. The information provided in the risk report of the Group half-yearly financial report therefore relates to material changes in the first half of 2020 (e.g. new stress-testing programme, adjustments in the business and strategic risk methodology).

Rounding differences may occur in the tables.

Key developments in the first half of 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 first half of 2020, despite business growth and the outbreak of the coronavirus crisis, due to stricter risk guidelines and proactive risk management.

Gross credit volume rose by around EUR 28 billion to EUR 307 billion. The growth was concentrated in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio, due to the participation in TLTRO III, followed by Financial Institutions, as a result of the increase in demand for government subsidy programmes associated with the coronavirus pandemic, and Commercial Real Estate, due to new business in line with strategy.

The portfolio quality remains high, despite the clear negative impact of the coronavirus crisis in the Corporates sub-portfolio and without taking into account the effects of the significant increase in business volume with the Deutsche Bundesbank. The high investment grade share therefore rose further to 87.9 percent (31 December 2019: 87.1 percent), while the non-performing loan ratio fell to 0.6 percent (31 December 2019: 0.7 percent).

Despite the effects of the coronavirus, risk-bearing capacity was maintained throughout the first half of 2020 as the provision of risk capital was solid at all times. The BayernLB Group also had a good supply of liquidity on hand, which would have been more than adequate even without taking into account the funding from TLTRO III.

Internal control and risk management system

Within the framework of the Fokus 2024 transformation programme, the BayernLB committees below the level of the Board of Management were subjected to a comprehensive review and then streamlined 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 TOP 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.

Risk-oriented management

Regulatory capital adequacy (solvency)

The BayernLB Group has a solid capital base with a CET1 ratio of 15 percent despite market turbulence as a result of the coronavirus pandemic. In order to ensure compliance with the regulatory minimum and internal targets, the RWA budget is allocated to the Group units by means of a top-down approach and compliance with the RWA budget is monitored on a monthly basis.

Economic capital adequacy (risk-bearing capacity)

Economic risk-bearing capacity is monitored at BayernLB, DKB and the BayernLB Group levels including the consolidated risk units of both of these Group units. 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 method for calculating risk-bearing capacity is assessed and refined on a regular basis to ensure it takes adequate account of external factors and internal strategic targets. As part of the 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 (2019: EUR 7.1 billion) to EUR 7.8 billion. The increase was largely for credit, market, business and strategic risks.

Current situation

Risk capital requirements

EUR million	30 Jun 2020	31 Dec 2019
Credit risk	1,464	1,405
Market risk	2,434	2,000
of which actual market risk	1,453	998
of which pension risk	981	1,002
Operational risk	464	450
Investment risk	126	114
Business and strategic risk (includes reputational risk)	272	47
Liquidity cost risk	147	224
Total	**4,907**	**4,240**

Despite the coronavirus crisis, the current situation as at 30 June 2020 showed only a moderate increase in the risk capital requirement. Even taking into account the effects of the coronavirus crisis, the BayernLB Group had adequate risk-bearing capacity at all times, as the provision of risk capital was solid. The BayernLB Group holds sufficient economic capital in the amount of EUR 10.3 billion to cover risk capital requirements (31 December 2019: restated value EUR 10.3 billion due to clarification effects in connection with the adopted annual financial statements).

The negative effects of the coronavirus crisis in the first half of 2020 are primarily apparent in the significant increase in the risk capital requirement for actual market risk and only secondarily in the majority of other types of risk.

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 reduction in the risk capital requirement on the comparison date of 31 December 2019 to EUR 47 million (previously: EUR 544 million). In contrast, the risk capital requirement again rose sharply to EUR 272 million as at 30 June 2020 due to the anticipated negative impact of the coronavirus crisis.

Stress testing

The Group's stress testing programme was substantially refined. The reworked stress testing framework increases the consistency between the normative (regulatory) and economic perspectives and includes as standard both 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 the considerable increase in risk.

Management of the individual risks in the BayernLB Group

Credit risk

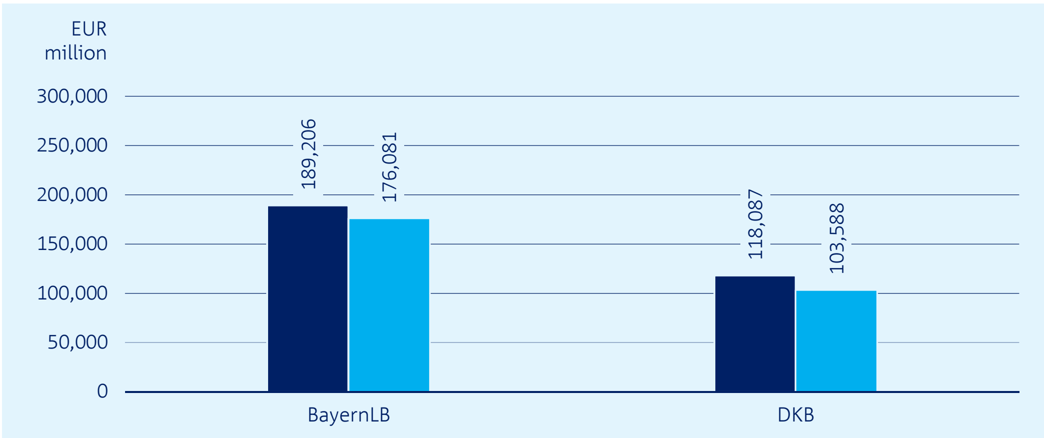
There were no significant changes to risk measurement, monitoring and reporting in the reporting period. The information presented in the 2019 group management report remains valid.

Current situation

The following presentation of credit risk is based on the figures used for internal risk reporting to the Board of Management and the Risk Committee of the Supervisory Board. These figures are derived from the financial situation (e.g. taking account of undrawn uncommitted current account facilities). The management approach figures include BayernLB and DKB.

The quantitative data on forborne exposure and coronavirus-related measures are shown in the renegotiated credits section on the basis of the IFRS consolidated figures.

Gross credit volume by Group unit



■ 30 Jun 2020 Total: EUR 307,293 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 uncommitted current account 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 27.6 billion or 9.9 percent to EUR 307.3 billion. The increase was across the board and in all sub-portfolios.

The Countries/Public-Sector/Non-Profit Organisations sub-portfolio posted the largest increase (EUR 20.6 billion, of which amount EUR 9.3 billion stemmed from BayernLB and EUR 11.3 billion from DKB), which was largely accounted for by additional deposits held with the Deutsche Bundesbank due to the inflow of funds from the BayernLB Group's participation in the ECB's TLTRO III programme.

Gross credit volume also rose considerably in the Financial Institutions sub-portfolio (EUR 3.2 billion, largely at BayernLB) partly as a result of the increase in demand for government coronavirus subsidy programmes and the Commercial Real Estate sub-portfolio (EUR 2.2 billion; of which BayernLB EUR 0.8 billion, DKB EUR 1.4 billion), due to new business in line with strategy.

The gross credit volume in the Corporates sub-portfolio was largely concentrated in growth at DKB of EUR 0.9 billion and this was also the case in the Retail/Other sub-portfolio with growth at DKB of EUR 0.8 billion.

Gross and net credit volume by sub-portfolio and change in percent (% change) since 31 December 2019

	Gross			Net		
EUR million	30 Jun 2020	31 Dec 2019	Change (in %)	30 Jun 2020	31 Dec 2019	Change (in %)
Countries/Public-Sector/ Non-Profit Organisations	85,754	65,150	31.6%	83,303	62,690	32.9%
Corporates	74,902	74,142	1.0%	61,054	60,541	0.8%
Commercial Real Estate	57,346	55,105	4.1%	15,026	15,885	(5.4)%
Financial Institutions	55,248	52,001	6.2%	53,174	50,849	4.6%
Retail/Other	34,042	33,271	2.3%	22,621	22,280	1.5%
of which Retail	33,904	33,140	2.3%	22,509	22,181	1.5%
Total	**307,293**	**279,669**	**9.9%**	**235,178**	**212,245**	**10.8%**

Net credit volume is calculated as gross exposure less the value of collateral. This rose by EUR 22.9 billion at the BayernLB Group, up somewhat less than gross credit volume. This lower increase stemmed from growth in collateral volumes in the Commercial Real Estate and Financial Institutions sub-portfolios. A significant amount of the growth in business in both sub-portfolios came from collateralised transactions.

The collateral ratio at the BayernLB Group fell from 24.1 percent to 23.5 percent and is largely down to the aforementioned effects of the significant increase in the gross credit volume in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio.

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

Breakdown by rating

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

Gross credit volume by rating category and sub-portfolio

30 Jun 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	83,178	1,286	1,097	146	27	20	85,754
Corporates	22,370	33,758	11,504	4,991	812	1,467	74,902
Commercial Real Estate	29,464	19,798	6,408	1,316	160	200	57,346
Financial Institutions	50,999	3,735	464	44	–	7	55,248
Retail/Other[1]	15,152	10,275	6,887	1,133	388	208	34,042
Total	**201,163**	**68,851**	**26,360**	**7,630**	**1,387**	**1,902**	**307,293**

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[1]	14,337	10,096	6,972	1,222	453	191	33,271
Total	**178,334**	**65,155**	**25,787**	**7,042**	**1,325**	**2,027**	**279,669**

1 Of which, gross credit volume in Retail of EUR 33.9 billion as at 30 June 2020 (31 December 2019: EUR 33.1 billion).

The investment grade share of the portfolio rose from 87.1 to 87.9 percent.

This was largely down to the expansion of the credit volume in the Countries/Public-Sector/Non-Profit Organisations and Financial Institutions sub-portfolios, which was particularly reflected in the master rating (MR) categories 0-7. Business volume in the Corporates sub-portfolio declined in these rating categories (EUR 1.2 billion), primarily as a result of rating downgrades associated with the coronavirus pandemic. The credit volume also rose in the rating categories MR 8-11, largely accounted for by the Commercial Real Estate (EUR 2.5 billion), Financial Institutions (EUR 0.7 billion) and Corporates sub-portfolios (EUR 0.4 billion).

Gross credit volume in rating categories MR 12-14 and MR 15-18 increased by EUR 0.6 billion in each category. These rises mainly occurred in the Corporates sub-portfolio and largely arose from March 2020 onwards – i.e. these increases in the non-investment grade category occurred during the coronavirus pandemic. The percentage shares in these rating categories fell from 9.2 percent to 8.6 percent (MR 12-14) and remained unchanged at 2.5 percent (MR 15-18), respectively.

In rating categories MR 19-21 business volumes were almost unchanged. There was also little change to the percentage of business volume in these rating categories, which remained stable at 0.5 percent.

The non-performing loan ratio improved to 0.6 percent (31 December 2019: 0.7 percent) during the reporting period, in particular due to the expansion of the credit volume in the Countries/Public-Sector/Non-Profit Organisations and Financial Institutions sub-portfolio. 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.

Renegotiated credits

The definition of renegotiated credits (forbearance pursuant to Art. 47b CRR) has remained unchanged since financial year 2019.

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, insofar as these comply with the

EBA Guideline (EBA/GL/2020/02) criteria. The measures approved within the framework of a moratorium are not to be regarded as forbearance pursuant to Art. 47b CRR. At BayernLB and DKB, only the legal moratorium for consumers is in use. All other measures associated with the coronavirus pandemic are decided upon by considering each borrower on an individual basis.

Current situation

Financial assets subject to coronavirus-related (forbearance) measures, government and private moratoria and public guarantees associated with the coronavirus pandemic

EUR million	**30 Jun 2020**
Loans subject to an EBA-compliant moratorium[1]	126
Loans subject to coronavirus-related forbearance measures[1]	2,446
New loans subject to coronavirus-related public guarantees[2]	91
Total	**2,662**

1 The volume shown includes loans and advances to customers and refers to approved loans and requests still being processed as at 30 June 2020.

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.

As at 30 June 2020 the credit volume subject to an EBA-compliant moratorium is exclusively confined to DKB's retail portfolio. The loans subject to coronavirus-related forbearance measures are all individually summarised with the measures granted as a result of the coronavirus crisis agreed with the customer. The volume shown also includes all loans with coronavirus-related measures not classified as forborne within the meaning of Art. 47b CRR, as the majority of the volume shown here is accounted for by customers who have managed to maintain good credit ratings, viable debt-servicing capacity and sustainable business models. The majority of the new loans subject to coronavirus-related public guarantees are guaranteed by KfW and LfA.

Forbearance exposures

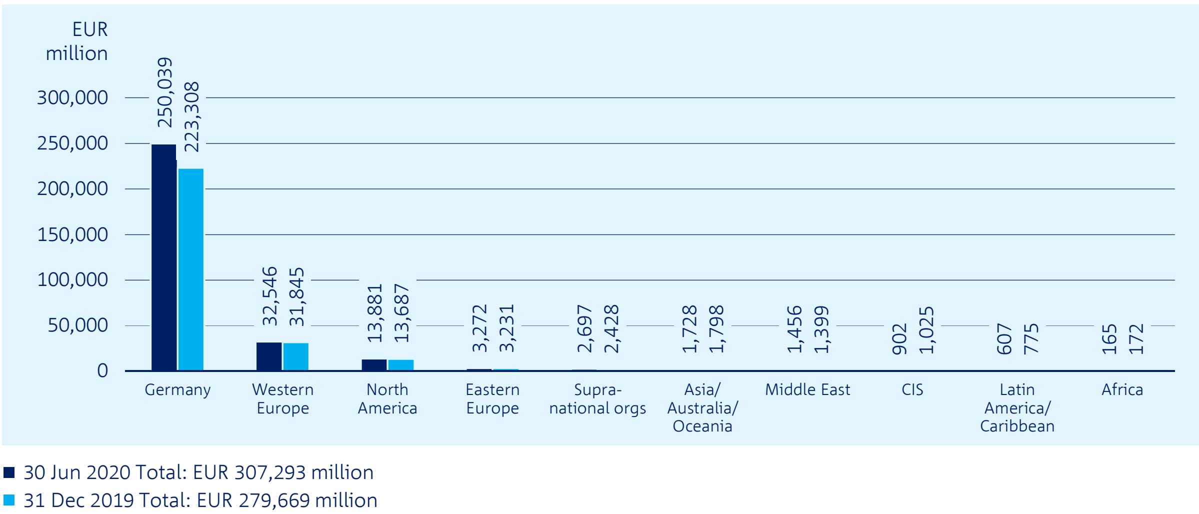
30 Jun 2020	**Forbearance/ deferrals**	**Impairments**	**Collateral/financial guarantees received**
Loans and advances to banks	5.1	(5.1)	0.0
Loans and advances to customers	1,218.1	(287.3)	406.7
Financial investments	0.0	0.0	0.0
Credit commitments	156.2	(35.4)	15.9
Total	**1,379.4**	**(327.9)**	**422.5**

31 Dec 2019	Forbearance/ deferrals	Impairments	Collateral/financial guarantees received
Loans and advances to banks	5.1	(5.1)	0.0
Loans and advances to customers	1,254.7	(335.2)	372.5
Financial investments	0.0	0.0	0.0
Credit commitments	155.9	(25.2)	5.8
Total	**1,415.8**	**(365.5)**	**378.3**

Breakdown by region

The following table shows gross credit volume by region.

Gross credit volume by region



In line with the Business and the Risk Strategy, Germany accounted for a dominant share of the BayernLB Group's lending at 81.4 percent (31 December 2019: 79.8 percent).

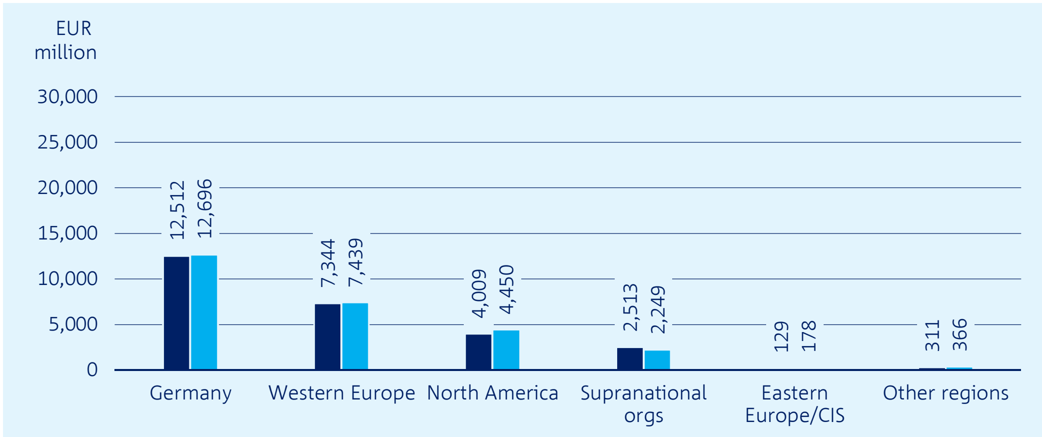
Regionally, the most significant change in gross credit volume was in Western Europe (excluding Germany), where business volume rose by EUR 0.7 billion. Switzerland (EUR 0.5 billion) and Spain (EUR 0.2 billion) accounted for the bulk of the increase in business volume.

Generally speaking, country risks and risk/return ratios in lending abroad continued to be very closely managed and monitored given global developments and, in particular, persistent political tensions (e.g. Latin America, Eastern Europe/CIS, Middle East) and the effects of the coronavirus pandemic.

Issuer risk

The following table shows gross issuer risk by region.

Gross issuer risk by region



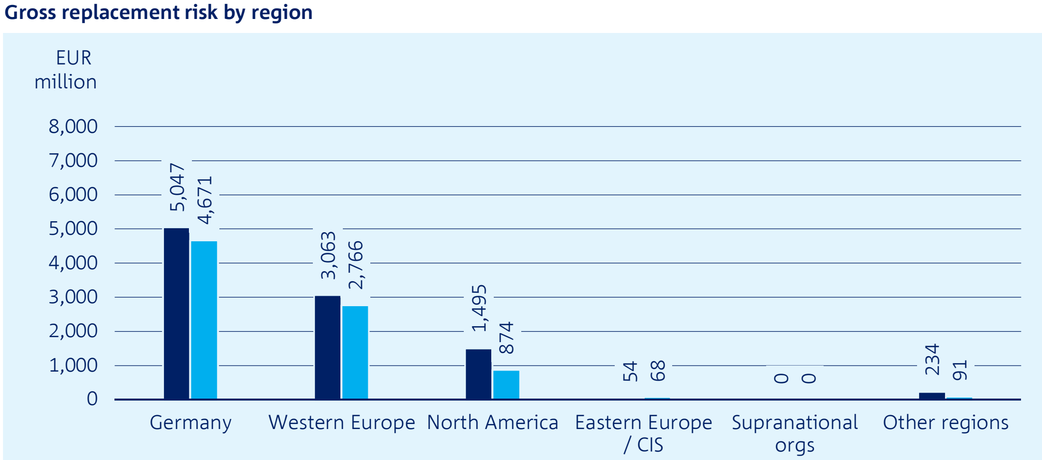
30 Jun 2020 Total: EUR 26,818 million
31 Dec 2019 Total: EUR 27,378 million

Gross issuer risk volume fell in the reporting period by EUR 0.6 billion to EUR 26.8 billion (31 December 2019: EUR 27.4 billion): The largest falls were in issuer risks in the North America region (EUR 0.4 billion) and in Germany (EUR 0.2 billion). The lion`s share of the decline in North America came from the USA (around EUR 0.4 billion), with Canada accounting for a small portion (around EUR 0.1 billion).

Replacement risk

The following table shows gross replacement risk by region.

Gross replacement risk by region



30 Jun 2020 Total: EUR 9,893 million
31 Dec 2019 Total: EUR 8,469 million

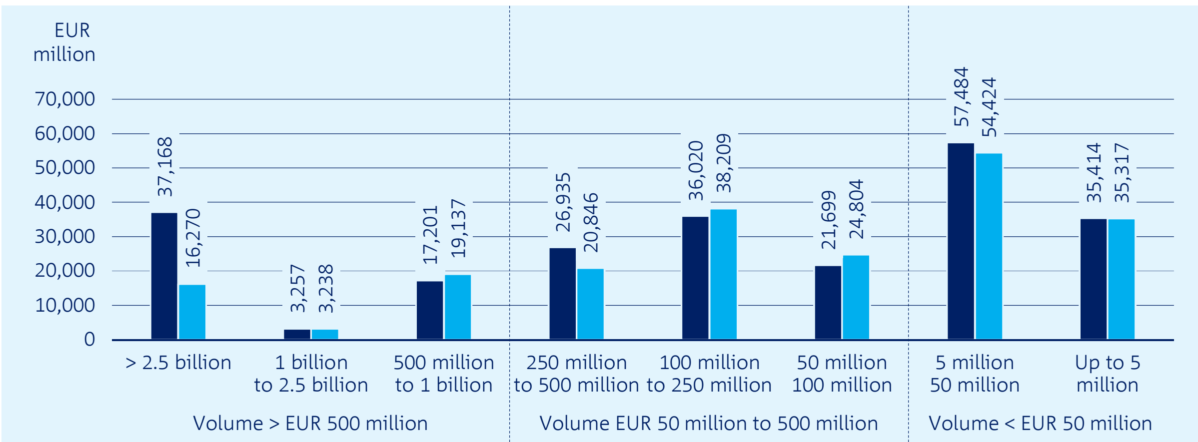
Gross replacement risk rose by EUR 1.4 billion to EUR 9.9 billion (31 December 2019: EUR 8.5 billion) during the reporting period, mainly in conjunction with interest rate hedging transactions.

The increase in replacement risks stemmed mainly from Germany (EUR 0.4 billion) and the North America (EUR 0.6 billion) and Western Europe (EUR 0.3 billion) regions. The increase in the North America region was primarily down to the USA, while the rise in Western Europe came largely from the UK.

Breakdown by size category

The following table shows net credit volume by size.

Net credit volume by size



30 Jun 2020 Total: EUR 235,178 million
31 Dec 2019 Total: EUR 212,245 million

Net credit volume with customers in the more than EUR 2.5 billion category is largely down to the high volume of deposits 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 (master rating 0).

The more than EUR 500 million to EUR 2.5 billion category predominantly include savings banks, German and international banks, large DAX companies and government entities with ratings in the very good investment grade category (master ratings 0 to 7).

The increases in the size category of net credit volumes from EUR 250 million to EUR 500 million are largely down to higher volumes in the Financial Institutions sub-portfolio.

The portfolio's granularity remained high. Around 64 percent of the net credit volume is accounted for by the up to EUR 250 million categories (31 December 2019: 72.0 percent).

The following sections 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 20.6 billion or 31.6 percent to EUR 85.8 billion (31 December 2019: EUR 65.2

billion). Volumes at BayernLB were up by EUR 9.3 billion to EUR 49.2 billion, while DKB saw a rise of EUR 11.3 billion to EUR 36.5 billion. This was primarily due to the increase in deposits held with the Deutsche Bundesbank.

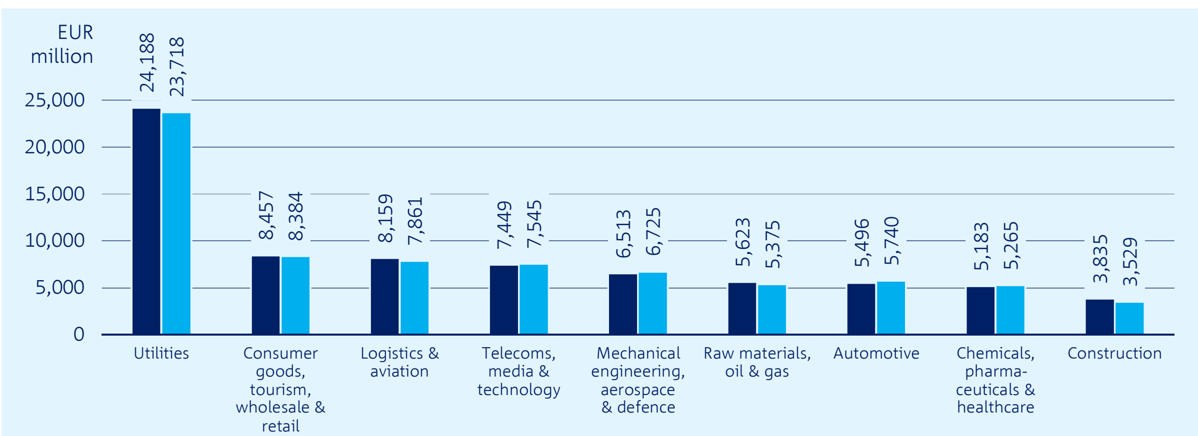
The central bank positions held by BayernLB and DKB are primarily for the purpose of fine-tuning liquidity and are therefore subject to fluctuations in value as at the reporting date. The significant increase in the gross credit volume in both institutions as at the reporting date was largely the result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

The very high investment grade share in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio amounted to 98.5 percent (31 December 2019: 98.0 percent).

Corporates sub-portfolio

The Corporates sub-portfolio was confronted by significantly increased challenges in the first half of 2020. Alongside the ongoing very high pressure on margins, the outbreak of the coronavirus pandemic in the first quarter was of particular significance. Despite these impediments, it succeeded in further expanding the business volume in the BayernLB Group. The growth covered both existing and new customers. Overall, exposure in the sub-portfolio rose by a total of EUR 0.8 billion to EUR 74.9 billion, which is equivalent to an increase of 1.0 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 Jun 2020 Total: EUR 74,902 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, rose by EUR 0.5 billion or 2.0 percent to EUR 24.2 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 60.1 percent. As loans for renewables are largely granted by DKB, it continues to have an above-average share of the sector at 63.4 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 87.3 percent, the majority of the financing volume in the utilities sector is in Western Europe, of which Germany alone accounts for 76.3 percent.

The construction industry also represents a key sector for the BayernLB Group. Gross credit volume was increased by EUR 0.3 billion to EUR 3.8 billion in this sector. This rise was mainly achieved in the construction suppliers and secondary construction activities sectors.

Credit volume in another key sector with great potential, logistics & aviation, was up by EUR 0.3 billion to EUR 8.2 billion. The expansion was largely driven by the selective financing of government-backed airport operators. In addition, public transport financing also contributed to the expansion of the credit volume in the logistics & aviation sector.

The raw materials, oil & gas sector also saw growth, with business volumes up by EUR 0.2 billion to EUR 5.6 billion. Much of the new business came from the metalworking sector, where new investment grade clients were successfully acquired.

The volume of business in the automotive industry fell by EUR 0.2 billion to EUR 5.5 billion. The drop was mainly due to fluctuations in the value of money market transactions as at the reporting date.

The manufacturing & engineering, aerospace & defence sector gross credit saw a similarly low gross credit volume, with business down by EUR 0.2 billion to EUR 6.5 billion. There was a decline in the volume of financing for the production of aircraft and spacecraft.

The German domestic market, which is key for the BayernLB Group, continues to drive the Corporates sub-portfolio, with a high share of 71.2 percent (31 December 2019: 70.0 percent).

Despite the outbreak of the coronavirus pandemic, the investment grade share in the sub-portfolio was maintained at a very good level of 74.9 percent (31 December 2019: 76.8 percent). The coronavirus pandemic has already resulted in some downgraded credit ratings in the portfolio.

The sub-portfolio's granularity also remained high. The proportion of customers with a gross credit volume of less than EUR 50 million amounted to 48.8 percent (31 December 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 2.2 billion or 4.1 percent. Business volume as at the reporting date was therefore EUR 57.3 billion (31 December 2019: EUR 55.1 billion). Of this amount, EUR 27.7 billion stemmed from BayernLB and EUR 29.6 billion from DKB. Both institutions contributed to the increase in gross credit volume. BayernLB posted business growth of EUR 0.8 billion, while DKB expanded volume by EUR 1.4 billion.

The increase in business volume at BayernLB was principally in investor-side real estate rental and leasing.

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 1.5 billion rise in business volume. In addition, there were noteworthy increases in France (EUR 0.3 billion) and the USA (EUR 0.2 billion). In view of the uncertainties arising from the UK leaving the EU (Brexit), business volume in the country decreased due to the adoption of a very selective approach to new business being acquired.

The already high quality of the Commercial Real Estate sub-portfolio improved further: the investment grade share in the Corporates sub-portfolio rose to 85.9 percent (31 December 2019: 85.0 percent). The proportion accounted for by Germany remained high at 87.7 percent (31 December 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 clients with a gross credit volume of less than EUR 50 million was 52.9 percent (31 December 2019: 54.0 percent). The collateral ratio increased to 73.8 percent (31 December 2019: 71.2 percent) and is thus slightly above the three-year average of around 70 percent.

Financial Institutions sub-portfolio

Gross credit volume in the Financial Institutions sub-portfolio rose by EUR 3.2 billion to EUR 55.2 billion (31 December 2019: EUR 52.0 billion), a rise of 6.2 percent.

Within the BayernLB Group, the sub-portfolio's gross credit volume was split as follows: around EUR 53.5 billion with BayernLB and around EUR 1.8 billion with DKB.

Gross credit volume in the savings banks sector, the largest sector by volume, increased by EUR 1.6 billion to EUR 26.2 billion. The rise was largely the result of the increase in demand for government subsidy programmes associated with the coronavirus pandemic.

The banks sector posted an increase in business, with gross credit volume up by EUR 1.5 billion to EUR 23.7 billion. The expansion in business came principally from German Landesbanks, global credit banks and investment 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 0.1 billion and amounted to EUR 5.4 billion as at the reporting date. The expansion in business with insurers primarily related to reinsurance.

The quality of the sub-portfolio, which was already at a very high level, improved slightly. There was a moderate increase in the investment grade share to 99.1 percent (31 December 2019: 99.0 percent). The proportion accounted for by Germany, 66.1 percent, remained at a comparable level (31 December 2019: 67.0 percent) .

Retail/Other sub-portfolio

In the Retail/Other sub-portfolio, gross credit volume increased by EUR 0.8 billion or 2.3 percent to EUR 34.0 billion. The increase at DKB was the result of new loan transactions and rising credit card receivables. The retail customer business at BayernLB, which now accounts for only around 10 percent of the sub-portfolio, is being gradually wound down in line with strategy.

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

Summary

The overall market environment in the first half of 2020 was increasingly overshadowed by challenges. Alongside the ongoing very high pressure on margins, the outbreak of the coronavirus pandemic in Europe in the first quarter was of particular significance. Detrimental effects in the Corporates and Financial Institutions (banks sector) sub-portfolios are primarily manifested in the form of rating downgrades in the investment grade category. The impact on the Real Estate sub-portfolio has, however, remained moderate.

Consequently, and taking into account the high volume of deposits with the Deutsche Bundesbank, the investment grade share increased from 87.1 to 87.9 percent and the non-performing loan ratio remained very low at only 0.6 percent (31 December 2019: 0.7 percent).

Investment risk

In the investment portfolio, BayernLB's strategic realignment is being supported primarily by focussing on investments relevant to the business model. DKB, BayernInvest and Real I.S. are the investments that form an integral part of the Group business model.
As a consequence of the decision to focus on high-growth areas, investments not relevant to the business model are being wound down. As at 30 June 2020, the economic risk capital requirement had increased slightly to EUR 126 million (31 December 2019: EUR 114 million) and is the result of an increase in the carrying amount of a holding in the process of being wound down.

There were no material changes to the scope of consolidation and portfolio of equity interests in the first half of 2020.

Business and strategic risk

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 reduction in the risk capital requirement on the comparison date of 31 December 2019 to EUR 47 million (previously: EUR 544 million). In contrast, the risk capital requirement again rose sharply to EUR 272 million as at 30 June 2020 due to the anticipated negative impact of the coronavirus crisis.

Market risk

Actual market risk

Market risk measurement methods are constantly checked for the quality of their forecasting. In the backtesting process, the VaR risk forecasts are compared with actual outcomes (gains or losses). As at 30 June 2020, based on the Basel traffic light approach, the forecasting quality of the procedure for measuring market risk at BayernLB was good, even taking into account the market fluctuations during the coronavirus crisis.

The effects of interest rate scenarios both at present value and in terms of earnings are used to monitor the interest rate risks in the investment book and referenced against the corresponding (supervisory) thresholds and limits, in compliance with the EBA's standards at both bank and Group level. As at the reporting date of 30 June 2020, the effects at both BayernLB and the BayernLB Group were well below the thresholds and/or alert thresholds.

Pension risk

As before, pension risks (risks from pension liabilities) are calculated using a scenario-based approach. By setting up a Contractual Trust Agreement (CTA) in the form of a multilateral trust arrangement with the legal status of an association, the Board of Management has established a basis for hedging pension liabilities by funding plan assets. The trust association is legally independent of BayernLB but economically identical with it. It invests the assets provided by BayernLB in various asset classes in accordance with separately agreed investment guidelines. These assets are earmarked and may only be used to service the pension entitlements of a defined group of beneficiaries.

Current situation

Actual market risk

In the BayernLB Group, the main factors affecting total VaR for market risks are general and specific interest rate risks. All other types of risk play a much less significant role by comparison.

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

EUR million	30 Jun 2020	31 Dec 2019	1 Jan 2020 to 30 Jun 2020		
			Average	Maximum	Minimum
General interest rate VaR	62.2	41.7	53.2	67.7	37.1
Specific interest rate VaR (credit spreads)	25.4	9.9	20.7	33.7	9.1
Currency VaR	1.7	1.9	2.3	6.1	1.6
Equities VaR	7.7	3.5	6.0	9.7	3.5
Commodities VaR	1.3	0.9	0.9	1.4	0.6
Volatility VaR	1.6	1.4	1.6	3.4	1.2
Total VaR[1]	**63.5**	**45.3**	**60.8**	**77.6**	**40.6**

VaR contribution of actual market risks by banking and trading book (confidence level 99 percent, holding period 1 day)

EUR million	30 Jun 2020	Of which banking book	Of which trading book
General interest rate VaR	62.2	61.5	5.3
Specific interest rate VaR (credit spreads)	25.4	22.4	2.9
Currency VaR	1.7	1.6	0.7
Equities VaR	7.7	7.6	0.2
Commodities VaR	1.3	0.0	1.3
Volatility VaR	1.6	1.5	0.3
Total VaR[1]	**63.5**	**59.5**	**6.5**

1 When calculating the risk capital requirement for BayernLB, in addition to showing the VaR, risk-bearing capacity takes into account premiums for credit risks on money market transactions, residual risk on CVA fluctuations and market risk on external credit margins.

Total VaR rose significantly by around EUR 18.2 million to EUR 63.5 million compared with 31 December 2019. The reason for the increase in risk was the turmoil on the capital markets caused by the coronavirus crisis. Most striking is the trend in the specific interest rate risk, which has been impacted by the widening of credit spreads in March 2020. The increased market volatility is also clearly reflected in the general interest rate risk and equity risk.

The majority of the market risks came from the banking books, with the trading books being of secondary importance.

Pension risk

The risk capital requirements for pension risk as at 30 June 2020 remained virtually unchanged at EUR 1.0 billion. The very minor contribution of the CTA in the first half of the year had only a marginal risk-reducing effect on pension risk.

Summary

While actual market risk was exposed to strong market turbulence in the first half of the year as a result of the coronavirus crisis, pension risk remained largely unchanged.

Liquidity risk

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

In addition, time-to-wall figures for stress scenarios are calculated, limited and monitored. These show the length of time before the liquidity surplus turns negative under stressed conditions.

Current situation

The following tables show the outcomes of the management scenario for the BayernLB Group and give an overview of the liquidity situation as at 30 June 2020 compared with 31 December 2019:

Liquidity situation

30 Jun 2020 Cumulative figures in EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
Liquidity surplus	**37,418**	**30,285**	**23,254**	**20,553**
arising from				
Liquidity counterbalancing capacity	64,785	62,149	50,666	46,830
less				
Liquidity gap	27,367	31,864	27,412	26,277

31 Dec 2019[1] Cumulative figures in EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
Liquidity surplus	**23,186**	**24,370**	**20,518**	**20,819**
arising from				
Liquidity counterbalancing capacity	38,083	44,204	37,713	21,151
less				
Liquidity gap	14,898	19,834	17,195	331

1 Adjusted as per IAS 8.22 (see note 2)

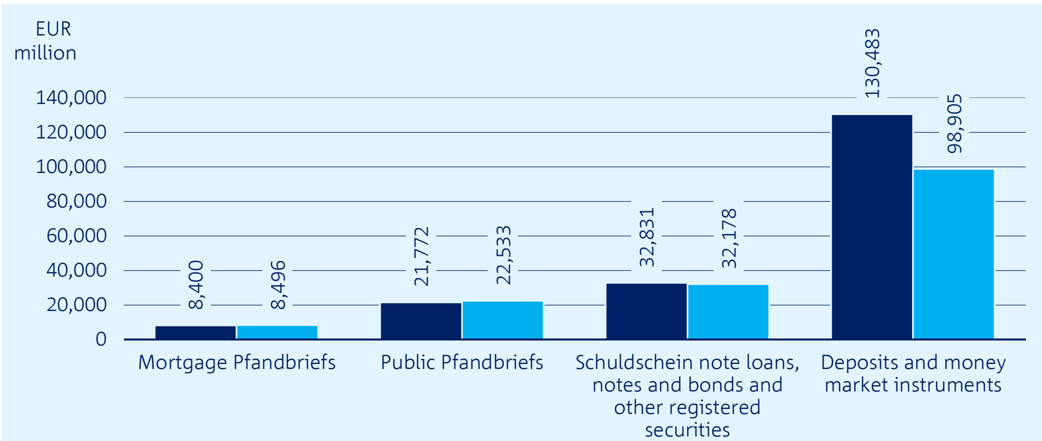
The BayernLB Group's liquidity position was comfortable at all times during the period under review. Cash outflows due to the coronavirus crisis were manageable at all times. The significantly further improved liquidity situation as at 30 June 2020 is in part due to the BayernLB Group's participation in the ECB tender (TLTRO III) on 24 June 2020.

The Bank also met the minimum supervisory Liquidity Coverage Ratio (LCR) at all times in the reporting period. The BayernLB Group's LCR amounted to 238 percent as at 30 June 2020 (31 December 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 supervisory LCR 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.

The BayernLB Group's refinancing structure as at 30 June 2020 compared with 31 December 2019 was as follows:

Funding structure



■ 30 Jun 2020
■ 31 Dec 2019

Events on the financial markets in the first half of 2020 were driven by the coronavirus crisis, the capital markets having begun the year with a continuation of the previous year's positive performance. Overall, January got the year off to one of the most active starts in many years in terms of banks' issue volumes. In particular, the nervousness about the smouldering trade dispute between the USA and China and Brexit had largely faded. 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 private 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 margins returning to normal in the covered bond market and then gradually in the market for unsecured bonds from May onwards. While liquidity costs have returned to normal levels, they have remained somewhat higher than at the start of the year.

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. Due to the coronavirus situation, the Group drew on the ECB's longer-term refinancing facilities (TLTRO) in June 2020.

The total number of long-term issue securities positions has remained virtually unchanged. The funding volume of structural liquidity realised at BayernLB amounted to around EUR 2.0 billion in the first half of the year – primarily comprising unsecured issues. 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 programme and the higher intra-year holdings of call money and term deposits.

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 (amounting to around 70 percent) allowed funding costs to be maintained at a low level.

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.

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, such as bearer bonds, registered securities and Schuldschein note loans. BayernLabo meets ad hoc liquidity requirements by opening time deposits at BayernLB. BayernLabo launched no issues in the first half of 2020.

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 principally by growth in deposits in the first half of 2020. The coronavirus crisis had resulted in no deposit outflows as at the end of the first half of the year.

Summary

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

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

Reporting of products as defined in section 46f para. 5, 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)

EUR million	30 Jun 2020	31 Dec 2019
Liabilities to banks	3,791	3,722
of which Schuldschein note loans	2,456	2,428
of which other registered securities	1,335	1,295
Liabilities to customers	6,908	6,948
of which Schuldschein note loans	834	844
of which other registered securities	6,074	6,104
Securitised liabilities	18,242	18,233
Liabilities held for trading	423	433
Total	**29,365**	**29,336**

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

EUR million	30 Jun 2020	31 Dec 2019
Liabilities to banks	178	157
of which Schuldschein note loans	47	36
of which other registered securities	132	121
Liabilities to customers	862	783
of which Schuldschein note loans	148	157
of which other registered securities	715	626
Securitised liabilities	2,819	2,315
Liabilities held for trading	713	686
Total	**4,573**	**3,941**

Operational risk

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. Due to the coronavirus pandemic, potential risks at BayernLB and DKB were updated and re-assessed at increased levels.

Current situation

As at 30 June 2020, the risk capital requirement for operational risks for the BayernLB Group rose slightly to EUR 464 million (31 December 2019: EUR 450 million).

Compared with 31 December 2019 (restated total loss at the BayernLB Group due to updating: EUR 9.9 million), the total loss at the BayernLB Group amounted to EUR 5.41 million (BayernLB: EUR 0.82 million, DKB: EUR 4.59 million) in the first half of 2020.

The total loss in the first half of the year stemmed mainly from the event categories implementation, delivery and process management with a share of 48.9 percent (restated share as at 31 December 2019: 44.0 percent), external fraud, with a share of 31.4 percent (restated share as at 31 December 2019: 37.0 percent), and property damage with a share of 9.4 percent (restated share as at 31 December 2019: 5.0 percent).

DKB effectively reduced card misuse in retail customer business, which is included in the external fraud category, by deploying preventative measures in the first half of the year .

BayernLB's decentralised OpRisk managers (DORMs) and DKB were made aware of loss events and risks resulting from the current coronavirus pandemic. Manageable losses have been incurred in this regard due to the necessity of cancelling events and business trips and also because of the purchase costs of items such as disinfectants and other resources.

Summary

The amount of operational risk losses at the BayernLB Group was low in the first half of 2020.

Summary of risk report

Despite the effects of the coronavirus pandemic, the risk profile of the BayernLB Group remained largely stable in the first half of 2020.

The BayernLB Group had adequate risk-bearing capacity at all times during the reporting period. The stress scenarios conducted demonstrate that the BayernLB Group has adequate capital to cover potential risks, in particular with regard to the coronavirus crisis.

The liquidity situation remained good and was significantly improved by the participation in TLTRO III.

Adequate risk provisions were set aside to cover loans added to the default categories (non-performing loans).

Regulatory solvency requirements were met. Own funds available to cover risks amounted to EUR 11.6 billion.

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.

Consolidated half-yearly financial statements

Statement of comprehensive income

Income statement

EUR million	Notes	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Interest income		2,811	2,964
Interest income from financial instruments determined using the effective interest method		1,588	1,827[2]
Interest income – other		1,223	1,136[2]
Interest expenses		(1,937)	(2,097)
Interest expenses from financial instruments determined using the effective interest method		(707)	(927)
Interest expenses – other		(1,230)	(1,170)
Net interest income	(5)	873	867
Risk provisions	(6)	(75)	(10)
Net interest income after risk provisions		799	856
Commission income		378	364
Commission expenses		(224)	(223)
Net commission income	(7)	154	141
Gains or losses on fair value measurement	(8)	51	(23)
Gains or losses on hedge accounting	(9)	(9)	(4)[2]
Gains or losses on derecognised financial assets[1]	(10)	(1)	3
Gains or losses on financial investments	(11)	31	50
Administrative expenses	(12)	(764)	(713)
Expenses for the bank levy and deposit guarantee scheme	(13)	(142)	(119)
Other income and expenses	(14)	38	131[3]
Gains or losses on restructuring	(15)	–	(7)
Profit/loss before taxes		**158**	**316**
Income taxes		(56)	(21)
Profit/loss after taxes		**101**	**295**
Profit/loss attributable to non-controlling interests		–	–
Consolidated profit/loss		**101**	**295**

Rounding differences may occur in the tables.

1 For financial assets measured at amortised cost.
2 Adjusted as per IAS 8.22 (see note 2).
3 Adjusted as per IAS 8.42 (see note 2).

Statement of comprehensive income (condensed)

EUR million	Notes	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Profit/loss after taxes as per the income statement		**101**	**295**[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	(35)	23	110
Change not including deferred taxes		28	158
Change in deferred taxes		(5)	(49)
Changes in the revaluation surplus containing changes in the fair value of currency swaps arising from currency basis spread fluctuations	(35)	6	–
Change not including deferred taxes		5	–
Change in deferred taxes		1	–
Currency-related change	(35)	–	–
Change not including deferred taxes		–	–
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	(35)	31	69
Change not including deferred taxes		44	99
Change in deferred taxes		(13)	(29)
Change due to remeasurement of defined benefit plans	(35)	(78)	(333)
Change not including deferred taxes		(84)	(359)
Change in deferred taxes		5	26
Other comprehensive income after taxes		**(19)**	**(154)**
Total reported comprehensive income recognised and not recognised in profit or loss		**83**	**140**
Attributable:			
To BayernLB shareholders		83	140
To non-controlling interests		–	–
Total comprehensive income attributable to BayernLB shareholders:			
From continuing operations		83	140
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	30 Jun 2020	31 Dec 2019
Cash reserves	(16)	18,137	8,512
Loans and advances to banks	(17)	45,124	31,106
Loans and advances to customers	(18)	152,106	144,997
Risk provisions	(19)	(1,002)	(973)
Portfolio hedge adjustment assets		1,054	765
Assets held for trading	(20)	14,702	13,925
Positive fair values from derivative financial instruments (hedge accounting)	(21)	889	706
Financial investments	(22)	23,812	23,561
Investment property	(23)	28	28
Property, plant and equipment	(24)	548	544
Intangible assets	(25)	115	102
Current tax assets		158	205
Deferred tax assets		549	581
Non-current assets or disposal groups classified as held for sale		2	–
Other assets	(26)	1,813	1,905
Total assets		**258,035**	**225,965**

Rounding differences may occur in the tables.

Liabilities

EUR million	Notes	30 Jun 2020	31 Dec 2019
Liabilities to banks	(27)	71,636	50,152
Liabilities to customers	(28)	112,061	100,436
Securitised liabilities	(29)	43,261	44,570
Liabilities held for trading	(30)	10,924	10,312
Negative fair values from derivative financial instruments (hedge accounting)	(31)	1,415	1,224
Provisions	(32)	4,609	4,801 [1]
Current tax liabilities		176	241
Other liabilities	(33)	609	583
Subordinated capital	(34)	1,726	2,107
Equity	(35)	11,618	11,537
Equity excluding non-controlling interests		11,604	11,521
Subscribed capital		3,412	3,412
Capital surplus		2,182	2,182
Retained earnings		5,587	5,667 [1]
revaluation surplus		170	109
Foreign currency translation reserve		2	2
Distributable profit/net accumulated losses		251	150
Non-controlling interests		15	16
Total liabilities		**258,035**	**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: Subscribed capital	Compound instruments	Capital surplus	Retained earnings	revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**	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]	–	–	–	–	110	–	–	110	–	110
Rating-related changes in the fair value of financial liabilities - FVPLD (FVO)[4]	–	–	–	–	69	–	–	69	–	69
Changes in the fair value of currency swaps from currency basis spread fluctuations	–	–	–	–	–	–	–	–	–	–
Currency-related changes	–	–	–	–	–	–	–	–	–	–
Changes due to remeasurement of defined benefit plans	–	–	–	(333)	–	–	–	(333)	–	(333)
Other comprehensive income	–	–	–	*(333)*	*179*	–	–	*(154)*	–	*(154)*
Consolidated profit/loss[2]	–	–	–	–	–	–	295	295	–	295
Total comprehensive income	–	–	–	*(333)*	*179*	–	*295*	*140*	–	*140*
Capital increase/ capital decrease	–	–	–	–	–	–	–	–	–	–
Changes in the scope of consolidation and Other	–	–	–	(2)	–	–	–	(2)	–	(2)
Distribution of profits	–	–	–	–	–	–	(175)	(175)	(5)	(180)
As at 30 Jun 2019	**3,412**	**21**	**2,182**	**5,331**	**182**	**2**	**295**	**11,424**	**13**	**11,437**

	Parent								Non-controlling interests	
EUR million	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**	**5,659**	**109**	**2**	**150**	**11,513**	**16**	**11,530**
Adjusted as per IAS 8[2]	**–**	**–**	**–**	**8**	**–**	**–**	**–**	**8**	**–**	**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]	–	–	–	–	23	–	–	23	–	23
Rating-related changes in the fair value of financial liabilities - FVPLD (FVO)[4]	–	–	–	(2)	32	–	–	31	–	31
Changes in the fair value of currency swaps from currency basis spread fluctuations	–	–	–	–	6	–	–	6	–	6
Currency-related changes	–	–	–	–	–	–	–	–	–	–
Changes due to remeasurement of defined benefit plans	–	–	–	(78)	–	–	–	(78)	–	(78)
Other comprehensive income	–	–	–	(80)	61	–	–	(19)	–	(19)
Consolidated profit/loss	–	–	–	–	–	–	101	101	–	101
Total comprehensive income	–	–	–	(80)	61	–	101	83	–	83
Capital increase/ capital decrease	–	–	–	–	–	–	–	–	–	–
Changes in the scope of consolidation and Other	–	–	–	–	–	–	–	–	–	–
Distribution of profits	–	–	–	–	–	–	–	–	(2)	(2)
As at 30 Jun 2020	**3,412**	**–**	**2,182**	**5,587**	**170**	**2**	**251**	**11,604**	**15**	**11,618**

Rounding differences may occur in the tables.

Details on equity ca be found in note 35.

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

2 Adjusted as per 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 - 30 Jun 2020	1 Jan - 30 Jun 2019
Cash and cash equivalents at end of previous period	**8,512**	**3,335**
+/- cash flow from operating activities	10,051	2,579
+/- cash flow from investing activities	(41)	(43)
+/- cash flow from financing activities	(383)	(23)
+/- exchange-rate, scope of consolidation and measurement-related changes in cash and cash equivalents	(1)	34
Cash and cash equivalents at end of period	**18,137**	**5,881**

Rounding differences may occur in the tables.

Notes

Notes to the half-yearly financial statements

The half-yearly financial statements of the BayernLB Group as at 30 June 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 (including all amendments) as well as the supplementary provisions applicable under section 315e para. 1 of the German Commercial Code. In addition to the IFRS standards, IFRSs also comprise the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). All Standards and Interpretations that are mandatory within the EU up to 30 June 2020 have been applied. The half-yearly financial statements comply in particular with the requirements of IAS 34.

Unless otherwise stated, all amounts are given in EUR million and rounded up or down to the nearest whole figure. Rounding differences may occur in the tables.

Accounting policies

(1) Principles

With the exception of the changes referred to below, the accounting policies used for the half-yearly financial statements as at 30 June 2020 were the same as those used for the 2019 consolidated financial statements. Information provided in these half-yearly financial statements is to be read in conjunction with the information in the published and audited consolidated financial statements as at 31 December 2019. Items are recognised and measured on a going concern basis.

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

Impact of amended and new International Financial Reporting Standards

In financial year 2020 the following amended standards and interpretations that the European Commission has incorporated into European law were 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 the half-yearly financial statements of the BayernLB Group as at 30 June 2020.

- *IFRS 9, IAS 39 and IFRS 7*

  The amendments to IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement allow 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 the BayernLB Group these amendments had no impact on the half-yearly financial statements as at 30 June 2020.

- *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 the half-yearly financial statements of the BayernLB Group as at 30 June 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 the half-yearly financial statements of the BayernLB Group as at 30 June 2020.

Amended or new standards not yet incorporated into European law were not applied to these half-yearly financial statements.

(2) Changes on the previous year

Adjustments as a result of the coronavirus pandemic

To calculate the expected credit loss, forward-looking information over a two-stage process is taken into account. For a detailed description, see note 72 of the consolidated financial statements for 2019.

Due to the impact of 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 adjustments that had been considered in the financial statements in financial year 2019. The key parameters underlying these scenarios are the changes over time in the gross domestic product (GDP) for Germany, Europe and the USA. The others are the changes in interest rates in Germany and the eurozone and in the EUR to USD, GBP and CHF exchange rates. The baseline scenario is used to map the currently expected trends caused by the pandemic. In this case, the scenario is one in which, after a short but sharp recession in the first half of 2020, the pandemic can be contained from the middle of the year or its braking effect on the economy loses significance. In the case of GDP in the eurozone, this means a contraction of more than 5 percent in financial year 2020 and an acceleration in growth in the following years that may, at times exceed 2 percent. Yields on bonds with good credit ratings initially remain very low and only rise moderately thereafter. The dollar loses strength and the euro gains ground against the currency up to an annualised average of EUR/USD 1.30 in 2024. The probability of this scenario occurring was adjusted to 70 percent.

At the same time, the baseline scenario was supplemented by the "global economic crisis" scenario (30 percent probability of occurrence). This maps the risk that the pandemic cannot be contained and takes account of the impact of further measures to combat the virus, such as another extensive lockdown. This scenario is also based on how the same parameters described above change over time. In terms of GDP, this means a reduction of around 8 percent in the eurozone. The economic slump reaches its nadir in 2021, contracting again by more than 1 percent, until a gradual recovery sets in in 2022. Up until 2024, the GDP growth rates of all regions/countries align with the baseline scenario. Long-term yields fall back well into negative territory and do not reach zero until 2024. The euro initially depreciates against the dollar before appreciating sharply to an annualised average of EUR/USD 1.40 in 2024 as the long-delayed effects of the substantial cuts to interest rates in the USA finally materialise. The framework parameters in both the baseline scenario and the "global economic crisis" scenario were modified to also take account of the scenarios of the impact of a disorderly exit ("no-deal Brexit") of the United Kingdom from the EU and the potential formation of a bubble in international real estate markets ("real estate crisis").

Consequently, the BayernLB Group took account as at 30 June 2020 of the impact of the expected credit losses of EUR 183 million (31 December 2019: EUR 71 million), which are largely distributed in the DKB and Corporates & Markets segments. 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 -23 million or EUR 22 million, respectively.

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 first half of 2020 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 calculation 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 half-yearly financial statements of the BayernLB Group as at 30 June 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 3 million fall in net interest income for the first half of 2019.

To improve comprehensibility and transparency, from financial year 2020 balances at central banks are no longer reported in the liquidity gap in the economic liquidity calculation but instead allocated to the liquidity counterbalancing capacity. In the presentation of the BayernLB Group's management scenario in the management report (risk report), this resulted as at 31 December 2019 in an increase in liquidity counterbalancing capacity and the liquidity gap of respectively EUR 8,413 million in all maturity bands. Overall, the liquidity surplus remained unchanged.

Adjustments in accordance with IAS 8.32 et seq.

In the reporting period, the BayernLB Group made changes to estimates of measurement parameters for calculating liabilities under IAS 19. The changes in measurement reduced retained earnings by a total of EUR 101 million. This was due to the updating of the discounting rate for pension obligations (a negative EUR 52 million, which includes a counter-effect of EUR 30 million from the change made to the interest rate derivation method) and the updating of changes in medical costs for pension obligations (a charge of EUR 48 million). In addition, the updating of the turnover rate for service anniversaries added EUR 1 million to administrative expenses. As a result of the adjustments, pension obligations rose by EUR 101 million and liabilities from service anniversaries by EUR 1 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 the provision was 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 1 million in the first half of 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 and the notes including segment reporting.

(3) Scope of consolidation

Besides the parent company, the group of companies consolidated within BayernLB comprises 11 (31 December 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.

Determining the scope of consolidation

BayernLB's scope of consolidation is determined by materiality criteria. 115 (31 December 2019: 116) companies were not consolidated or measured at equity due to their negligible importance individually or collectively to the financial position and financial performance of the Group. The impact on the balance sheet from the contractual relationships between Group companies and these non-consolidated companies is reported in the half-yearly financial statements.

Segment reporting

(4) Notes to the segment report

The segment report reflects the business structure of the BayernLB Group. A total of 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.

Segment reporting is based on IFRS 8 and therefore on the monthly management reports submitted to the Board of Management, which serves as the chief operating decision maker as defined in IFRS 8.7. The management reports – and 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 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. 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 30 June 2020

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Net interest income	155	144	476	87	11	**873**
Risk provisions	(10)	(65)	2	(1)	–	**(75)**
Net commission income	118	40	9	(14)	–	**154**
Gains or losses on fair value measurement	42	38	(12)	(18)	1	**51**
Gains or losses on hedge accounting	–	1	(5)	(6)	–	**(9)**
Gains or losses on derecognised financial assets	–	1	(2)	–	–	**(1)**
Gains or losses on financial investments	1	–	13	18	–	**31**
Administrative expenses	(199)	(167)	(332)	(69)	2	**(764)**
Expenses for the bank levy and deposit guarantee scheme	–	–	(37)	(104)	–	**(142)**
Other income and expenses	4	–	3	34	(2)	**38**
Gains or losses on restructuring	–	–	–	–	–	**–**
Profit/loss before taxes	112	(8)	115	(73)	12	**158**
Risk-weighted assets (RWAs)	12,089	24,464	25,635	5,405	–	**67,593**
Average economic/regulatory capital	1,701	3,410	3,515	745	592	**9,963**
Return on equity (RoE) (%)	13.1	(0.5)	6.6	(19.7)	–	**3.2**
Cost/income ratio (CIR) (%)	62.2	74.5	68.7	68.4	–	**67.2**
Average number of employees (FTE)	877	551	4,133	2,140	–	**7,701**

Segment reporting as at 30 June 2019[1]

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Net interest income	150	144	476.2	85	10	**867**
Risk provisions	18	9	(42)	5	–	**(10)**
Net commission income	109	46	2	(16)	–	**141**
Gains or losses on fair value measurement	24	(2)	14	(48)	(11)	**(23)**
Gains or losses on hedge accounting	2	–	(1) [2]	(4)	–	**(4)**
Gains or losses on derecognised financial assets	–	–	2	–	–	**3**
Gains or losses on financial investments	3	1	11	35	–	**50**
Administrative expenses	(191)	(176)	(288)	(61)	2	**(713)**
Expenses for the bank levy and deposit guarantee scheme	–	–	(32)	(87)	–	**(119)**
Other income and expenses	1	3	5	117[3]	6	**131**
Gains or losses on restructuring	–	–	–	(7)	–	**(7)**
Profit/loss before taxes	117	26	147	19	7	**316**
Risk-weighted assets (RWAs)	12,660	25,558	23,970	5,456	–	**67,643**
Average economic/regulatory capital	1,729	3,529	3,344	763	315	**9,680**
Return on equity (RoE) (%)	13.5	1.5	8.8	4.8	–	**6.5**
Cost/income ratio (CIR) (%)	65.8	91.2	56.6	33.7	–	**61.2**
Average number of employees (FTE)	811	529	3,741	2,143	–	**7,224**

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, machine and plant engineering and construction and basic materials 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 the money market, 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 the money market activities relating to this and liquidity management. Earnings contributions from money market transactions for customers are shown in the respective customer segment. The segment also continues to include 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 1,025 million (30 June 2019: EUR 1,024 million), including EUR 986 million (30 June 2019: EUR 952 million) in Germany, EUR 9 million (30 June 2019: EUR 17 million) in Europe excluding Germany, and EUR 30 million (30 June 2019: EUR 55 million) in America. Of the risk-weighted assets (RWAs) in the amount of EUR 67,593 million (30 June 2019: EUR 67,643 million) recognised instead of non-current assets, EUR 65,681 million (30 June 2019: EUR 65,234 million) relate to Germany, EUR 212 million (30 June 2019: EUR 278 million) relate to Europe excluding Germany and EUR 1,700 million (30 June 2019: EUR 2,132 million) relate to to America.

Notes to the statement of comprehensive income

(5) Net interest income

EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Interest income	**2,811**	**2,964**
Interest income from financial instruments determined using the effective interest method	1,588	1,827
From lending and money market transactions	1,426	1,641[1]
From financial investments	86	121
From the amortisation of significant and non-significant modifications of financial assets	1	1
From negative interest	75	65
Interest income – other	1,223	1,136
From lending and money market transactions	35	33
From financial investments	5	17
From hedge accounting derivatives	318	327[1]
From derivatives in economic hedges	664	603
From negative interest	200	156
Interest expenses	**(1.937)**	**(2.097)**
Interest expenses from financial instruments determined using the effective interest method	(707)	(927)
For liabilities to banks and customers	(453)	(588)
For securitised liabilities	(171)	(226)
For subordinated capital	(36)	(46)
Modification losses on non-significant modifications of financial assets[2]	(1)	–
From the amortisation of significant and non-significant modifications	(1)	(1)
Other interest expenses	(14)	(25)
From negative interest	(31)	(40)
Interest expenses – other	(1.230)	(1.170)
For liabilities to banks and customers	(64)	(65)
For securitised liabilities	(19)	(30)
For hedge accounting derivatives	(276)	(290)
For derivatives in economic hedges	(608)	(571)
Other interest expenses	(25)	(37)
From negative interest	(238)	(178)
Total	**873**	**867**

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 1,393 million (30 June 2019: EUR 1,600 million[12]) for financial assets measured at amortised cost and EUR 87 million (30 June 2019: EUR 121 million) for financial assets mandatorily measured at fair value through other comprehensive 30 June 2019:

[12] *Adjusted as per IAS 8.22 (see note 2).*

Total interest expenses for financial liabilities not measured at fair value through profit or loss were EUR 599 million (30 June 2019: EUR 821 million).

(6) Risk provisions

EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Income from risk provisions	**507**	**482**
From the release of risk provisions for on and off-balance sheet transactions	452	418
From the write-up of purchased or originated credit-impaired financial assets	10	32
From recoveries on written down receivables	44	31
Expenses for risk provisions	**(581)**	**(492)**
From additions to risk provisions for on and off-balance sheet transactions	(581)	(492)
Total	**(75)**	**(10)**

Refer to note 2 for details about the post model adjustment shown as at 30 June 2020.

(7) Net commission income

EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Commission income	**378**	**364**
Securities business	56	36
Credit business	92	89
Payments	19	19
Documentary business	9	4
Credit card business	104	117
Fund business	84	84
Trust transactions	8	8
Other	6	8
Commission expenses	**(224)**	**(223)**
Securities business	(36)	(21)
Broker fees	(5)	(5)
Credit business	(37)	(33)
Payments	(30)	(34)
Documentary business	(4)	(2)
Credit card business	(78)	(87)
Fund business	(32)	(36)
Other	(2)	(4)
Total	**154**	**141**

(8) Gains or losses on fair value measurement

EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Net trading income	**218**	**(115)**
Interest-related transactions	35	(70)
Currency-related transactions	13	27
Equity-related and index-related transactions and transactions with other risks	121	(72)
Credit derivatives	7	(6)
Other financial transactions	44	11
Refinancing of trading portfolios	4	3
Trading-related commission	(6)	(8)
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	**(154)**	**105**
Fair value gains or losses from financial instruments in the "fair value option" category	**(13)**	**(13)**
Total	**51**	**(23)**

(9) Gains or losses on hedge accounting

EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Gains or losses on micro fair value hedges	**(4)**	**(2)**
Gains or losses on the measurement of hedged items	53	(189)
Gains or losses on the measurement of hedging instruments	(57)	186
Gains or losses on portfolio fair value hedges	**(5)**	**(1)**
Gains or losses on the measurement of hedged items	386	511
Gains or losses on the measurement of hedging instruments	(390)	(512) [1]
Gains or losses on group fair value hedges	**(1)**	**–**
Gains or losses on the measurement of hedged items	(189)	–
Gains or losses on the measurement of hedging instruments	189	–
Total	**(9)**	**(4)**

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

As of 2020, gains or losses from the amortisation of the portfolio hedge adjustment are reported in net interest income (see notes 2 and 5).

In addition, since the second half of 2019, currency risks have been hedged using group fair value hedges in accordance with IFRS 9. For a detailed description, see note 64 of the consolidated financial statements for 2019.

(10) Gains or losses on derecognised financial assets

EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Gains on derecognised financial assets	**4**	**5**
Gains on disposals	–	2
Gains on significant modifications	3	3
Losses on derecognised financial assets	**(4)**	**(2)**
Losses on significant modifications	(4)	(2)
Total	**(1)**	**3**

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

(11) Gains or losses on financial investments

EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Gains or losses on financial investments in the "financial assets mandatorily measured at fair value through other comprehensive income" category	**20**	**49**
Income from financial investments	22	53
Gains on disposals	22	53
Expenses from financial investments	(2)	(4)
Losses on disposals	(2)	(4)
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	**12**	**1**
Total	**31**	**50**

(12) Administrative expenses

EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Staff costs	**(420)**	**(378)**
Salaries and wages	(319)	(302)
Social security contributions	(44)	(40)
Expenses for pensions and other employee benefits	(57)	(35)
Other administrative expenses	**(307)**	**(305)**
Expenses from the amortisation and depreciation of property, plant and equipment and intangible assets	**(37)**	**(30)**
Total	**(764)**	**(713)**

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

EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Expenses for the bank levy	(68)	(56)
Expenses for the deposit guarantee scheme	(74)	(63)
Total	**(142)**	**(119)**

(14) Other income and expenses

EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Other income	**84**	**162**
Other expenses	**(46)**	**(31)** [1]
Total	**38**	**131**

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

(15) Gains or losses on restructuring

EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Income from restructuring measures	1	1
Expenses for restructuring measures	–	(8)
Total	**–**	**(7)**

Notes to the balance sheet

(16) Cash reserves

EUR million	30 Jun 2020	31 Dec 2019
Cash	803	587
Deposits with central banks	17,334	7,527
Debt instruments issued by public entities and bills of exchange eligible for refinancing with central banks	–	397
Total	**18,137**	**8,512**

(17) Loans and advances to banks

EUR million	30 Jun 2020	31 Dec 2019
Loans and advances to domestic banks	34,454	23,380
Loans and advances to foreign banks	10,670	7,726
Total	**45,124**	**31,106**

(18) Loans and advances to customers

EUR million	30 Jun 2020	31 Dec 2019
Loans and advances to domestic customers	124,431	117,963
Loans and advances to foreign customers	27,675	27,033
Total	**152,106**	**144,997**

(19) Risk provisions

EUR million	30 Jun 2020	31 Dec 2019
Loss allowances – Stage 1	143	123
Loss allowances – Stage 2	203	142
Loss allowances – Stage 3	607	665
Loss allowances – POCI	50	44
Loss allowances – simplified approach	–	–
Total	**1,002**	**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)

Changes in loss allowances – Stage 1

EUR million	Loans and advances to banks		Loans and advances to customers		Total	
	2020	2019	2020	2019	2020	2019
As at 1 Jan	**3**	**3**	**120**	**93**	**123**	**96**
Currency-related changes	–	–	(1)	–	**(1)**	**–**
Changes in the expected credit loss due to changes in the risk parameters	2	–	23	(5)	**24**	**(5)**
Additions due to lending/purchases	1	1	18	13	**18**	**15**
Releases due to disposals/redemptions/sales	(1)	–	(16)	(12)	**(17)**	**(12)**
Reclassifications to Stage 1 from Stage 2	–	–	18	9	**18**	**9**
Reclassifications from Stage 1 to Stage 2	(1)	(2)	(21)	(15)	**(21)**	**(17)**
Reclassifications from Stage 1 to Stage 3	–	–	(2)	–	**(2)**	**–**
As at 30 Jun	**3**	**3**	**139**	**83**	**143**	**85**

Changes in loss allowances – Stage 2

EUR million	Loans and advances to banks		Loans and advances to customers		Total	
	2020	2019	2020	2019	2020	2019
As at 1 Jan	**1**	**4**	**141**	**202**	**142**	**206**
Currency-related changes	**–**	**–**	**–**	**1**	**–**	**1**
Changes in the expected credit loss due to changes in the risk parameters	1	(1)	94	58	**95**	**57**
Additions due to lending/purchases	–	3	15	14	**15**	**16**
Releases due to disposals/redemptions/sales	–	(4)	(40)	(72)	**(41)**	**(76)**
Reclassifications to Stage 2 from Stage 1	1	2	21	15	**21**	**17**
Reclassifications from Stage 2 to Stage 1	–	–	(18)	(9)	**(18)**	**(9)**
Reclassifications from Stage 2 to Stage 3	–	–	(11)	(19)	**(11)**	**(19)**
As at 30 Jun	**2**	**4**	**201**	**191**	**203**	**194**

Changes in loss allowances – Stage 3

EUR million	Loans and advances to banks 2020	Loans and advances to banks 2019	Loans and advances to customers 2020	Loans and advances to customers 2019	Total 2020	Total 2019
As at 1 Jan	**6**	**2**	**658**	**719**	**665**	**721**
Currency-related changes	–	–	(4)	(1)	**(4)**	**(1)**
Changes in the expected credit loss due to changes in the risk parameters	–	2	60	70	**60**	**72**
Additions due to lending/purchases	–	–	21	34	**21**	**34**
Releases due to disposals/redemptions/sales	–	–	(44)	(57)	**(44)**	**(57)**
Utilisations/writedowns	–	–	(117)	(97)	**(117)**	**(97)**
Unwinding	–	–	(8)	(8)	**(8)**	**(8)**
Reclassifications to Stage 3 from Stage 1	–	–	2	–	**2**	**–**
Reclassifications to Stage 3 from Stage 2	–	–	11	19	**11**	**19**
Transfers/other changes	–	–	21	2	**21**	**2**
As at 30 Jun	**6**	**4**	**600**	**682**	**607**	**686**

Changes in loss allowances – POCI

EUR million	Loans and advances to customers 2020	Loans and advances to customers 2019
As at 1 Jan	**44**	**19**
Currency-related changes	**(1)**	**–**
Changes in the expected credit loss due to changes in the risk parameters	9	14
Additions due to lending/purchases	1	3
Releases due to disposals/redemptions/sales	(2)	(4)
Utilisations/writedowns	(1)	(1)
As at 30 Jun	**50**	**31**

The total volume of non-discounted expected credit losses as at first-time recognition of purchased or originated credit-impaired financial assets was EUR 14 million in the reporting period (31 December 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 214,350 million (31 December 2019: EUR 183,353 million) as at the reporting date and comprised:

EUR million	30 Jun 2020	31 Dec 2019
Financial assets – Stage 1	**195,467**	**174,272**
Cash reserves	18,137	8,114
Loans and advances to banks	39,358	30,602
Loans and advances to customers	137,973	135,556
Financial assets – Stage 2	**17,265**	**7,396**
Loans and advances to banks	5,761	543
Loans and advances to customers	11,504	6,854
Financial assets – Stage 3	**1,439**	**1,494**
Loans and advances to banks	6	6
Loans and advances to customers	1,433	1,488
Financial assets – POCI	**143**	**153**
Loans and advances to banks	1	1
Loans and advances to customers	143	153
Trade receivables – simplified approach	**35**	**37**
Other assets	35	37
Total	**214,350**	**183,353**

Refer to note 2 for details about the post model adjustment shown as at 30 June 2020.

(20) Assets held for trading

EUR million	30 Jun 2020	31 Dec 2019
Bonds, notes and other fixed-income securities	1,779	2,304
Equities and other non-fixed income securities	462	666
Loans and advances	2,171	2,078
Positive fair values from derivative financial instruments (not hedge accounting)	10,291	8,877
Total	**14,702**	**13,925**

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

EUR million	30 Jun 2020	31 Dec 2019
Positive fair values from micro fair value hedges	746	647
Positive fair values from group fair value hedges	143	60
Total	**889**	**706**

(22) Financial investments

EUR million	30 Jun 2020	31 Dec 2019
Bonds, notes and other fixed-income securities	23,143	22,763
Equities and other non-fixed income securities	238	225
Equity interests	406	547
Other financial investments	25	26
Total	**23,812**	**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 35.

(23) Investment property

EUR million	30 Jun 2020	31 Dec 2019
Leased property	28	28
Total	**28**	**28**

(24) Property, plant and equipment

EUR million	30 Jun 2020	31 Dec 2019
Property	297	301
Furniture and office equipment	49	47
Right-of-use assets from leases	203	196
Total	**548**	**544**

(25) Intangible assets

EUR million	30 Jun 2020	31 Dec 2019
Internally generated intangible assets	53	47
Other intangible assets	62	55
Total	**115**	**102**

(26) Other assets

EUR million	30 Jun 2020	31 Dec 2019
Emissions certificates	725	954
Precious metals	567	476
Claims from reinsurance	228	227
Prepaid expenses	29	30
Other assets	264	218
Total	**1,813**	**1,905**

(27) Liabilities to banks

EUR million	30 Jun 2020	31 Dec 2019
Liabilities to domestic banks	66,049	44,187
Liabilities to foreign banks	5,586	5,965
Total	**71,636**	**50,152**

Liabilities to banks by product

EUR million	30 Jun 2020	31 Dec 2019
Schuldschein note loans/issues	**5,222**	**5,185**
Schuldschein note loans	2,462	2,419
Registered public Pfandbriefs issued	827	841
Mortgage Pfandbriefs issued	396	443
Other registered securities	1,536	1,483
Book-entry liabilities	**66,414**	**44,967**
On-lending business/subsidised loans	33,471	33,048
Overnight and time deposits	24,226	6,414
Current account liabilities	4,025	3,834
Securities repurchase transactions	3,841	1,058
Other liabilities	850	613
Total	**71,636**	**50,152**

(28) Liabilities to customers

EUR million	30 Jun 2020	31 Dec 2019
Liabilities to domestic customers	101,000	91,367
Liabilities to foreign customers	11,061	9,069
Total	**112,061**	**100,436**

Liabilities to customers by product

EUR million	30 Jun 2020	31 Dec 2019
Schuldschein note loans/issues	**18,421**	**18,627**
Schuldschein note loans	982	1,001
Registered public Pfandbriefs issued	8,370	8,583
Mortgage Pfandbriefs issued	2,281	2,313
Other registered securities	6,789	6,730
Book-entry liabilities	**93,640**	**81,809**
Overnight and time deposits	46,628	41,986
Current account liabilities	46,292	39,117
Other liabilities	720	706
Total	**112,061**	**100,436**

(29) Securitised liabilities

EUR million	30 Jun 2020	31 Dec 2019
Bonds and notes issued	**39,360**	**39,394**
Mortgage Pfandbriefs	5,724	5,740
Public Pfandbriefs	12,575	13,109
Other bonds and notes	21,061	20,546
Other securitised liabilities	**3,901**	**5,176**
Total	**43,261**	**44,570**

The reporting period saw bonds and notes (including money market securities) to the value of EUR 122,101 million issued and EUR 118,969 million repaid. The volume of repurchases amounted to EUR 4,340 million.

(30) Liabilities held for trading

EUR million	30 Jun 2020	31 Dec 2019
Liabilities	1,589	2,356
Negative fair values from derivative financial instruments (not hedge accounting)	9,335	7,956
Total	**10,924**	**10,312**

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

EUR million	30 Jun 2020	31 Dec 2019
Negative fair values from micro fair value hedges	1,282	978
Negative fair values from portfolio fair value hedges	18	40
Negative fair values from group fair value hedges	116	206
Total	**1,415**	**1,224**

(32) Provisions

EUR million	30 Jun 2020	31 Dec 2019
Provisions for pensions and similar obligations	**3,894**	**4,113**
Other provisions	**715**	**689**
Provisions for off-balance-sheet transactions	145	166
Loss allowances for financial guarantees/credit commitments as per IFRS 9	113	113
Provisions for other contingent liabilities/other commitments	33	53
Restructuring provisions	318	334
Miscellaneous provisions	252	188[1]
Total	**4,609**	**4,801**

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

In the first half of 2020, the Bank began building up plan assets for an existing pension plan in Germany via a contractual trust arrangement (CTA). These were deducted from the pension obligations as at the reporting date.

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

EUR million	30 Jun 2020	31 Dec 2019
Loss allowances – Stage 1	31	28
Loss allowances – Stage 2	35	15
Loss allowances – Stage 3	44	64
Loss allowances – POCI	3	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**
Changes in the expected credit loss due to changes in the risk parameters	6	(2)	25	10	(1)	5	(1)	2	**29**	**15**
Additions due to lending	12	11	9	7	12	13	–	1	**33**	**33**
Releases due to disposals	(11)	(10)	(18)	(18)	(11)	(19)	(1)	(1)	**(41)**	**(48)**
Unwinding	–	–	–	–	(1)	–	–	–	**(1)**	**–**
Reclassifications to Stage 1 from Stage 2	1	3	(1)	(3)	–	–	–	–	**–**	**–**
Reclassifications to Stage 2 from Stage 1	(6)	(4)	6	4	–	–	–	–	**–**	**–**
Reclassifications to Stage 3 from Stage 2	–	–	–	(1)	–	1	–	–	**–**	**–**
Transfers/other changes	–	–	–	–	(21)	(1)	–	–	**(21)**	(1)
As at 30 Jun	**31**	**23**	**35**	**32**	**44**	**34**	**3**	**11**	**113**	**100**

The exposure to financial guarantees and revocable and irrevocable credit commitments stood at EUR 56,550 million as at the reporting date (31 December 2019: EUR 56,534 million) and comprised:

EUR million	30 Jun 2020	31 Dec 2019
Financial guarantees/credit commitments – Stage 1	52,338	54,802
Financial guarantees/credit commitments – Stage 2	4,051	1,545
Financial guarantees/credit commitments – Stage 3	147	175
Financial guarantees/credit commitments - POCI	14	11
Total	**56,550**	**56,534**

(33) Other liabilities

EUR million	30 Jun 2020	31 Dec 2019
Accruals	292	286
Lease liability from the right-of-use asset	205	197
Deferred income	25	19
Other liabilities	86	81
Total	**609**	**583**

(34) Subordinated capital

EUR million	30 Jun 2020	31 Dec 2019
Subordinated liabilities	1,695	1,680
Profit participation certificates (debt component)	30	400
Dated silent partner contributions (debt component)	1	27
Total	**1,726**	**2,107**

(35) Equity

EUR million	30 Jun 2020	31 Dec 2019
Equity excluding non-controlling interests	**11,604**	**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	5,587	5,667
Statutory reserve	1,268	1,268
Other retained earnings	4,320	4,399[1]
Revaluation surplus	170	109
Foreign currency translation reserve	2	2
Consolidated profit/loss	251	150
Non-controlling interests	**15**	**16**
Total	**11,618**	**11,537**

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

Revaluation surplus

EUR million	30 Jun 2020	31 Dec 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	170	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	67	21
Changes in the fair value of currency swaps from currency basis spread fluctuations recognised through other comprehensive income	(2)	(8)
Deferred taxes recognised through other comprehensive income	(70)	(52)
Total	**170**	**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 19):

EUR million	30 Jun 2020	31 Dec 2019
Loss allowances – Stage 1	4	2
Loss allowances – Stage 2	1	–
Loss allowances – Stage 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	–
Reclassifications from Stage 1 to Stage 2	(1)	–
As at 30 Jun	**4**	**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 30 Jun	**1**	**–**

The gross carrying amount of financial assets in the “financial assets mandatorily measured at fair value through other comprehensive income” category was EUR 22,450 million (31 December 2019: EUR 22,574 million) as at the reporting date and comprised:

EUR million	30 Jun 2020	31 Dec 2019
Financial assets – Stage 1	**21,516**	**22,563**
Cash reserves	–	397
Financial investments	21,516	22,165
Financial assets – Stage 2	**933**	**10**
Financial investments	933	10
Financial assets – Stage 3	**–**	**–**
Financial assets – POCI	**1**	**1**
Loans and advances to customers	1	1
Total	**22,450**	**22,574**

Notes to financial instruments

(36) Fair value of financial instruments

EUR million	Fair value 30 Jun 2020	Carrying amount 30 Jun 2020	Fair value 31 Dec 2019	Carrying amount 31 Dec 2019
Assets				
Cash reserves	18,137	18,137	8,512	8,512
Loans and advances to banks[1]	45,102	45,124	31,142	31,106
Loans and advances to customers[1]	155,454	152,106	147,840	144,997
Assets held for trading	14,702	14,702	13,925	13,925
Positive fair values from derivative financial instruments (hedge accounting)	889	889	706	706
Financial investments	23,812	23,812	23,561	23,561
Non-current assets or disposal groups classified as held for sale	2	2	–	–
Liabilities				
Liabilities to banks	73,820	71,636	51,434	50,152
Liabilities to customers	114,575	112,061	102,579	100,436
Securitised liabilities	43,882	43,261	45,184	44,570
Liabilities held for trading	10,924	10,924	10,312	10,312
Negative fair values from derivative financial instruments (hedge accounting)	1,415	1,415	1,224	1,224
Subordinated capital	1,762	1,726	2,269	2,107

1 Carrying amount not including deductions of loss allowances for loans and advances to banks of EUR 11 million (31 December 2019: EUR 10 million) and loans and advances to customers of EUR 991 million (31 December 2019: EUR 963 million) in the “financial assets measured at amortised cost” category.

(37) Financial instrument measurement categories

EUR million	30 Jun 2020	31 Dec 2019
Assets		
Financial assets measured at fair value through profit or loss	15,632	15,023
Financial assets mandatorily measured at fair value through profit or loss	15,510	14,923
Loans and advances to customers	127	189
Assets held for trading	14,702	13,925
Financial investments	679	808
Fair value option	122	100
Financial investments	122	100
Financial assets measured at amortised cost	215,239	184,026
Cash reserves[1]	18,137	8,114
Loans and advances to banks[1]	45,124	31,106
Loans and advances to customers[1]	151,978	144,806
Financial assets measured at fair value through other comprehensive income	23,013	23,052
Financial assets mandatorily measured at fair value through other comprehensive income	23,012	23,052
Cash reserves	–	397
Loans and advances to customers	1	1
Financial investments	23,011	22,653
Derivative financial instruments in hedges (hedge accounting)	889	706
Positive fair values from derivative financial instruments (hedge accounting)	889	706
Liabilities		
Financial liabilities measured at fair value through profit or loss	19,265	19,150
Held-for-trading financial liabilities	10,924	10,312
Liabilities held for trading	10,924	10,312
Fair value option	8,341	8,838
Liabilities to banks	356	356
Liabilities to customers	4,238	4,283
Securitised liabilities	3,747	4,199
Financial liabilities measured at amortised cost	220,342	188,428
Liabilities to banks	71,279	49,796
Liabilities to customers	107,823	96,153
Securitised liabilities	39,514	40,371
Subordinated capital	1,726	2,107
Derivative financial instruments in hedges (hedge accounting)	1,415	1,224
Negative fair values from derivative financial instruments (hedge accounting)	1,415	1,224

1 Not including deductions of loss allowances.

In addition, as at the reporting date there was a portfolio hedge adjustment asset of EUR 1,054 million (31 December 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.

(38) Fair value hierarchy of financial instruments

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. For a detailed description of the measurement model, see note 6 of the 2019 consolidated annual statements.

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 by level

EUR million	Level 1		Level 2		Level 3		Total	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Assets								
Cash reserves	–	397	–	–	–	–	**–**	**397**
Loans and advances to customers	–	–	–	–	129	191	**129**	**191**
Assets held for trading	1,404	1,932	13,025	11,834	273	159	**14,702**	**13,925**
Positive fair values from derivative financial instruments (hedge accounting)	–	–	889	706	–	–	**889**	**706**
Financial investments	18,094	17,760	5,416	5,502	301	300	**23,812**	**23,561**
Non-current assets or disposal groups classified as held for sale	–	–	–	–	2	–	**2**	**–**
Total	**19,498**	**20,089**	**19,330**	**18,042**	**705**	**650**	**39,533**	**38,781**
Liabilities								
Liabilities to banks	–	–	356	356	–	–	**356**	**356**
Liabilities to customers	–	–	4,238	4,283	–	–	**4,238**	**4,283**
Securitised liabilities	10	–	3,654	4,109	83	90	**3,747**	**4,199**
Liabilities held for trading	469	1,184	10,437	9,124	18	4	**10,924**	**10,312**
Negative fair values from derivative financial instruments (hedge accounting)	–	–	1,415	1,224	–	–	**1,415**	**1,224**
Total	**479**	**1,184**	**20,101**	**19,096**	**101**	**94**	**20,680**	**20,374**

Reclassifications between Level 1 and 2

	Reclassifications			
	to Level 1 from Level 2		to Level 2 from Level 1	
EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Assets				
Assets held for trading	88	9	15	62
Financial investments	952	1,670	1,099	2,371
Total	**1,041**	**1,679**	**1,114**	**2,433**
Liabilities				
Securitised liabilities	10	195	–	115
Liabilities held for trading	13	17	–	12
Total	**23**	**212**	**–**	**127**

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

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

EUR million	Interest rate risks		Currency risks		Equity and other price risks		Total	
	30 Jun 2020	**31 Dec 2019**	**30 Jun 2020**	**31 Dec 2019**	**30 Jun 2020**	**31 Dec 2019**	**30 Jun 2020**	**31 Dec 2019**
Assets								
Loans and advances to customers	129	191	–	–	–	–	**129**	**191**
Assets held for trading	187	158	86	1	–	–	**273**	**159**
Financial investments	25	26	–	–	276	274	**301**	**300**
Non-current assets or disposal groups classified as held for sale	–	–	–	–	2	–	**2**	**–**
Total	**341**	**375**	**86**	**1**	**279**	**274**	**705**	**650**
Liabilities								
Securitised liabilities	83	90	–	–	–	–	**83**	**90**
Liabilities held for trading	–	3	18	1	–	–	**18**	**4**
Total	**83**	**93**	**18**	**1**	**–**	**–**	**101**	**94**

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	2	2	3	(2)	–	–	–	–	6	–
Income and expenses recognised in the income statement	(66)	14	20	123	8	1	–	–	(38)	138
Purchases	2	–	47	1	2	13	–	–	51	14
Put options	–	–	–	(5)	(4)	(8)	–	–	(4)	(13)
Settlements	–	(1)	–	–	(3)	–	–	–	(3)	(1)
Reclassifications to Level 3 from Levels 1 and 2	–	–	54	8	–	–	–	–	54	8
Reclassifications from Level 3 to Levels 1 and 2	–	–	(50)	(116)	–	–	–	–	(50)	(116)
Transfers/other changes	–	–	39	25	(2)	–	2	–	39	25
As at 30 Jun	**129**	**200**	**273**	**177**	**301**	**420**	**2**	**–**	705	796
Income and expenses recognised in the income statement during the period for financial instruments held at 30 Jun	(1)	25	54	126	6	1	–	–	58	152

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

EUR million	Securitised liabilities		Liabilities held for trading		Total	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
As at 1 Jan	**90**	**186**	**4**	**8**	**94**	**195**
Currency-related changes	1	5	6	1	**7**	**6**
Income and expenses recognised in the income statement	(9)	(61)	(23)	23	**(31)**	**(37)**
Reclassifications from Level 3 to Levels 1 and 2	–	–	(8)	(57)	**(8)**	**(57)**
Transfers/other changes	–	–	39	25	**39**	**25**
As at 30 Jun	**83**	**130**	**18**	**2**	**101**	**132**
Income and expenses recognised in the income statement during the period for financial instruments held at 30 Jun	(2)	(3)	(23)	23	**(24)**	**20**

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.

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. Fair values are reported on a regular basis to the management of the divisions concerned and to the Board of Management.

The fair values of credit transactions assigned to Level 3 of the fair value hierarchy are calculated on the basis of inputs that are not observable on the market. As at 30 June 2020, the sensitivity of these credit transactions to changes in key factors was:

- for a ten-basis point increase (decrease) in the measurement spread:
  EUR –0.9 million (EUR +0.9 million) (31 December 2019: EUR –0.5 million (EUR +0.5 million))

Other derivative financial instruments whose significant inputs for measuring fair value are not observable on the market are also allocated to Level 3 of the fair value hierarchy. As at 30 June 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 –5.9 million (EUR +5.9 million) (31 December 2019: EUR –2.2 million (EUR +2.2 million)),
- a one notch improvement (deterioration) in the ratings:
  EUR +0.8 million (EUR -0.8 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 30 June 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)),
- for a six-month extension (reduction) in the realisation period:
  ± EUR 0 million (EUR ± 0 million) (31 December 2019: EUR 0 million (EUR 0 million))

For the acquisition of its shares in Visa Europe Limited, London by Visa Inc., San Francisco on 21 June 2016, the BayernLB Group received a payment in cash, the right to further payments in future and preference shares in Visa Inc., San Francisco convertible into common stock. The fair value of the preference shares is determined by the market price of Visa Inc. common stock and potential risks from litigation. A risk discount of about 50 percent was therefore used to calculate the fair value. As at 30 June 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 9.5 million (EUR -9.5 million) (31 December 2019: EUR +9.3 million (EUR -9.3 million))

As at 30 June 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 –4.2 million (EUR +4.3 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 -3.5 million (EUR +3.7 million) (31 December 2019: EUR -3.9 million (EUR +4.1 million))

The base interest rate used moved within a range of –0.25-0.25 percent (average: 0.00 percent) (31 December 2019: -0.05-0.45 percent (average: 0.2 percent)), while the underlying market risk premium moved within a range of 7.25-7.75 percent (average: 0.0 percent) (31 December 2019: 7.25-7.75 percent (average: 7.5 percent)).

(39) Derivatives transactions

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

	Nominal value		Positive fair value		Negative fair value	
EUR million	**30 Jun 2020**	**31 Dec 2019**	**30 Jun 2020**	**31 Dec 2019**	**30 Jun 2020**	**31 Dec 2019**
Interest rate risks	609,901	612,031	24,081	19,399	24,663	19,466
Currency risks	103,432	126,649	2,044	1,898	2,118	2,146
Equity and other price risks	5,700	6,606	366	232	540	370
Credit derivative risks	330	255	6	–	4	6
Total	**719,363**	**745,541**	**26,499**	**21,529**	**27,326**	**21,987**
of which: Derivatives for trading purposes	492,126	525,791	17,446	14,721	17,611	14,661

Supplementary disclosures

(40) Revenue from contracts with customers

EUR million	1 Jan - 30 Jun 2020	1 Jan - 30 Jun 2019
Commission income	**374**	**359**
Securities business	56	36
Credit business	89	84
Payments	19	19
Documentary business	9	4
Credit card business	104	117
Fund business	83	84
Trust transactions	8	8
Other	6	7
Commission expenses	**(185)**	**(187)**
Securities business	(36)	(21)
Credit business	(4)	(5)
Payments	(29)	(34)
Documentary business	(4)	(2)
Credit card business	(78)	(87)
Fund business	(31)	(36)
Other	(2)	(3)
Total	**188**	**171**

In the reporting period, revenue from contracts with customers of EUR 4 million (30 June 2019: EUR 17 million) for various services, in particular IT and financial services, was recognised in other income and expenses.

The segment report (see note 4) 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.

(41) Trust transactions

EUR million	30 Jun 2020	31 Dec 2019
Assets held in trust	**5,372**	**5,093**
Loans and advances to banks	230	12
Loans and advances to customers	5,143	5,081
Liabilities held in trust	**5,372**	**5,093**
Liabilities to banks	240	10
Liabilities to customers	5,133	5,083

(42) Contingent assets, contingent liabilities and other commitments

EUR million	30 Jun 2020	31 Dec 2019
Contingent liabilities	**12,583**	**12,454**
Liabilities from guarantees and indemnity agreements	12,574	12,435
Other contingent liabilities	9	18
Other commitments	**25,357**	**25,857**
Irrevocable credit commitments	25,357	25,857
Total	**37,940**	**38,311**

Other contingent liabilities include possible liabilities arising from litigation.

(43) 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
Chairman of the Board of Directors
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
Member of the BayernLB Supervisory Board
Lawyer
Munich

Henning Sohn
Chairman of the General Staff Council
BayernLB
Munich

Judith Steiner
Under Secretary
Bavarian State Ministry of Finance
and Regional Identity
Munich

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 Kapitalverwaltungsgesellschaft
mbH

Marcus Kramer
CRO
Risk Office

Michael Bücker
Corporates & Markets
(excluding Group Treasury)

Dr Markus Wiegelmann
CFO/COO
Financial Office
Operating Office

1 Dependent institution of the Bank.

(44) Related party disclosures

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

Relationships with the Free State of Bavaria

EUR million	30 Jun 2020	31 Dec 2019
Loans and advances	3,098	3,254
Assets held for trading	65	105
Financial investments	156	4
Liabilities	503	510
Securitised liabilities	15	16
Liabilities held for trading	8	11
Liabilities held in trust	4,906	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	30 Jun 2020	31 Dec 2019
Loans and advances to customers	462	462
Assets held for trading	93	158
Financial investments	–	30
Liabilities to banks	3,404	3,232
Liabilities to customers	85	65
Securitised liabilities	103	109
Assets held in trust	422	419
Contingent liabilities	8	6
Other commitments	170	75

Relationships with the Association of Bavarian Savings Banks

EUR million	30 Jun 2020	31 Dec 2019
Loans and advances	–	4
Liabilities	74	159
Other liabilities	3	7

Relationships with investees

EUR million	30 Jun 2020	31 Dec 2019
Loans and advances to customers	112	128
Risk provisions	12	12
Financial investments	60	41
Other assets	2	6
Liabilities to customers	164	151
Provisions	2	3
Other liabilities	–	5
Contingent liabilities	5	13
Other commitments	4	20

An expense of EUR 2 million (30 June 2019: EUR 7 million) was recognised for non-recoverable or doubtful receivables in the reporting period.

In the reporting period, capital contributions were made to unconsolidated entities, joint ventures and associates in the amount of EUR 2 million (31 December 2019: EUR 14 million). These investees repaid capital in the amount of EUR 3 million (31 December 2019: EUR 4 million).

Relationships with other related parties

EUR million	30 Jun 2020	31 Dec 2019
Liabilities to customers	33	27

As at the reporting date, there were liabilities to benefit plans of EUR 33 million (31 December 2019: EUR 27 million).

Responsibility statement by the Board of Management

To the best of our knowledge and in accordance with the applicable reporting principles for half-yearly financial reporting and generally accepted accounting standards, the consolidated half-yearly financial statements give a true and fair view of the financial performance and financial position of the Group, and the Group interim management report 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 in the remainder of the financial year.

Munich, 11 August 2020

Bayerische Landesbank
The Board of Management

Stephan Winkelmeier Dr Edgar Zoller Marcus Kramer

Michael Bücker Dr Markus Wiegelmann

Review Report

To Bayerische Landesbank, Munich

We have reviewed the condensed consolidated half-year financial statements – comprising the condensed statement of comprehensive income, statement of financial position, statement of changes in equity, condensed statement of cash flows, and selected explanatory notes – and the interim group management report of Bayerische Landesbank, Munich, for the period from 1 January 2020 to 30 June 2020 which are part of the half-year financial report pursuant to § (Article) 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated half-year financial statements in accordance with the International Financial Reporting Standards (IFRS) applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated half-year financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated half-year financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated half-year financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the requirements of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated half-year financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Munich, 11 August 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Sven Hauke Anne Witt

Wirtschaftsprüfer Wirtschaftsprüferin
(German Public Auditor) (German Public Auditor)

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 (30 June 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 30 June 2020)

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Other	Consoli-dation	Group
Profit/loss before taxes	**117**	**26**	**147**	**19**	**7**	**316**
Average risk-weighted assets (RWAs)	12,353	25,206	23,885	5,448	–	**66,892**
Target CET1 ratio (%)	14.0	14.0	14.0	14.0	–	**–**
Average economic/regulatory capital	**1,729**	**3,529**	**3,344**	**763**	**315**	**9,680**
Return on equity (RoE) (%)	**13.5**	**1.5**	**8.8**	**5.0**	**–**	**6.5**

RoE reconciliation calculation (as at 30 June 2019)[1]

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Other	Consoli-dation	Group
Profit/loss before taxes	**117**	**26**	**147**	**19**	**7**	**316**
Average risk-weighted assets (RWAs)	12,353	25,206	23,885	5,448	–	**66,892**
Target CET1 ratio (%)	14.0	14.0	14.0	14.0	–	**–**
Average economic/regulatory capital	**1,729**	**3,529**	**3,344**	**763**	**315**	**9,680**
Return on equity (RoE) (%)	**13.5**	**1.5**	**8.8**	**5.0**	**–**	**6.5**

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 30 June 2020)

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Other	Consolidation	Group
Administrative expenses	**(199)**	**(167)**	**(332)**	**(69)**	**2**	**(764)**
Net interest income	155	144	476	87	11	**873**
Net commission income	118	40	9	(14)	–	**154**
Gains or losses on fair value measurement	42	38	(12)	(18)	1	**51**
Gains or losses on hedge accounting	–	1	(5)	(6)	–	**(9)**
Gains or losses on derecognised financial assets[1]	–	1	(2)	–	–	**(1)**
Gains or losses on financial investments	1	–	13	18	–	**31**
Other income and expenses	4	–	3	34	(2)	**38**
Gross earnings	**321**	**224**	**483**	**101**	**10**	**1,138**
Cost/income ratio (CIR) (%)	**62.2**	**74.5**	**68.7**	**68.4**	**–**	**67.2**

1 For financial assets measured at amortised cost.

CIR reconciliation calculation (as at 30 June 2019)[1]

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Other	Consolidation	Group
Administrative expenses	**(191)**	**(176)**	**(288)**	**(61)**	**2**	**(713)**
Net interest income	150	144	476	85	10	**867**
Net commission income	109	46	2	(16)	–	**141**
Gains or losses on fair value measurement	24	(2)	14	(48)	(11)	**(23)**
Gains or losses on hedge accounting	2	–	(1)	(4)	–	**(4)**
Gains or losses on derecognised financial assets[2]	–	–	2	–	–	**3**
Gains or losses on financial investments	3	1	11	35	–	**50**
Other income and expenses	1	3	5	117	6	**131**
Gross earnings	**290**	**193**	**508**	**169**	**5**	**1,165**
Cost/income ratio (CIR) (%)	**65.8**	**91.2**	**56.6**	**36.1**	**–**	**61.2**

1 Except for DKB, the new segment structure led to an adjustment to all segments in accordance with IFRS 8.29.
2 For financial assets measured at amortised cost.

Editorial Information

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in German

The translation of the consolidated half-yearly financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the interim management report and the Review Report, is for convenience only; the German versions prevail.

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