BayernLB

Financing progress.

BayernLB
Half-Yearly Financial Report 2022

Finanzgruppe

Contents

BayernLB Group – the first half of 2022 at a glance

Income statement (IFRS)

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	Change in %
Net interest income	928	1,006	(7.7)
Risk provisions	46	44	2.6
Net interest income after risk provisions	**973**	**1,050**	**(7.3)**
Net commission income	219	189	15.8
Gains or losses on fair value measurement	(9)	145	-
Gains or losses on hedge accounting	(33)	(3)	>100
Gains or losses on derecognised financial assets[1]	1	5	(83.1)
Gains or losses on financial investments	(1)	7	-
Administrative expenses	(787)	(754)	4.3
Expenses for the bank levy and deposit guarantee scheme	(132)	(170)	(22.5)
Other income and expenses	15	14	7.1
Gains or losses on restructuring	30	1	>100
Profit/loss before taxes	**277**	**485**	**(42.8)**
Cost/income ratio (CIR)	70.3%	55.3%	15.0 pp[2]
Return on equity (RoE)	5.2%	9.5%	(4.3) pp[2]

Quarterly comparison

The table below compares performance in the first and second quarters of 2022:

EUR million	Q2 2022	Q1 2022
Net interest income	484	444
Risk provisions	73	(28)
Net interest income after risk provisions	**557**	**416**
Net commission income	122	97
Gains or losses on fair value measurement	(30)	20
Gains or losses on hedge accounting	(42)	9
Gains or losses on derecognised financial assets[1]	(1)	1
Gains or losses on financial investments	(4)	2
Administrative expenses	(384)	(402)
Expenses for the bank levy and deposit guarantee scheme	(14)	(118)
Other income and expenses	10	4
Gains or losses on restructuring	33	(3)
Profit/loss before taxes	**248**	**29**

Balance sheet (IFRS)

EUR million	30 Jun 2022	31 Dec 2021	Change in %
Total assets	285,305	266,554	7.0
Business volume	331,774	313,264	5.9
Credit volume	227,852	226,995	0.4
Total deposits	211,000	195,739	7.8
Securitised liabilities	45,015	43,880	2.6
Subordinated capital	2,582	2,689	(4.0)
Equity	12,824	12,307	4.2

Banking supervisory capital and ratios under CRR/CRD IV

EUR million	30 Jun 2022	31 Dec 2021	Change in %
Common Equity Tier 1 capital (CET1 capital)	10,506	10,966	(4.2)
Own funds	13,036	13,657	(4.5)
Total RWAs	66,153	63,315	4.5
Common Equity Tier 1 (CET1) capital ratio	15.9%	17.3%	(1.4) pp[2]
Total capital ratio	19.7%	21.6%	(1.9) pp[2]

Employees

	30 Jun 2022	31 Dec 2021	Change in %
Number of employees	8,444	8,481	(0.4)

Current ratings

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

Rounding differences may occur in the tables.

1 For financial assets measured at amortised cost.

2 Percentage points.

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

Group interim management report

Foundations of the BayernLB Group

Group structure and control

The Group's legal structure in the first half of 2022 remained the same as it was at the end of 2021. Further information can be found in the "Foundations of the BayernLB Group" section of the combined management report for 2021.

In response to the hostilities between Russia and Ukraine, BayernLB closed its representative office in Moscow.

Board of Management

There were no changes to the composition of the Board of Management in the first half of 2022.

Supervisory Board

Dr Kurt Gribl stepped down from the Supervisory Board, with effect from 25 March 2022. He was succeeded by Erwin Schneider.

An additional change took place on the Supervisory Board after 30 June 2022:
Dr Thomas Langer stepped down with effect from 30 June 2022. He was succeeded by Dr Ulrike Wolf-Prexler.

Further information on the personnel changes can be found in the "Administrative bodies of BayernLB" section in the notes to the half-yearly consolidated financial statements.

Purchases and sales of companies and key changes in the scope of consolidation

No material purchases or sales of companies were made in the first half of 2022.

Information on changes to companies in the scope of consolidation can be found in the "Scope of consolidation" section in the notes to the half-yearly consolidated financial statements.

Report on the economic position

Macroeconomic and sector-specific environment

Supplementary information and information on new developments in respect of the economic environment as presented in the combined management report for financial year 2021 is set out below. This examines the macroeconomic environment in the first six months of 2022, the current major macroeconomic and sector-specific risks and the regulatory environment.

Pandemic and Russia-Ukraine war weigh on global economy

The coronavirus pandemic and Russia's war of aggression in Ukraine weighed on the global economy in the first half of 2022. Although the direct effects of the pandemic – high hospitalisation rates and strict lockdowns affecting social and economic life – faded ever more into the background during the first quarter, the second-round effects – supply chain problems, production delays/stoppages and soaring prices – did not loosen their decelerating effect on the economy. A key reason for this was that China, a major global supplier of intermediate goods and other industrial products, kept its strict zero-Covid policy in place and suffered a significant dent in growth in the second quarter. Russia's attack on Ukraine and tit-for-tat sanctions between the West and Russia heaped further pressure on supplies, particularly of commodities used for energy, such as coal, oil and natural gas, and food. Europe and Germany were significantly affected due to their heavy dependence on Russian commodities. As inflation continued to jump in the first half of 2022 with these array of factors in play, international central banks were forced to look for an even tougher response. Leading central banks such as the Fed, the Bank of England and the Swiss National Bank hiked interest rates much more sharply than expected. The rhetoric from the ECB also turned more hawkish, and it implemented a big increase in its rates in July 2022. Base rates were also moved even higher in many emerging markets. As these events unfolded, sentiment in industry darkened markedly in the first half of 2022. The services sector and tourism helped to support the economy after the post-lockdown recovery, but growth was weak at global level.

Russian-Ukraine war and high inflation overshadow the post-coronavirus opening up

In Germany, the recovery continued into the first half of 2022, with seasonally adjusted 0.7 percent growth compared with the second half of 2021.[1] The pace of growth was very sluggish due to the continuing lockdown in the first quarter of 2022, which put the brakes on private consumption, and disappointing export figures. In spring, the confidence, supply chain and pricing shock caused by the war in Ukraine severely constrained the strong economic growth momentum expected after the opening up.

1 See Federal Statistical Office press release no. 215 dated 25 May 2022, https://www.destatis.de/EN/Press/2022/07/PE22_322_811.html;jsessionid=644E8616AA545B667B230F339C0D4BFF.live712

In particular, industry was unable to handle the record-high amount of orders triggered by the EU's "Next Generation EU" investment programme.[2] Leading indicators accordingly pointed to substantially more dynamic growth for the services sector compared with industry, where production levels remained below what they had been at the start of the year until May. The construction industry suffered the most due to a deterioration in sentiment, partly because of the jump in interest rates. The picture for consumer spending also became gloomier, falling to a new record low in June 2022.

Growth in consumer prices exceeded expectations once again owing to supply bottlenecks and sanctions imposed on Russia. Rising commodity, input and intermediate goods prices put producers under heavy cost and pricing pressure. These could be passed on to consumers thanks to the huge level of savings built up during the periods of lockdown and government support packages. Consumer price inflation rose to 7.6 percent in the period to June 2022, with the cost of energy more than 38 percent above the previous year.[3]

Massive tightening in monetary policy and real estate market begins to cool

The rise in inflation at European level overshadowed Germany's own increase. Inflation (HICP) averaged 8.6 percent in June 2022, climbing as high as 20 percent in some Baltic states.[4] Faced with these figures, the ECB became far more hawkish in its rhetoric in the first half of 2022 and agreed a wide-ranging package of measures. Net purchases in both bond buying programmes (PEPP and APP) were stopped and the first interest rate hike came in July 2022. At 50 basis points across the board, this was greater than expected and further major rises are being contemplated. To target the fragmentation of the eurozone, the ECB also approved a new programme called the Transmission Protection Instrument (TPI). This comes in addition to the reinvestments in the PEPP programme.

In the USA, where the CPI inflation rate is now over 9 percent[5], the Fed went ahead with an even more drastic interest rate cycle and had lifted spreads by 150 basis points[6] by the middle of the year. It also decided to wind down its bond holdings. Here too, there is still much room for cranking up base rates even more, though the risk of a recession is also increasing significantly.

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2 See Federal Statistical Office press release no. 305 dated 19 July 2022, https://www.destatis.de/EN/Press/2022/07/PE22_305_421.html

3 *See Federal Statistical Office press release no. 296 dated 13 July 2022.*, https://www.destatis.de/EN/Press/2022/07/PE22_296_611.html

4 *See Eurostat, press release 81/2022,* https://ec.europa.eu/eurostat/documents/2995521/14644638/2-19072022-AP-DE.pdf/03162bf7-ad2a-9e07-ba7c-a46ce8461181

5 *See US Bureau of Labor Statistics 2022,* https://www.bls.gov/news.release/archives/cpi_07132022.htm

6 *See Federal Reserve 2022,* https://www.federalreserve.gov/monetarypolicy/openmarket.htm

The pivot in interest rates is having a big impact on the German real estate market. Interest rates of over 3 percent for 10-year mortgages[7] are significantly dampening demand, especially in the residential segment, but the low rate of unemployment and big drop in short-time working is keeping demand in the residential segment robust for now. The supply of residential space is still tight – particularly in the top seven cities. For example, only slightly more than 293,000 flats were completed in 2021.[8] As a result, demand for flats, which is largely confined to German urban areas, is still not being met.

On the exchange-rate front, the dollar appreciated heavily against the euro in the first half of 2022 and more than the Bank had anticipated. Increasing expectations of an about-turn in ECB monetary policy supported the euro. However, it became even clearer that the Fed's interest-rate hikes to prop up the greenback are coming and will continue to come faster than had been forecast. The dollar also benefitted in the first half of the year from a rise in risk aversion, especially towards Europe, partly on account of the Russia-Ukraine war and concerns about the economy due to Europe's dependence on energy. All in all, the US currency jumped nearly 8 percent to USD 1.048 per EUR in the period to the middle of the year.[9]

Sovereign bond yields rise from their lows while equities bounced ahead

On bond markets, yields began a steep ascent in the first half of the year as a noticeable increase in inflation took hold and central banks started tightening the monetary policy screws. Yields on 10-year Bunds, which were still in negative territory at -0.2 percent at the start of the year, climbed to peak at 1.8 percent in June 2022, before correcting to 1.4 percent by the mid-point of the year.[10] With ECB rate hikes being priced in, yields in short-dated sovereigns in the eurozone also began to climb markedly, though the yield curve also steepened. The spread between 10-year Bunds and 2-year German treasury notes widened from 46 to 70 basis points in the first half of 2022.[11]

Stock markets came under heavy pressure due to the sharp rise in interest rates, fears of negative effects on the economy from the major tightening of monetary policy in the USA, the consequences of the Russia-Ukraine war and China's zero-Covid policy. The German stock market index (DAX) fell back from 15,885 at the start of the year to 12,784 at the end of June 2022.[12] This equates to a fall of 19.5 percent (including dividends).

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7 *See Interhyp 2022, https://www.interhyp.de/ratgeber/was-muss-ich-wissen/zinsen/zins-charts.html*

8 *See Federal Statistical Office press release no. 212 dated 23 May 2022., https://www.destatis.de/EN/Press/2022/07/PE22_296_611.html*

9 *See EUR-USD Exchange Rate, taken from Refinitiv Datastream on 20 June 2022*

10 *See 10-year Treasury yield, taken from Refinitiv Eikon on 20 June 2022*

11 *See yields on 10-year Bunds and 2-year German treasury notes, taken from Refinitiv Eikon on 20 June 2022*

12 *See Deutsche Börse: DAX Performance Index, taken from Refinitiv Datastream 20 June 2022*

Sensitivity of banking sector to the economy mitigated by its robust condition

The ongoing concerns about inflation and a recession, driven by the Russia-Ukraine war and its impact on European energy supply, also took their toll on the banking sector in the first half of 2022. The share prices of the most important listed European banks, as measured on the EURO STOXX Banks Price Index, lost around 20 percent of their value since the start of the year and, credit spread, as measured on the iTraxx Europe Senior Financial Index more than doubled over the same period.[13]

Although banks' direct exposure to Russia was manageable and being cut back (with some exceptions), the valuations of market participants reflected the sector's sensitivity to the state of the economy. Given the economic pressure, rising interest rates and heavy dependency on Russian gas – especially in Germany – the deterioration in the credit ratings of borrowers that could materialise in second and third-round effects were priced in. KPIs such as liquidity, the capital base and quality of assets are at levels indicating the European banking sector is in a robust enough condition to meet these challenges. While the liquidity coverage ratio was 168 percent (as a weighted average) at the end of March 2022, the CET1 ratio stood at 15.2 percent of risk-weighted assets as at the same date.[14] The non-performing loans (NPL) ratio slipped below the 2 percent mark for the first time in years.[15] The increase in capital market interest rates is also a welcome development from the banks' perspective.

In the first half of 2022, the European Central bank conducted a stress test on climate risks for the first time, based on the methodology published in October 2021. As a joint learning exercise, the climate stress test was intended to show how much European banks already take climate and environmental risk into account in their internal climate stress test framework, how much profitability depends on particularly carbon-intensive sectors and how heavily affected credit portfolios are by the seven physical and transitory supervisory scenarios. The results were mixed. Despite initial efforts, the sector has not yet engaged intensively enough with climate risks. With the current stress tests not having any direct impact on capital requirements, best practices and institution-specific measures will set the bar higher for future tests.[16]

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13 *See EURO STOXX Banks Price Index or iTraxx Europe Senior Financial Index, both taken from Bloomberg on 21 July 2022*

14 *See EBA Risk Dashboard Q1 2022, https://www.eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20dashboard/q1%202022/1036529/EBA%20Interactive%20Dashboard%20-%20Q1%202022.xlsm*

15 *Ibid*

16 *See press release of the European Central Bank dated 8 July 2022 https://www.bundesbank.de/resource/blob/894220/bffcc9114c1ec371b3081d011377ebcc/mL/2022-07-08-klimarisiken-download.pdf*

In the European core markets, this therefore shone the spotlight once again on the focus of business models, profitability and efforts to digitalise. Although the competitive situation among lenders in Europe and Germany in particular (owing to the highly fragmented nature of the sector there) was still tough, some degree of consolidation in the form of mergers and acquisitions took place in a few eurozone countries.

Regulatory environment

Stricter capital buffer requirements

After the anti-cyclical capital buffers for financing in Germany were set at 0.75 percent by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) in January 2022 to take effect on 1 February 2023, BaFin issued a general ruling on 30 March 2022 that stipulates a new capital buffer for risk positions secured by residential mortgages. The systemic risk buffer of 2 percent will also take effect on 1 February 2023.

Coronavirus pandemic

The option to exclude deposits at central banks from leverage exposure, which expired at the end of March 2022, was not extended beyond this date by the ECB. Central bank balances have therefore been included in the leverage exposure again since April 2022.

Capital Requirements Regulation (CRR) - update

The European Commission's draft for the next CRR update, CRR III, was released in October 2021. CRR III incorporates major parts of the finalisation of Basel III into European law. First-time application is envisaged for 1 January 2025. To be able to estimate future capital needs, the European Banking Authority (EBA) conducted an extensive impact study in the first quarter of 2022, which expanded the Basel Committee's regular monitoring to include issues specific to the EU.

Improved grades in the ECB climate stress test

BayernLB took part in the ECB's climate stress test in the first half of 2022. The Group feels vindicated that the measures it has taken since 2020 conform with supervisory requirements. The Sustainability (BayernLB) and Blue (DKB) projects initiated in 2021 take account of the results of the stress test and are being continued without modification.

Russia-Ukraine war and energy crisis

Since the outbreak of the Russia-Ukraine war, the banking supervisory authorities have been monitoring the effects of the crisis on banks. Among the measures taken in the first half of 2022, ad hoc assessments were prepared on affected exposures and the first estimates of the potential impact on KPIs was calculated.

Deposit protection

BayernLB is a member of the guarantee scheme for banks managed by the German Savings Bank Association (Deutscher Sparkassen- und Giroverband e.V., Berlin (DSGV)). Following a review, the ECB and BaFin in 2020 communicated to the DSGV certain expectations they have as to how the guarantee system of the Savings Banks Finance Group should be fine-tuned and updated. In agreement with the supervisory authority, the Savings Banks Finance Group finished working on some findings. Various binding points have also been agreed for several other findings, which will involve agreeing to changes to the statutes by mid-2023 based on the scheduling and action plan reached with the supervisory authority. These will come into force no later than 1 January 2024.

The annually calculated target volume of funds for the deposit guarantee scheme must be achieved by 3 July 2024 under the German Deposit Guarantee Act. As a result of BayernLB decoupling from DKB with respect to contributions (revoking the letter of comfort and terminating the control and profit and loss transfer agreement) in 2021, the Bank has already achieved the target volume set.

Business performance – important developments and business policy events in the first half of 2022

The following sections contain, among other things, current information on significant progress achieved in the first half of 2022 on implementing the strategy and should be read in conjunction with the section on the business model and Group strategy, which can be found in the combined management report for 2021.

Strategic vision for 2024 reaffirmed

As part of the BayernLB Group's regular strategy process and given the current environment, particularly the effects of the coronavirus pandemic, the Russia-Ukraine war and the overall change in macroeconomic conditions, BayernLB submitted its strategic target vision for 2024 to a regular review in the first half of 2022. In July 2022, the Board of Management and Supervisory Board again confirmed the strategic target vision for 2024 for BayernLB and its segments with only a few adjustments in some segment, including a regional relocation in business activities and shifting weightings between products. Thus, the strategic vision for 2024 and the financial guidelines defined for it still form the strategic framework within which the BayernLB Group operates.

Transformation project still in line with its objectives

In the first half of 2022, the BayernLB Group continued to pursue its focussed strategic realignment and transformation agreed at the end of 2019.

Almost all implementation projects under the "Fokus 2024" transformation programme achieved their agreed milestones in the first half of 2022 and made good operating progress. For example, the conversion work at the Cash Center in Nuremberg to support further growth in the foreign notes and coins and precious metals business and the preparations to set up a sales location for the Real Estate Business Area in Amsterdam are both on track.

In addition, BayernLB is collaborating with two other banks on the vc°trade digital platform, which complements the already successful platform for the Schuldschein note loan business, along with which BayernLB is working on digitalising the syndicated credit markets with other international banking partners. DKB successfully implemented its new digital process to accelerate the process for applying for private loans and rolled out the Visa debit card as a primary customer card for the DKB cash account, including successfully adjusting all operating processes. In addition, the BayernLB IT projects to modernise bank management and consolidate the trading application landscape achieved their respective milestones in 2022.

The human resources tools to downsize and restructure the workforce at BayernLB in a socially responsible manner, which were agreed between the Board of Management and General Staff Council in 2019, continued to be well received by employees in the first half of 2022. Overall, as at 30 June 2022 BayernLB had already achieved 85 percent of the headcount reduction target of around 940 full-time equivalent staff since the start of the programme, taking into account natural attrition. The remaining reductions in headcount will take place in stages up to 30 September 2023.

In addition, work to achieve the objective of optimising space at BayernLB's main campus in Munich is proceeding according to plan. On 5 August, BayernLB concluded a notarised property sales contract to sell four properties at the Munich location which are not necessary for operations. The Bank estimates the transaction will complete in 2022.

Russia-Ukraine risk reduced by suitable measures

The political situation remains fraught, given the ongoing hostilities in Ukraine, and is constantly evolving. BayernLB has evaluated the impact these developments, including mitigating measures, might have on the Group and agreed appropriate measures.

In a direct response, BayernLB closed its representative office in Moscow and stopped taking on new business with Russia, Ukraine and Belarus. In the reporting period, the gross credit volumes for these countries fell from EUR 0.6 billion to EUR 0.4 billion, with the net credit volume at EUR 0,1 billion. The Bank is continuing to closely monitor and wind down its exposure to the countries directly affected by the Russia-Ukraine war.

All in all, the BayernLB Group is adequately prepared for a deterioration in the current situation, which could arise in particular due to a more gloomy outlook for the economy, disrupted supply chains and a jump in energy costs. The Bank conducts its closely entwined strategy and planning on a rolling basis, which also allows it to exploit opportunities that temporarily arise both quickly and systematically and to duly respond to unexpected risks. Its significant risks are described in the risk report in this management report.

Portfolio of sustainable refinancing instruments expanded

In the first half of 2022, BayernLB expanded its portfolio suitable for refinancing through sustainable debt capital instruments with the addition of the Mobility product category (electric locomotives and multiple unit trains for passenger transportation).

Solid earnings in the first half of the year with a good profit before taxes, liquidity remaining stable, solid liquidity and a low NPL ratio

The business performance in the first six months of the financial year reflected the impact of our strategy, good portfolio quality, comfortable levels of liquidity and adequate risk provisions.

In the first half of 2022, the BayernLB Group posted a profit before taxes of EUR 277 million (H1 2021: EUR 485 million) despite the negative impact in connection with the Russia-Ukraine war, the ongoing challenges of dealing with the coronavirus pandemic, and increasing inflationary pressures. The main reason for the fall in profit before taxes was volatility on the bond and stock markets, which took a heavy toll on the gains or losses on fair value measurement and gains or losses on hedge accounting line items.

The most important financial KPIs were:

	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	Outlook for 2022
Profit/loss before taxes	EUR 277 million	EUR 485 million	EUR 300-500 million
Return on Equity (RoE)[1]	5.2 %	9.5 %	>3 %
Cost/income ratio (CIR)	70.3 %	55.3 %	63 % - 67 %

1 Ratio of annualised profit before taxes to average regulatory equity (Group)/average allocated economic equity (at segment level).

	30 Jun 2022	31 Dec 2021	Outlook for 2022
Common Equity Tier 1 (CET1) capital ratio	15.9 %	17.3 %	>15 %
Leverage ratio (LR)	3.8 %	5.3 %	>4 %

The leverage ratio (LR) stood at 3.8 percent and exceeded the regulatory minimum ratio of 3.0 percent.

The BayernLB Group's non-performing loan ratio remained steady at 0.6 percent during the reporting period. While BayernLB saw a marginal fall from 0.9 percent to 0.8 percent, DKB posted a stable ratio of 0.3 percent.

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

The BayernLB Group's results of operations

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	Change in %
Net interest income	928	1,006	(7.7)
Risk provisions	46	44	2.6
Net interest income after risk provisions	**973**	**1,050**	**(7.3)**
Net commission income	219	189	15.8
Gains or losses on fair value measurement	(9)	145	–
Gains or losses on hedge accounting	(33)	(3)	>100.0
Gains or losses on derecognised financial assets	1	5	(83.1)
Gains or losses on financial investments	(1)	7	–
Administrative expenses	(787)	(754)	4.3
Expenses for the bank levy and deposit guarantee scheme	(132)	(170)	(22.5)
Other income and expenses	15	14	7.1
Gains or losses on restructuring	30	1	>100.0
Profit/loss before taxes	**277**	**485**	**(42.8)**
Income taxes	(101)	(235)	(57.2)
Profit/loss after taxes	**177**	**249**	**(29.1)**
Profit/loss attributable to non-controlling interests	(1)	(2)	(25.7)
Consolidated profit/loss	**175**	**248**	**(29.3)**

Rounding differences may occur in the tables. More detailed information can be found in the notes.

Main changes to the BayernLB Group's results of operations

Net interest income

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	Change in %
Interest income	**2,196**	**2,486**	**(11.7)**
of which from:			
Credit and money market transactions	1,376	1,326	3.8
Financial investments	39	66	(40.2)
Hedge accounting derivatives and derivatives in economic hedges	405	527	(23.2)
Negative interest	365	567	(35.6)
Other interest income	11	1	>100.0
Interest expenses	**(1,268)**	**(1,481)**	**(14.3)**
of which:			
From liabilities to banks and customers	(389)	(408)	(4.6)
For securitised liabilities	(128)	(136)	(6.0)
For subordinated capital	(41)	(34)	21.7
From hedge accounting derivatives and derivatives in economic hedges	(379)	(489)	(22.5)
From negative interest	(311)	(390)	(20.3)
Other interest expenses	(20)	(23)	(13.9)
Net interest income	**928**	**1,006**	**(7.7)**

Net interest income went down by EUR 78 million to EUR 928 million. A major factor here was the EUR 117 million drop in additional income to EUR 47 million in connection with the TLTRO – Targeted Longer-Term Refinancing Operations with the ECB. This was exclusively attributable in the first half of 2022 to DKB, which as at 30 June 2022 had still drawn down EUR 22.5 billion (31 December 2021: EUR 26.8 billion) under TLTRO III. In addition, in the prior-year comparison the net interest income for 2021 also included a one-off charge of EUR 44 million from the transfer of the euro-denominated OTC derivatives in economic hedges from LCH.Clearnet to Eurex Clearing. Adjusted for this interest-rate effect from the TLTRO III, net interest income would have been EUR 881 million as at 30 June 2022, compared with a prior-year value of EUR 886 million also adjusted for the LCH Eurex effect.

Risk provisions

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	Change in %
Additions	(541)	(499)	8.4
Direct writedowns	(6)	(7)	(9.3)
Releases	579	533	8.7
Recoveries on written down receivables	12	16	(21.1)
Income from the write-up of purchased or originated credit-impaired financial assets	1	2	(29.9)
Risk provisions	**46**	**44**	**2.6**

The BayernLB Group's net risk provisions reflected the overall good quality of the credit portfolio and adequate level of risk provisions. The BayernLB Group posted a net gain from risk provisions of EUR 46 million for the first-half of 2022 (H1 2021: net gain of EUR 44 million).

The risk provisions line item contains a post model adjustment (PMA), which the BayernLB Group uses as a supplementary instrument to take adequate account of potential macroeconomic developments (forward-looking information) when it calculates risk provisions under IFRS 9. As at 30 June 2022, the BayernLB Group factored in potential credit defaults in the current challenging macroeconomic environment with a PMA of EUR 315 million (31 December 2021: EUR 356 million). In the first half of 2022, the PMA was reduced by EUR 41 million due mainly to good portfolio performance and a positive outlook for the special portfolio, which was particularly hard hit by the coronavirus pandemic. For further information about the PMA, refer to the notes to the half-yearly consolidated financial statements.

Net commission income

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	Change in %
Fund business	70	61	13.6
Credit business	57	53	7.0
Card business	41	20	>100.0
Securities business	25	27	(7.4)
Trust transactions	8	8	2.4
Payments	2	4	(42.2)
Documentary business	3	3	4.8
Other net commission income	13	13	5.4
Net commission income	**219**	**189**	**15.8**

Net commission income went up in the first six months of 2022, increasing by EUR 30 million to EUR 219 million. As before, the high-commission fund and credit business and also the card business accounted for a large proportion of this.

A major proportion of the contribution from the fund business came from the asset management company Real I.S. AG, which increased its earnings by EUR 6 million to EUR 44 million. Other boosts came in particular from the higher overall amounts of purchase fees and fees charged on the increased volume of assets under management and assets under control.

The overall performance of the credit business was lifted by the expansion of net business volumes in the Real Estate Finance Division and the impact from the Corporates Division pressing on with its strategic withdrawal from some product groups became evident.

Commission from the card business, which is fully generated by DKB, also grew. Year on year, DKB mainly benefited from the sale of the equity interest (50.1 percent) in Bayern Card-Services GmbH (BCS), which contributed EUR 19 million to the increase.

Gains or losses on fair value measurement

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	Change in %
Gains or losses on financial assets in the FVPLM category[1] not held for trading	(134)	75	–
Net trading income	84	33	>100.0
Gains or losses on the fair value option category	41	37	9.9
Gains or losses on fair value measurement	**(9)**	**145**	**–**

1 FVPLM – Financial Assets mandatorily measured at Fair Value through Profit or Loss

Due to the difficult stock market environment (among other factors), this line item went down by a significant EUR 154 million to generate a loss of EUR 9 million. A key driver of this was the loss on financial instruments mandatorily measured at fair value due to measurement of EUR 134 million, a drop of EUR 209 million on the previous year. EUR 79 million of this loss was attributable to DKB (H1 2021: EUR 39 million), largely comprising measurement losses relating to sustainable retail funds. There was also a measurement loss on one of BayernLabo's equity interests in the amount of EUR 41 million (H1 2021: measurement gains of EUR 37 million).

The measurement losses from the investment were offset by measurement gains from the corresponding hedges, which were booked to net trading income and whose contribution to this line item was better than in the previous year. As in the previous year, net trading income line item also received a major boost once again (EUR 38 million) from other financial transactions, with EUR 28 million of this amount coming from the precious metals business, which benefited from high demand for gold as a safe haven asset.

The performance of the "fair value option" category was in line with that of the previous year when this line item included one-off gains in the amount of EUR 44 million following the transfer of euro-denominated OTC derivatives in economic hedges from LCH.Clearnet to Eurex Clearing. Due to the measurement of liabilities to non-controlling interests in DKB sustainability retail funds, a positive effect of EUR 31 million arose in the first half of 2022 (H1 2021: loss of EUR 14 million).

Gains or losses on hedge accounting

The gains or losses on hedge accounting line item reflects the interest rate-related changes in the value of the hedged items and the offsetting changes in the value of the interest rate derivatives entered into for hedging purposes. Due to the strong interest rate fluctuations, the loss on hedge accounting item came in at a loss of EUR 33 million, significantly below the result for the previous year period (H1 2021: loss of EUR 3 million). With a loss of EUR 37 million (H1 2021: gain of EUR 3 million), the biggest negative impact was attributable to DKB, with only marginal offsetting effects at BayernLB.

Administrative expenses

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	Change in %
Staff costs	(418)	(428)	(2.3)
Other administrative expenses	(323)	(284)	13.5
Amortisation and depreciation of property, plant and equipment and intangible assets (not including goodwill)	(46)	(42)	9.9
Administrative expenses	**(787)**	**(754)**	**4.3**

In the first half of 2022, the BayernLB Group's administrative expenses rose by EUR 32 million year on year to EUR 787 million. Of this, EUR 370 million (H1 2021: EUR 342 million) related to DKB and EUR 337 million (H1 2021: EUR 340 million) to BayernLB.[17] The EUR 28 million increase in administrative expenses at DKB was mainly due to the EUR 21 million rise in general expenses[18] to EUR 181 million (H1 2021: EUR 160 million) and from the EUR 7 million increase in staff costs to EUR 189 million (H1 2021: EUR 182 million), which mainly arose within the scope of the future-proofing investments in restructuring DKB as a tech bank. BayernLB made further progress on its transformation path. Strategically necessary expenditure, particularly for expanding and restructuring the IT application landscape, and for digitalisation and process optimisation pushed up general expenses by EUR 15 million to EUR 151 million (H1 2021: EUR 136 million), which was offset by a fall for staff costs of EUR 17 million to EUR 187 million (H1 2021: EUR 204 million). The first successes of the rigorously pursued reduction and restructuring of the workforce were evidenced by the EUR 11 million fall in wages and salaries to EUR 153 million (H1 2021: EUR 164 million). It should be noted in connection with this that, due to the one-year grace period in implementing the personnel measures to 30 September 2023, most of the savings will become evident only after a time lag.

17 *BayernLB core Bank, comprising BayernLB Bank and its branches (excluding BayernLabo).*

18 *General expenses comprises the other administrative expenses, depreciation of property, plant and equipment, and amortisation of intangible assets line items.*

Expenses for the bank levy and deposit guarantee scheme

Expenses for the bank levy and deposit guarantee scheme fell by EUR 38 million year on year to EUR 132 million. The mandatory contribution to the bank levy component of this line item jumped once again, this time by EUR 28 million to EUR 103 million; at BayernLB[19] the increase was from EUR 48 million to EUR 61 million, while at DKB it was from EUR 27 million to EUR 42 million. The reason for the higher amount was the increase in the target volume due to the increase in covered deposits in the eurozone. The big rise at DKB was due to the size of total assets as at the relevant reference date of 31 December 2020, a figure much higher than in previous years. As in previous years, BayernLB and DKB both used the option to provide 15 percent of the annual contribution of the bank levy in the form of fully secured irrevocable payment obligations (UZV), which were not booked to expenses.

Meanwhile, the mandatory contribution for the deposit guarantee scheme went down compared with the previous year by EUR 67 million to EUR 28 million. In BayernLB's case, the requirement to make a contribution fell away completely (H1 2021: EUR 69 million), whereas it increased slightly for DKB, rising from EUR 26 million to EUR 28 million. Once BayernLB revoked the letter of comfort for DKB with effect from 30 November 2021 and terminated the control and profit and loss transfer agreement (CPLTA) at the end of 30 September 2021, the legal grounds for including risks and deposits in the calculation of BayernLB's contribution ceased to apply. As a result, BayernLB already achieved its target volume for the deposit guarantee scheme in 2021.

Gains or losses on restructuring

Gains or losses on restructuring came in at a positive overall amount of EUR 30 million (H1 2021: positive amount of EUR 1 million) and largely comprised releases of restructuring provision through profit or loss, driven by a marked increase in interest rates and the updating of underlying measurement assumptions.

Income taxes

In the reporting period, the Group reported income tax expenses of EUR 101 million (H1 2021: income tax expenses of EUR 235 million). The item comprised expenses of EUR 26 million (H1 2021: expenses of EUR 42 million) from the netting of current tax income and expenses, and expenses of EUR 75 million (H1 2021: expenses of EUR 193 million) from the netting of deferred tax income and expenses. The high level of tax expenses from the previous year was largely due to the changed value of deferred taxes in BayernLB's consolidated tax group in the previous year. The estimate is principally based on the knowledge that was available on 30 June 2021 about the ending of the control and profit and loss transfer agreement with DKB and the subsequent ending of the income tax group in financial year 2021.

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19 Information relates to BayernLB core Bank, comprising BayernLB Bank and its branches (excluding BayernLabo).

Results of operations of the segments

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

The segment structure of the BayernLB Group was unchanged on the previous year and, as at 30 June 2022, comprised the following three segments under the business strategy:

- Real Estate & Savings Banks/Financial Institutions, including BayernLabo, and the subsidiaries Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich (Real I.S.) and BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich (BayernInvest)
- Corporates & Markets
- DKB – comprising the Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) sub-group

Another component of the BayernLB Group is the Central Areas & Others segment, which includes the earnings from the Group Treasury Division and the consolidation entries not allocated to the other segments.

The contributions of the individual segments to the profit before taxes of EUR 277 million (H1 2021: EUR 485 million) are shown below:

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	Change in %
Real Estate & Savings Banks/Financial Institutions	112	155	(27.8)
Corporates & Markets	80	97	(17.7)
DKB	119	273	(56.6)
Central Areas & Others (including Consolidation)	(33)	(41)	18.6

Real Estate & Savings Banks/Financial Institutions segment

- The Real Estate Business Area again reports rising operating earnings and an uptick in new business
- The Savings Banks & Financial Institutions Business Area benefits from the growth in the precious metals business.

The Real Estate & Savings Banks/Financial Institutions segment's profit before taxes was EUR 112 million (H1 2021: EUR 155 million), which was lower than in the previous year. The main reason for the fall was the recognition of a loss event in expenses.

The Real Estate Division again made a significant contribution to the earnings with a profit before taxes of EUR 82 million (H1 2021: EUR 86 million). The small fall in earnings was mostly the result of risk provisions of EUR 14 million, which were offset in the previous year by a slightly positive risk provision of EUR 2 million due to a partial reversal of the PMA. The business area improved both net interest and net commission income due to growth in business volumes to a total of EUR 149 million (H1 2021: EUR 129 million).

Profit before taxes in the Savings Banks & Financial Institutions Business Area improved to EUR 40 million (H1 2021: EUR 30 million). The main driver for this was the drop in administrative expenses to EUR 74 million (H1 2021: EUR 81 million) as a result of the ongoing transformation process. On the income front, the business area benefited from the good business performance in precious metals and increased earnings to EUR 113 million (H1 2021: EUR 110 million).

BayernLabo posted profit before taxes of EUR 12 million (H1 2021: EUR 19 million). The fall in this result was mostly due to the changed interest rate environment and resulting effects on earnings from hedging interest rate risk.

Profit before taxes at Real I.S. was EUR 17 million, which was on a par with the previous year (H1 2021: EUR 17 million). The increase in net commission income to EUR 44 million (H1 2021: EUR 38 million) was offset in part by the rise in administrative expenses to EUR 27 million (H1 2021: EUR 24 million).

BayernInvest made a loss before taxes of EUR 3 million (H1 2021: profit before taxes of EUR 3 million). The reason for the marked drop in earnings was measurement losses caused by the current market turmoil, which was reflected in a loss on fair value measurement of EUR 1 million (H1 2021: EUR 0 million) and a loss on financial investments of EUR 4 million (H1 2021: EUR 0 million). The improvement in net commission income was offset by a rise in administrative expenses.

Corporates & Markets segment

- Core business reports mainly higher volumes and stable customer business with financial markets products despite volatile market situation
- Previous year impacted by positive one-off effects and measurement gains as a result of market growth
- Net fall of risk provisions partly on account of the revaluation of risks from the coronavirus pandemic
- Administrative expenses shrink due to the segment focusing on competitive products and services in the customer business

The Corporates & Markets segment generated a profit before taxes of EUR 80 million (H1 2021: profit before taxes of EUR 97 million). The decline in earnings was mainly due to lower net interest income and more modest gains or losses on fair value measurement. Net commission income fell to EUR 137 million (H1 2021: EUR 163 million), largely owing to the hiving off of the wind-down portfolio in line with strategy, but also to positive one-off effects in the previous year. The drop in the gains on fair value measurement line item to EUR 4 million (H1 2021: EUR 35 million) reflects the measurement losses caused by the current market environment, compared with the opposite trend and positive one-off effects in the previous year. At EUR 42 million (H1 2021: EUR 43 million), net commission income was stable compared with the previous year.

The fall in income and its impact on earnings was partly offset by a large net fall in risk provisions and drop in administrative expenses. The fall in income was partly offset by significantly positive risk provisions and a decrease in administrative expenses. The risk provisions of EUR 22 million (H1 2021: net expense EUR 1 million) resulted from net reversals due to the good portfolio quality and improved market conditions of focus sectors as a result of the reassessment of risks from the coronavirus pandemic. Administrative expenses in the segment fell back to EUR 127 million (H1 2021: EUR 144 million), largely owing to the rigorous focusing in the customer business.

DKB segment

- Significant measurement-related fall in earnings following turmoil on capital markets; previous year's figure boosted by higher tender bonuses and measurement gains from sustainability funds and equity interests.
- Higher administrative expenses due to the implementation of DKB's strategic growth and digitalisation targets.
- Net fall in risk provisions due to good portfolio quality and revaluation of risks from the coronavirus pandemic

The DKB segment's profit before taxes amounted to EUR 119 million, well behind of the previous year's EUR 273 million. Besides the slide in net interest income, the earnings were mainly dented by losses on fair value measurement and from hedging transactions.

At EUR 523 million (H1 2021: EUR 566 million), the DKB Group's net interest income was lower than the previous year's level due to the lower utilisation of TLTRO III-reduced interest rates compared with the previous year (H1 2021: EUR 105 million). Adjusted for the earnings effect from participation in the TLTRO III in the first half of 2021 and 2022, net interest income went up slightly, partly due to the current interest rate trend.

Net commission income came in higher, partly due to the good performance in the credit card business, rising to EUR 43 million (H1 2021: EUR 25 million).

The gains or losses on fair value measurement line item was significantly below the previous year (when there was a large gain in retail funds) and saw a loss of EUR 43 million (H1 2021: gained EUR 28 million) due to current market turmoil and resulting measurement losses in the DKB sustainability funds.

Gains or losses on hedge accounting produced a loss of EUR 37 million, putting it well below the previous year (H1 2021: gain of EUR 3 million). This reflected losses from DKB's interest rate hedging instruments following the jump in interest rates in the first half of 2022.

With EUR 42 million (H1 2021: EUR 33 million), the risk provisions were again clearly positive and benefited from net reversals of allowances for losses on loans and advances (including PMA) and repayments of problem loans.

DKB's status as Germany's second-largest online bank was further cemented by an increase in retail customer numbers to around 5.2 million (+170,000 since the end of 2021). To safeguard its market position for the long term, additional investments were made in the financial year on sales, digitalisation and workforce buildup, which pushed up administrative expenses to EUR 370 million (H1 2021: EUR 342 million).

DKB also recorded an increase in expenses for the bank levy and the deposit guarantee scheme, with the total amount reaching EUR 71 million (H1 2021: EUR 54 million).

Central Areas & Others segment

- Segment's earnings severely hit by the bank levy
- Group Treasury's previous year's figure significantly impacted by tender bonus and shift in earnings from net interest income to gains or losses on fair value measurement
- Earnings boosted by restructuring gain

The Central Areas & Others segment produced a loss before taxes of EUR 33 million (H1 2021: loss before taxes of EUR 41 million: As in the previous year, the earnings were heavily affected by the mandatory contribution to the bank levy, which went up to EUR 61 million (H1 2021: EUR 48 million) due to the raising of the size of the contribution. The mandatory contribution to the deposit guarantee scheme was not required (H1 2021: EUR 69 million) as the target volume which BayernLB has to provide for the guarantee scheme was already reached in full in 2021.

The segment's net interest income fell to EUR 82 million (H1 2021: EUR 104 million). One major reason for the fall was the segment not utilising the TLTRO III-reduced interest rates (H1 2021: EUR 59 million), unlike in the previous year, due to the full repayment of the funds drawn down in 2021. At the same time, net interest income in the previous-year period was negatively impacted by the transfer of clearing activities from LCH.Clearnet to Eurex Clearing, the result of which was to shift EUR 44 million of earnings from net interest income to gains or losses on fair value measurement.

Adjusted by the LCG Eurex effect, the segment produced a net loss of EUR 6 million on fair value measurement, only slightly below the previous year's level, as measurement losses at Group Treasury caused by significant market turmoil were partly offset by measurement gains in the non-core portfolio.

Administrative expenses went up to EUR 90 million (H1 2021: EUR 69 million) due to temporary costs for transformation projects.

Gains or losses on restructuring came in at a positive overall amount of EUR 30 million (H1 2021: positive amount of EUR 1 million) and largely due to releases of restructuring provision through profit or loss, driven by a marked increase in interest rates and the updating of underlying measurement assumptions.

Main changes to the BayernLB Group's net assets

The BayernLB Group's net assets as at 30 June 2022 were largely affected by credit business, high levels of liquidity and extreme market volatility. Owing to the expansion of the business in line with strategy and the positive interest rate trend, the BayernLB Group's business and credit volumes increased, leading to higher total assets. As at 30 June 2022, the BayernLB Group had total assets of EUR 285.3 billion, an increase of EUR 18.8 billion.

EUR billion	30 Jun 2022	31 Dec 2021	Change in %
Total assets	285.3	266.6	7.0
Business volume[1]	331.8	313.3	5.9
Credit volume[2]	227.9	227.0	0.4

1 Total assets plus liabilities held in trust, contingent liabilities and other commitments.
2 Loans and advances to banks and customers plus contingent liabilities from guarantees and indemnity agreements.

Assets

EUR million	30 Jun 2022	31 Dec 2021	Change in %
Cash reserves	37,671	17,542	>100.0
Loans and advances to banks	50,381	56,266	(10.5)
Loans and advances to customers	165,589	158,988	4.2
Risk provisions	(1,101)	(1,117)	(1.4)
Portfolio hedge adjustment assets	(3,157)	231	–
Assets held for trading	10,624	8,880	19.6
Positive fair values from derivative financial instruments (hedge accounting)	316	509	(37.9)
Financial investments	19,503	20,085	(2.9)
Investment property	16	25	(35.9)
Property, plant and equipment	396	445	(10.9)
Intangible assets	177	170	4.1
Tax assets	659	690	(4.5)
Non-current assets or disposal groups classified as held for sale	78	65	20.4
Other assets	4,152	3,775	10.0
Total assets	**285,305**	**266,554**	**7.0**

Cash reserves and loans and advances to banks

Cash reserves and loans and advances to banks increased by EUR 14.2 billion compared with the end of 2021 to a total of EUR 88.0 billion (31 December 2021: EUR 73.8 billion). The volume of cash reserves meanwhile rose by EUR 20.1 billion to EUR 37.7 billion, while loans and advances to banks fell by EUR 5.9 billion to EUR 50.4 billion. The increase in cash reserves was almost entirely due to the EUR 22.6 billion rise in DKB's central bank deposits to EUR 36.1 billion. Meanwhile loans and advances to banks by DKB fell by EUR 25.3 billion to EUR 60 million, mostly as a result of the reduction of the deposit facilities at Deutsche Bundesbank. In addition, in the first half of 2022 DKB repaid a portion of the TLTRO III funds utilised in the amount of EUR 4.3 billion and scaled back its drawn-down funds as a result to EUR 22.5 billion as at 30 June 2022 (31 December 2021: EUR 26.8 billion). BayernLB's cash reserves dropped by EUR 2.5 billion to just under EUR 500 million, while loans and advances to banks climbed by EUR 19.4 billion to EUR 50.3 billion, primarily due to the investing of incoming funds in the daily maturing segment.

Loans and advances to customers

Loans and advances to customers increased by EUR 6.6 billion compared with the end of 2021 to EUR 165.6 billion. The increase was mainly due to a EUR 3.8 billion increase in customer lending at BayernLB to EUR 61.6 billion and at DKB by EUR 2.8 billion to EUR 87.0 billion, partly from call money and term deposits, gold deposits and credit business at BayernLB and DKB.

Risk provisions

Risk provisions fell year on year by EUR 16 million to EUR EUR 1,101 million. The risk provisions recognised as at the reporting date included a post model adjustment (PMA) of EUR 315 million (31 December 2021: EUR 356 million) to take account of the risks to lending activities in various macroeconomic scenarios.

The risk provisions for loans still being serviced by customers (Stages 1 and 2) decreased by EUR 22 million to EUR 425 million (31 December 2021: EUR 447 million). The provision for non-performing loans (Stage 3) climbed slightly by EUR 3 million year on year to EUR 615 million (31 December 2021: EUR 612 million). The provision for loans already impaired upon initial recognition increased by EUR 3 million year on year to EUR 61 million (31 December 2021: EUR 58 million).

Portfolio hedge adjustment

The portfolio hedge adjustment reflects the interest-rate related changes in the value of fixed-interest hedged items for which the fair value hedge accounting in the form of portfolio hedges was used. As at the reporting date, the BayernLB Group's portfolio hedge adjustment was much lower, falling by EUR 3.4 billion to a negative figure of EUR 3.2 billion. Of this amount, a negative EUR 2.5 billion (31 December 2021: EUR 308 million) related to DKB. The main reason for this fall was rising interest rates on the market. The interest rate-related changes in the value of the hedged items were offset by changes in the value of hedges. Both effects were recognised under gains or losses on hedge accounting.

Assets held for trading

Assets held for trading increased by EUR 1.7 billion to EUR 10.6 billion as at the reporting date. The reason for the increase was the positive fair values from financial instruments, which went up significantly, rising by EUR 1.2 billion to EUR 8.4 billion, due to currency-related measurement effects and the increase in the volume of credit derivatives. The volume of bonds, notes and other fixed-income securities assigned to the "residual" business model increased by EUR 1.0 billion to EUR 1.8 billion. Amounts due from trading and equities and other non-fixed income securities fell by EUR 500 million in total.

Investment property and property, plant and equipment

As at 30 June 2022, investment property fell by EUR 9 million to EUR 16 million while property, plant and equipment decreased by EUR 49 million to EUR 396 million. The drop in both line items was due to four properties belonging to BayernLB being reclassified on the balance sheet as investment property in connection with the Bank's strategic realignment. Prior to this, the Bank had decided to divest itself in 2022 of other properties not needed for business operations. Four properties were put up for sales in an open tender in the first half of 2022. The notarised property sales contract to sell the four properties in a single transaction was concluded on 5 August 2022.

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

As at the reporting date, the BayernLB Group recognised EUR 78 million (31 December 2021: EUR 65 million) of non-current assets or disposal groups classified as held for sale. The carrying amount comprised real estate classified as held for sale in the amount of EUR 59 million, and credit exposures of EUR 19 million classified as available for sale due to the strategic reduction of non-core businesses.

Other assets

Other assets rose by EUR 377 million to EUR 4,152 million. As a result of the increase in the discount rate for pension obligations, the asset surplus from offsetting the present value of defined benefit obligations against the earmarked plan assets increased significantly by EUR 451 million to EUR 472 million, while contract claims – partly due to the as yet uninvoiced sales of the DKB Visa debit card introduced in the first half of 2022 – rose by EUR 440 million to EUR 604 million and precious metal holdings by EUR 138 million to EUR 500 million. However, the carrying amount of emissions certificates fell by EUR 673 million to EUR 2,206 million. The drop in this volume was more pronounced than the price increase from EUR 79 per tonne to around EUR 90 per tonne.

Liabilities

EUR million	30 Jun 2022	31 Dec 2021	Change in %
Liabilities to banks	80,110	76,447	4.8
Liabilities to customers	130,890	119,292	9.7
Securitised liabilities	45,015	43,880	2.6
Liabilities held for trading	11,163	8,343	33.8
Negative fair values from derivative financial instruments (hedge accounting)	804	1,073	(25.1)
Provisions	1,229	1,768	(30.5)
Tax liabilities	22	98	(78.0)
Liabilities of disposal groups	–	28	–
Other liabilities	667	627	6.4
Subordinated capital	2,582	2,689	(4.0)
Equity	12,824	12,307	4.2
Total liabilities	**285,305**	**266,554**	**7.0**

Liabilities to banks

Liabilities to banks stood at EUR 80.1 billion as at the reporting date, a EUR 3.7 billion increase versus the value as at the end of 2021. The main increases were in liabilities from repurchase agreements (up EUR 3.3 billion), liabilities from pass-through transactions (up EUR 1.1 billion) and other liabilities (up EUR 0.7 billion). The falls took place in current accounts (down EUR 0.2 billion) and call money and term deposits (down EUR 1.4 billion). While BayernLB's liabilities to banks rose by EUR 6.9 billion to EUR 38.0 billion, DKB's fell by EUR 3.5 billion to EUR 36.6 billion.

Liabilities to customers

As at the reporting date, amounts due to customers had increased markedly by EUR 11.6 billion to EUR 130.9 billion. This was principally down to an increase in volumes at current accounts (up EUR 8.5 billion), call money and term deposits (up EUR 4.3 billion) and other liabilities (up EUR 0.4 billion). The trend was negative in the case of registered public Pfandbriefs (down EUR 1.0 billion) and other registered securities (down EUR 0.6 billion). DKB had the highest volume of liabilities to banks as at the reporting date, with an amount of EUR 84.3 billion (31 December 2021: EUR 83.5 billion). BayernLB's volume rose by EUR 11.3 billion to EUR 41.6 billion (31 December 2021: EUR 30.3 billion).

Securitised liabilities

Securitised liabilities rose by EUR 1.1 billion to EUR 45.0 billion. BayernLB accounted for EUR 29.9 billion (31 December 2021: EUR 30.2 billion), while DKB's share was EUR 4.7 billion (31 December 2021: EUR 4.2 billion). Holdings of issued bond and notes stood at EUR 37.2 billion at as at the year-end (31 December 2021: EUR 37.1 billion). Securitised liabilities amounted to EUR 7.8 billion (31 December 2021: EUR 6.8 billion). Within securitised liabilities, the programme for issuing short-term money market instruments had a volume of EUR 7.0 billion (31 December 2021: EUR 6.0 billion).

Liabilities held for trading

Liabilities held for trading increased year on year by EUR 2.9 billion to EUR 11.2 billion. The main reasons for the rise were currency-related measurement effects, which increased by EUR 1.6 billion to EUR 3.5 billion and interest-related measurement effects, which rose by EUR 1.2 billion to EUR 5.7 billion. Liabilities held for trading stood at EUR 1.1 billion (31 December 2021: EUR 1.0 billion).

Provisions

Provisions fell back by EUR 0.5 billion to EUR 1.2 billion. This change was mainly the result of a jump in the discount rate, which reduced the amount of the reported pension obligations. As at the middle of the year, pension provisions after pension liabilities netted against qualified plan assets fell from EUR 0.9 billion to EUR 0.5 billion. Where the value of the plan assets exceeded the liabilities that needed to be covered, the resulting surplus was reported as a net asset amount under the other assets line item.

Other provisions came in at EUR 0.7 million and therefore virtually unchanged on the previous year (31 December 2021: EUR 0.8 million). As before, this was in the form of restructuring provisions for future costs expected from the transformation and restructuring measures in the amount of around EUR 0.5 billion.

Equity

EUR million	30 Jun 2022	31 Dec 2021	Change in %
Subscribed capital	3,412	3,412	0.0
Capital surplus	2,182	2,182	0.0
Retained earnings	7,275	6,548	11.1
Revaluation surplus	(235)	78	–
Foreign currency translation reserve	5	2	>100.0
Consolidated profit/loss	175	75	>100.0
Non-controlling interests	9	11	(16.1)
Equity	**12,824**	**12,307**	**4.2**

The Group's balance sheet equity as at 30 June 2022 totalled EUR 12.8 billion and was therefore around EUR 0.5 billion more than the previous year's comparative figure of EUR 12.3 billion. The main boost came from the gains from the remeasurement of defined benefit obligation pension commitments in the amount of EUR 701 million, which was booked to retained earnings (31 December 2021: EUR 337 million). The turbulence on the capital markets led to a marked increase in IFRS discount rates in the first half of 2022. The revaluation surplus declined significantly by EUR 313 million to a negative EUR 235 million, mainly due to the measurement of bonds, notes and other fixed-income securities at fair value through other comprehensive income.

More extensive and detailed information on the specific line items of the balance sheet can be found in the notes to the balance sheet and other notes sections of the notes to the half-yearly consolidated financial statements.

Main changes to the BayernLB Group's financial position

Liquidity

The BayernLB Group ensured it had sufficient liquidity reserves at all times during the first half of 2022 (including for a stress scenario).

in %	30 Jun 2022	31 Dec 2021	Change in %
LCR	202.8	271.2	(68.4)
NSFR	131.5	136.6	(5.1)

The liquidity coverage ratio (LCR) fell to 202.8 percent during the reporting period and therefore remained well above the 100.0 percent threshold required by the regulator.

The net stable funding ratio (NSFR) in the BayernLB Group stood at 131.5 percent as at the reporting date and therefore far exceeded the 100.0 percent minimum ratio required by the regulator.

Money and capital markets continued to be buffeted by the Russia-Ukraine war, rising energy and raw materials prices and bottlenecks, and persistent, high inflation. The BayernLB Group's liquidity and solvency were assured at all times. In addition, its liquidity management always had the capacity to respond to new market developments in good time. The BayernLB Group had access to the capital market with a broad range of products. Besides unsecured refinancing instruments (preferred and non-preferred senior bonds, Tier 2 subordinated capital and additional Tier 1 capital), the Group can also issue secured funding instruments, in particular mortgage Pfandbriefs and public Pfandbriefs, if it needs to raise financing. Pfandbriefs are a stable part of the mix of refinancing options at its disposal. They provide the BayernLB Group with stable access to long-term funding, at a lower cost than unsecured sources of funding. Its issues take the form of large-volume benchmark bonds right through to private placements. Another refinancing component is the ECB's targeted longer-term refinancing operations (TLTRO III), which DKB is currently utilising in the total current volume of EUR 22.5 billion (31 December 2021: EUR 26.8 billion).

Further information on refinancing and the liquidity situation is provided in the risk report section of this management report.

Ratings

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

	Moody's	Fitch
Issuer rating	Aa3 (positive)	A– (stable)
Long term, preferred senior unsecured	Aa3 (positive)	A
Long term, non-preferred senior unsecured	A2	A–
Short term, unsecured	P– 1	F1
Public Pfandbriefs	Aaa	–
Mortgage Pfandbriefs	Aaa	–

Risk report

Principles

The combined management report of the BayernLB Group for financial year 2021 gives a detailed description of the principles, methods, procedures and organisational structures of risk management within the BayernLB Group and 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 section of the Group half-yearly financial report therefore relates to material changes in the first half of 2022.

Rounding differences may occur in the tables.

Key developments in the first half of 2022

- Risk situation stable overall.
- Risk-oriented expansion of new business in line with strategy
- Risk-bearing capacity maintained at all times
- Liquidity position remained healthy

The current general economic situation is tense and fraught with great uncertainty. This is due to a variety of factors, important ones being the ongoing coronavirus pandemic, supply bottlenecks, the direct and indirect effects of the Russia-Ukraine war, substantial rises in energy prices, the possibility of Russia shutting down gas supplies to Europe and the increase in inflation in conjunction with a jump in interest rates. Thanks to its active risk management, the BayernLB Group's risk situation is very robust, despite the challenging conditions.

Gross credit volume rose by around EUR 16.7 billion to EUR 345.6 billion. The increase was mostly due to the Group's liquidity investments at the Deutsche Bundesbank. Furthermore, new business grew in line with strategy, particularly in the Commercial Real Estate sub-portfolio and in the technology, construction & basic resources, and energy target sectors in the Corporates sub-portfolio.

Portfolio quality remained high, even taking into account the negative impact of the fraught current general economic situation.

Risk-bearing capacity was maintained, as the provision of economic capital was solid at all times. In addition, the BayernLB Group had a good supply of liquidity on hand.

Internal risk management system

Current developments are being very closely monitored at the Bayern LB Group with regard to their impact on the economy and financial markets. Portfolio analyses were conducted on an ad hoc basis to ascertain the impact of the Russia-Ukraine war and a possible halt to gas supplies to Western Europe. We address the current challenges in our meetings with customers. For example, we investigate and report on the potential impact of further increases in the costs of building materials and supply chain issues on real estate developments by regularly screening the construction costs of properties under construction.

In addition to the challenges that our customers face as a result of the current macroeconomic developments and their impact on the BayernLB Group's credit risk, the increase in general interest rates and credit spreads was a key risk management issue in the first half of 2022. In mid-2021, with the help of scenario analyses, the BayernLB Group began focusing intensively on the possibility of an unchecked rise in interest rates with increased volatility as a consequence of a sharp rise in inflation. As a result, the interest rate positioning was adjusted in 2022 to keep it in line with market developments.

As part of its risk management of sanctions and embargoes, Group Compliance also adopted Group-wide measures to deal with risks arising from the Russia-Ukraine war.

Taking account of climate and environmental risks in internal risk management remains a particular focus. The risk drivers have already been extrapolated in the risk inventory. These are taken into consideration successively in the relevant risk types, with credit risk being of material importance in this context. An example of this is the internally deployed ESG assessment tool, which analyses financing for its risks (ESG risk) and taxonomy eligibility pursuant to the EU Taxonomy Regulation (ESG impact). The tool forms an integral part of the credit decision. The entire portfolio is analysed successively and the results are included in the sector portfolio analyses and reports.

The BayernLB Group also participated in the ECB's first climate stress test. BayernLB considers this to be confirmation that the measures it has taken since 2020 conform with supervisory requirements. The Sustainability (BayernLB) and Blue (DKB) ESG projects initiated in 2021 take account of the results of the stress test and are being continued unmodified.

The networking of non-financial risk management and financial risk management was improved by transferring the responsibilities for information security risks, storage risks and business continuity management to Group Risk Control in the first half of 2022.

Risk-oriented management

Regulatory capital adequacy (solvency)

With a CET1 ratio of 15.9 percent, the BayernLB Group has a very solid capital base. 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.

In addition to risk-weighted capital requirements, the leverage ratio, an additional non-risk-based metric, was also introduced under the CRR/CRD IV rules. The leverage ratio is fully integrated into the BayernLB Group's management and planning processes. Compliance with the minimum ratio of 3 percent has been mandatory since 30 June 2021. As at the reporting date, this figure was significantly exceeded with a leverage ratio of 3.8 percent.

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.

Current situation

Risk capital requirements

EUR million	30 Jun 2022	31 Dec 2021
Credit risk	1,380	1,302
Market risk	1,594	1,396
Pension basis risk	142	249
Operational risk	560	531
Investment risk	136	92
Business and strategic risk (includes reputational risk)	108	110
Liquidity cost risk	23	24
Total	**3,943**	**3,704**

In light of the Russia-Ukraine war, the current situation as at 30 June 2022 as compared with 31 December 2021 showed only a slight increase in the risk capital requirement. Its solid capital base meant that the BayernLB Group had adequate risk-bearing capacity at all times. The BayernLB Group held sufficient economic capital (EUR 10.9 billion) to cover risk capital requirements (31 December 2021: EUR 11.2 billion).

The largest increase in risk capital requirements was in market risk as the result of increased market volatility due to the uncertain environment (Russia-Ukraine war, rising inflation and ongoing coronavirus pandemic), which gave rise to an increase in interest rates over the course of the first half of the year. This was offset by a reduction in the risk capital requirement in pension basis risk in particular, with the actuary's half-yearly report triggering a considerable increase in discount rates.

Stress testing

In addition to ad hoc analyses of the potential impact of the Russia-Ukraine war, standard calculations were regularly performed for the BayernLB Group during the first half of the year as part of the stress-testing programme, as well as a further internal climate stress test that focused on transitory risks. In addition, the BayernLB Group participated in the first climate stress test set by the ECB using standardised parameter specifications.

In addition, a real estate crisis was simulated, in which severe price falls in both residential and commercial real estate were to be expected. It is important to note that risk-bearing capacity was not endangered in either the climate-stress scenarios or the imputed real-estate crisis from a normative or an economic perspective.

Management of the specific risk types at the BayernLB Group

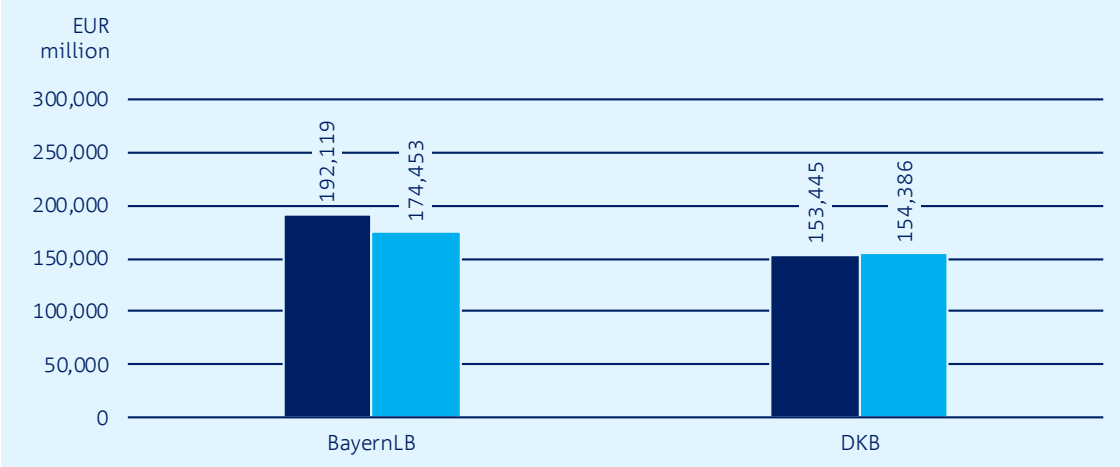
Credit risk

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

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

Current situation

Gross credit volume by Group unit



■ Total as at 30/06/2022: EUR 345,564 million
■ Total as at 31/12/2021: EUR 328,838 million

The gross credit volume for credit transactions comprises the gross lending volume – drawdowns plus unutilised commitments – and undrawn internal current account limits. This is calculated from market values for trading transactions and, in the case of derivatives transactions from potential future exposure, with a confidence level of 95 percent.

Compared with 31 December 2021, the BayernLB Group's gross credit volume rose by EUR 16.7 billion or 5.1 percent to EUR 345.6 billion.

The Countries/Public-Sector/Non-Profit Organisations sub-portfolio posted the largest increase (EUR 11.5 billion). A considerable proportion of this significant increase was accounted for by the substantial reduction of the liquidity investments at the Deutsche Bundesbank at the end of 2021. The gross credit volume at the Deutsche Bundesbank rose by a total of EUR 12.3 billion to EUR 57.1 billion

Excluding the increased liquidity investments at the Deutsche Bundesbank, the gross credit volume at the BayernLB Group rose by EUR 4.4 billion. In line with strategy, the Commercial Real Estate sub-portfolio and the target sectors in the Corporates sub-portfolio made a particularly substantial contribution to the growth in business. The savings bank sector made a major contribution to the increase in the Financial Institutions sub-portfolio. This was in large part due to the building subsidy programmes that were carried out via these banks.

The current general economic situation is tense and fraught with great uncertainty due to a variety of factors, such as the ongoing coronavirus pandemic, the direct and indirect effects of the Russia-Ukraine war, substantial rises in energy prices, the possibility of Russia shutting down gas supplies to Europe and the increase in inflation. In addition, delays in deliveries and procurement problems are also continuing to put a dampener on the economic outlook. On the other hand, the slight signs of recovery seen last year in connection with improvements in ratings in sectors of the Corporates sub-portfolio particularly impacted by the coronavirus pandemic continued. There remains a considerable degree of uncertainty with regard to future creditworthiness and portfolio quality due to the risks associated with the current general economic situation.

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

	BayernLB Group			BayernLB		DKB	
EUR million	30 Jun 2022	31 Dec 2021	Change (in %)	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021
Countries/Public Sector/ Non-Profit Organisations	111,752	100,245	11.5%	52,465	38,345	59,287	61,901
Corporates	74,463	72,941	2.1%	50,869	49,975	23,594	22,966
Commercial Real Estate	65,824	63,459	3.7%	32,530	30,874	33,294	32,585
Financial Institutions	54,905	53,798	2.1%	52,965	51,841	1,940	1,957
Retail/Other	38,620	38,395	0.6%	3,290	3,419	35,330	34,976
of which Retail	38,550	38,326	0.6%	3,220	3,349	35,330	34,976
Total	**345,564**	**328,838**	**5.1%**	**192,119**	**174,453**	**153,445**	**154,386**

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

	BayernLB Group			BayernLB		DKB	
EUR million	30 Jun 2022	31 Dec 2021	Change (in %)	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021
Countries/Public Sector/ Non-Profit Organisations	109,135	97,593	11.8%	50,392	36,219	58,742	61,374
Corporates	61,992	60,374	2.7%	41,922	40,920	20,071	19,454
Commercial Real Estate	17,388	17,077	1.8%	9,051	8,599	8,337	8,478
Financial Institutions	52,139	51,213	1.8%	50,300	49,359	1,838	1,854
Retail/Other	26,149	26,529	(1.4)%	244	256	25,905	26,273
of which Retail	26,079	26,460	(1.4)%	173	187	25,905	26,273
Total	**266,802**	**252,786**	**5.5%**	**151,909**	**135,354**	**114,894**	**117,432**

Net credit volume is calculated as gross credit volume less the value of collateral. The significant increase in the unsecured liquidity investments at the Deutsche Bundesbank also led to a significant increase in net credit volume. The Group's collateral volume grew in parallel by EUR 2.7 billion, which was principally due to an increase in charges over properties (EUR 2.7 billion). The increase in charges over properties was largely the result of the growth in business in the (traditionally highly collateralised) Commercial Real Estate sub-portfolio. The volume of other collateral types remained largely unchanged during the period under review. The collateral ratio at the BayernLB Group declined slightly from 23.1 to 22.8 percent due to the big increase in the unsecured liquidity investment at the Deutsche Bundesbank despite the significant increase in collateral volume.

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

Breakdown by rating

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

Gross credit volume by rating category and sub-portfolio

30 June 2022 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	109,111	1,374	1,102	140	5	19	111,752
Corporates	23,511	33,344	11,075	4,715	367	1,450	74,463
Commercial Real Estate	33,600	24,304	6,521	695	462	243	65,824
Financial Institutions	51,564	2,914	314	49	-	65	54,905
Retail/Other	19,742	11,276	6,144	1,007	268	183	38,620
BayernLB Group	**237,528**	**73,213**	**25,156**	**6,605**	**1,102**	**1,959**	**345,564**
of which BayernLB	**127,695**	**45,324**	**13,820**	**3,547**	**293**	**1,441**	**192,119**
of which DKB	**109,834**	**27,889**	**11,336**	**3,059**	**809**	**518**	**153,445**

31 Dec 2021 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	97,776	1,194	1,075	170	12	19	100,245
Corporates	21,931	32,361	11,855	4,877	402	1,515	72,941
Commercial Real Estate	33,960	21,519	6,520	996	150	314	63,459
Financial Institutions	50,815	2,578	319	80	–	7	53,798
Retail/Other	20,109	10,675	6,213	958	252	189	38,395
BayernLB Group	**224,590**	**68,328**	**25,981**	**7,080**	**816**	**2,043**	**328,838**
of which BayernLB	**112,287**	**42,026**	**14,463**	**3,843**	**307**	**1,526**	**174,453**
of which DKB	**112,304**	**26,301**	**11,518**	**3,237**	**509**	**517**	**154,386**

Gross credit volume at the BayernLB Group in the master rating (MR) categories 0–7 rose by EUR 12.9 billion in the reporting period, This increase was primarily the result of the following movements: A large proportion of the increase was with the Deutsche Bundesbank (EUR 12.3 billion). In addition, gross credit volume in the Corporates sub-portfolio rose by EUR 1.6 billion, with some increases in business in these rating categories in this sub-portfolio (EUR 1.5 billion). Growth also came from substantial improvements in creditworthiness in the rating categories MR 8-11. In addition, the business volume of the Financial Institutions sub-portfolio (EUR 0.7 billion) in rating categories 0-7 also increased during the reporting period; there were, however, slight declines in the Retail/Other (down EUR 0.4 billion) and Commercial Real Estate (down EUR 0.4 billion) sub-portfolios, which saw a limited amount of rating migration to the rating categories 8-11.

The credit volume also increased by EUR 4.9 billion in the rating categories MR 8-11. All sub-portfolios contributed to this increase, first and foremost Commercial Real Estate (EUR 2.8 billion) and Corporates (EUR 1.0 billion). While the increase in the Commercial Real Estate sub-portfolio was, besides the aforementioned migration from rating categories 0-7, primarily driven by new business, the rise in the Corporates sub-portfolio was mainly down to improvements in creditworthiness in the rating categories 12-14 as a result of certain recovery effects in sectors particularly impacted by the pandemic.

In total, the investment grade business volume (MR 0-11) rose by EUR 17.8 billion. Accordingly, the investment grade share of the Group portfolio also improved from 89.1 percent to 89.9 percent. Excluding the increased liquidity investments at the Deutsche Bundesbank, the investment grade share increased significantly to 89.6 percent, which was also attributable to a decline in the gross credit volume in the non-investment grade rating categories.

Gross credit volume in rating categories MR 12-14 declined by EUR 0.8 billion, which was mainly due to the aforementioned improvements in creditworthiness in the Corporates sub-portfolio. Gross credit volume in rating categories MR 15-18 also declined (down EUR 0.5 billion). The percentage share in these rating categories fell from 7.9 percent to 7.3 percent (MR 12-14) and from 2.2 percent to 1.9 percent (MR 15-18). In contrast, gross credit volume in the rating categories MR 19-21 increased slightly by EUR 0.3 billion due to a deterioration in the creditworthiness of individual customers; as a result, the portfolio share of these rating categories rose from 0.2 percent to 0.3 percent.

The non-performing loan ratio at the BayernLB Group remained steady at 0.6 percent during the reporting period. While BayernLB saw a marginal fall from 0.9 percent to 0.8 percent, DKB posted a stable ratio of 0.3 percent.

Adequate risk provisions were set aside to cover loans moved into the default categories (MR 22-24). A detailed breakdown of risk provisioning can be found in the notes.

In summary, the BLB Group's already high portfolio quality improved slightly during the reporting period. This was particularly evident in the clear shift in the gross credit volume towards the investment grade category, which – in addition to a significantly higher gross credit volume with the Deutsche Bundesbank – was also a result of business growth, particularly in the Commercial Real Estate and Corporates sub-portfolios. There were also improvements in creditworthiness as a result of modest signs of recovery in sectors particularly impacted by the coronavirus pandemic. The low non-performing loan ratio also remained stable at the Group during the reporting period. Due to the general economic situation outlined above, the outlook for the second half of 2022 is highly uncertain.

Renegotiated credits

The definition of renegotiated credits (forbearance pursuant to Art. 47b CRR) has remained unchanged since financial year 2021.

Countries around the world have undertaken a variety of measures to reduce the macroeconomic consequences of the coronavirus crisis. In Germany, consumers were able to exercise the option of a legislative moratorium in 2020 (see Section 3 Art. 240 EGBGB). The supervisory authorities have also permitted institutions to agree private moratoria among themselves, provided these comply with the EBA Guidelines (EBA/GL/2020/02) criteria. Measures approved as part of a moratorium may not to be regarded as forbearance pursuant to Art. 47b CRR. At BayernLB and DKB, only the legislative moratorium for consumers was applied. All other measures associated with the coronavirus pandemic are decided upon by considering each borrower on an individual basis.

Current situation

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

EUR million	30 Jun 2022	31 Dec 2021
Loans subject to an EBA-compliant moratorium[1]	80.2	91.6
Loans subject to coronavirus-related forbearance measures[2]	782.3	739.6
New loans subject to coronavirus-related public guarantees[3]	342.7	478.1
Total	**1,205.2**	**1,309.3**

1 The volume shown includes loans and advances to customers and relates exclusively to the expired legislative moratorium for consumers.

2 The volume shown includes loans and advances to customers.

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

The credit volume subject to an EBA-compliant moratorium is solely confined to DKB's retail portfolio. The "Loans subject to coronavirus-related forbearance measures" item encompasses all individually negotiated measures borne of the coronavirus crisis that are not subject to the requirements of an EBA-compliant moratorium but are classified as "forborne" pursuant to Art. 47 b) CRR.

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

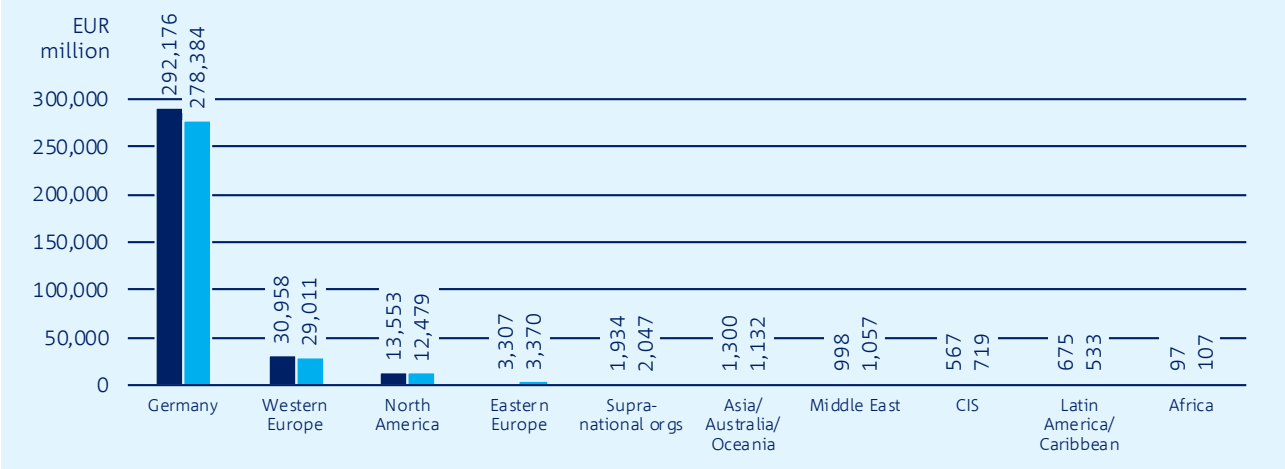
Forbearance exposures

	Renegotiated credits/deferrals		Impairments		Collateral/financial guarantees received	
EUR million	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021
Loans and advances to banks	5.1	5.1	(5.1)	(4.8)	–	–
Loans and advances to customers	1,330.7	1,299.7	(322.5)	(346.7)	275.7	290.8
Financial investments	–	–	–	–	–	–
Credit commitments	259.0	432.8	(18.0)	(19.2)	14.8	42.9
BayernLB Group	**1,594.8**	**1,737.6**	**(345.6)**	**(370.7)**	**290.5**	**333.7**

Breakdown by region

The following table shows gross credit volume by region.

Gross credit volume by region



■ Total as at 30/06/2022: EUR 345,564 million
■ Total as at 31/12/2021: EUR 328,838 million

In line with the Business and the Risk Strategy, Germany continued to account for the lion's share of the BayernLB Group's lending at 84.6 percent (31 December 2021: 84.7 percent). BayernLB is responsible for the bulk of foreign business. A very small proportion of DKB's business is conducted abroad.

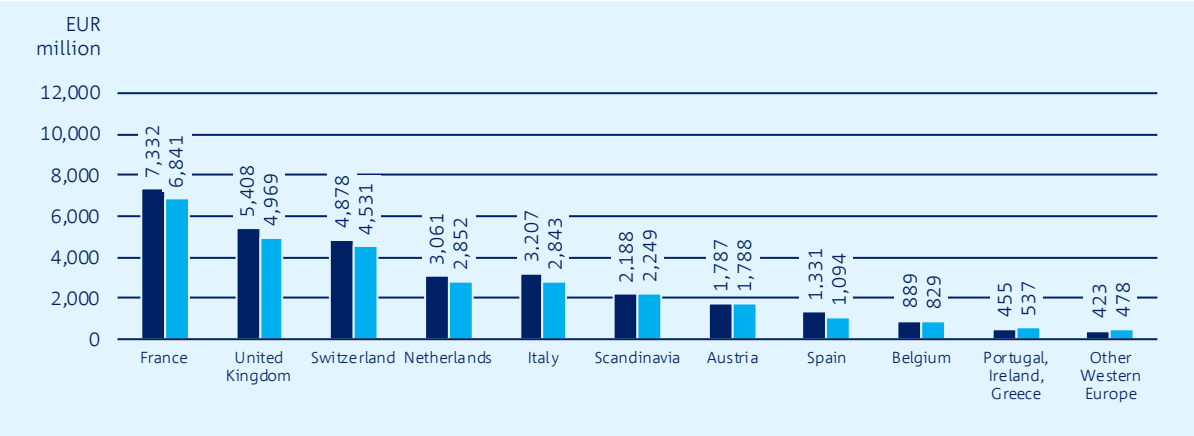
The BayernLB Group's gross credit volume in Germany increased significantly to EUR 292.2 billion (31 December 2021: EUR 278.4 billion). The increase was across the board, with gross credit volumes rising in all sub-portfolios. The increase was largely attributable to the Countries/Public-Sector/Non-Profit Organisations sub-portfolio (EUR 10.0 billion), where the increase in the gross credit volume held with the Deutsche Bundesbank was particularly significant. Business volumes

rose by EUR 1.5 billion in the Commercial Real Estate sub-portfolio, by EUR 1.3 billion in the Corporates sub-portfolio, by EUR 0.7 billion in the Financial Institutions sub-portfolio and by EUR 0.2 billion in the Retail/Other sub-portfolio.

With regard to the regional distribution, the most significant changes in gross credit volume were in the Western Europe (excluding Germany) and North America regions, with both regions posting increases. All other regions saw a slight fall in business volumes. Generally speaking, country risks and risk/return ratios in the foreign business continued to be very closely managed and monitored, given the increased economic and political uncertainties in various countries arising from Russia's war in Ukraine and the ongoing impact of the coronavirus pandemic.

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

Gross credit volume in western European countries (excluding Germany)



■ Total as at 30/06/2022: EUR 30,958 million
■ Total as at 31/12/2021: EUR 29,011 million

Gross credit volume in Western Europe (excluding Germany) rose by around EUR 1.9 billion to EUR 31.0 billion (31 December 2021: EUR 29.0 billion), with various countries contributing to the growth, including France (EUR 0.5 billion), the UK (EUR 0.4 billion), Italy (EUR 0.4 billion), Switzerland (EUR 0.3 billion), Spain (EUR 0.2 billion) and the Netherlands (EUR 0.2 billion).

The increase in gross credit volume in the North America region of EUR 1.1 billion to EUR 13.6 billion was driven by the US (EUR 1.2 billion), which compensated for a slight decline in Canada (EUR 0.1 billion). The growth in the US is primarily due to the expansion of business in the Commercial Real Estate sub-portfolio (EUR 0.5 billion) in line with strategy and fluctuations in the value of transactions as at the reporting date in the form of investments to maintain liquidity.

Russia's war in Ukraine has put the Eastern Europe/CIS region more sharply into focus. The gross credit volume in Russia, Ukraine and Belarus was reduced from EUR 0.6 billion to EUR 0.4 billion during the reporting period and a ban on new business with these countries put in place. The majority of the remaining business volume is hedged, inter alia by German Euler-Hermes export insurance. The net credit volume in these countries amounted to EUR 0.1 billion as at the reporting date (31 December 2021: EUR 0.2 billion). The Bank is continuing to closely monitor and wind down its exposure to the countries directly affected by the Russia-Ukraine war, Russia, Ukraine and Belarus. In addition to the direct effects, the impact of the war increases the uncertainty regarding the performance of the economy, which will also have a significant impact on countries that are not directly affected in the form of second- and third-round effects.

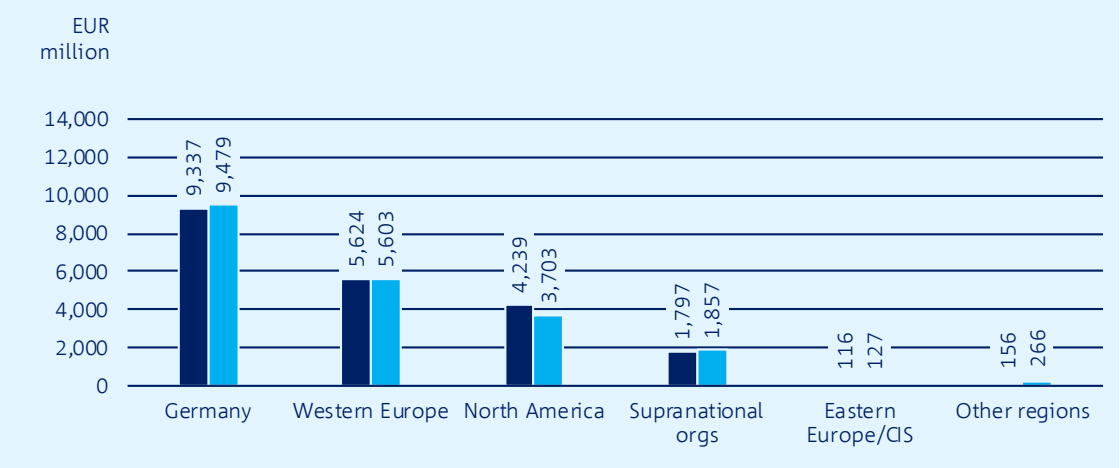
Gross and net credit volume in the CIS region

	Gross		Net	
EUR million	**30 Jun 2022**	**31 Dec 2021**	**30 Jun 2022**	**31 Dec 2021**
Russia	361.7	482.8	103.9	139.6
Azerbaijan	87.6	89.5	5.7	5.7
Ukraine	82.7	91.3	5.8	10.4
Uzbekistan	17.2	17.9	1.5	1.5
Turkmenistan	10.0	11.5	0.5	0.5
Kazakhstan	4.3	5.4	4.3	5.4
Belarus	3.6	20.7	1.3	14.5
BayernLB Group	**567.1**	**718.9**	**122.9**	**177.7**

Issuer risk

The following table shows gross issuer risk by region.

Gross issuer risk by region



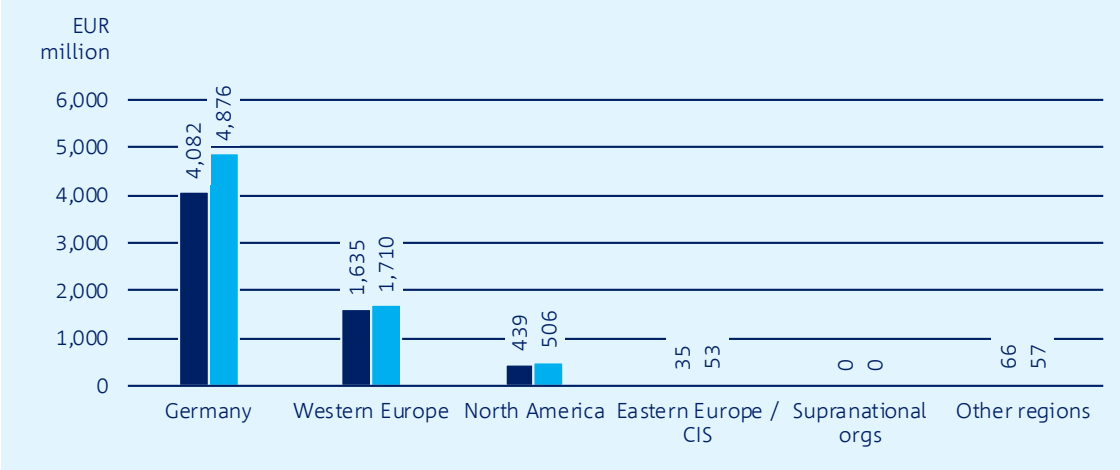
■ Total as at 30/06/2022: EUR 21,269 million
■ Total as at 31/12/2021: EUR 21,036 million

Gross issuer risk remained stable, increasing only slightly by around EUR 0.2 billion to EUR 21.3 billion (31 December 2021: EUR 21.0 billion). The considerable increase in the North America region (EUR 0.5 billion) was offset by slight declines in Germany (down EUR 0.1billion) and other regions (down EUR 0.1billion).

Replacement risk

The following table shows gross replacement risk by region.

Gross replacement risk by region



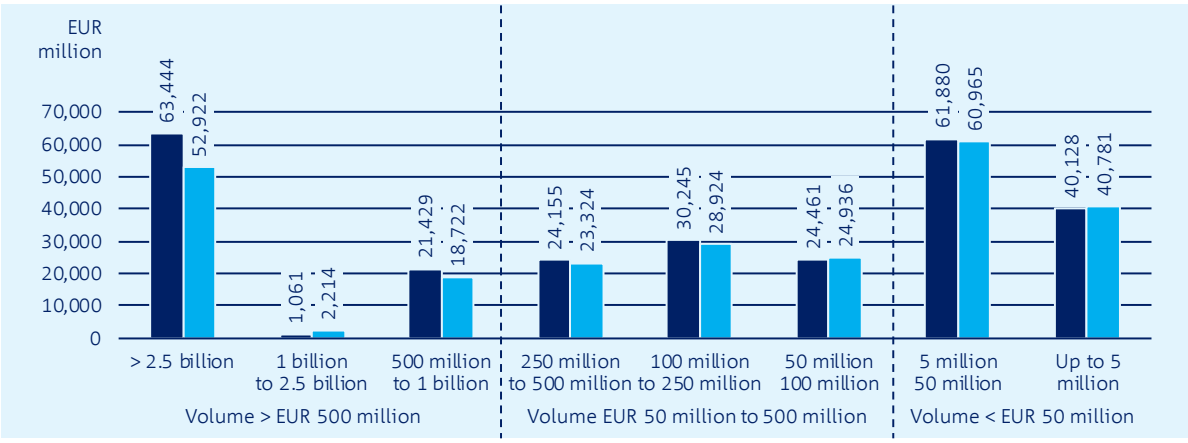
■ Total as at 30/06/2022: EUR 6,257 million
■ Total as at 31/12/2021: EUR 7,203 million

Gross replacement risk fell by EUR 0.9 billion to EUR 6.3 billion during the reporting period (31 December 2021: EUR 7.2 billion), which was primarily due to a significant fall in Germany (down EUR 0.8 billion) resulting from a reduction in securities lending transactions. There were only minor changes in other regions during the reporting period.

Breakdown by size category

The following table shows net credit volume by size.

Net credit volume by size



■ Total as at 30/06/2022: EUR 266,802 million
■ Total as at 31/12/2021: EUR 252,786 million

Net credit volume with customers in the more than EUR 2.5 billion category was up significantly by EUR 10.5 billion to EUR 63.4 billion (31 December 2021: EUR 52.9 billion), which was mainly due to a rise in BayernLB's deposits held with the Deutsche Bundesbank. This size category only contains loans and advances to top-rated German and US government entities with a first-class credit score.

Net credit volume in the more than EUR 500 million to EUR 2.5 billion category rose by around EUR 1.6 billion to EUR 22.5 billion (31 December 2021: EUR 20.9 billion). The increase in these categories was mainly the result of an expansion of business in the Corporates (EUR 1.3 billion) and Countries/Public-Sector/Non-Profit Organisations (EUR 0.4 billion) sub-portfolios, which compensated for a slight decrease in Financial Institutions (down EUR 0.2 billion). These size categories predominantly include savings banks, German and international banks, large DAX companies and government entities. The range of individual ratings is predominantly in the very good investment grade category (master ratings 0 to 7). The net credit volume in these size categories over the reporting period exclusively related to BayernLB customers.

The size category of net credit volumes from EUR 250 million to EUR 500 million posted a rise of EUR 0.8 billion to EUR 24.2 billion (31 December 2021: EUR 23.3 billion), which was attributable to a significant increase in the net credit volume in the Financial Institutions sub-portfolio in this size category (up EUR 1.3 billion) and which more than offset slight falls in the other sub-portfolios.

The granularity of the portfolio was maintained at a good level during the period under review. Net credit volume in the up to EUR 250 million categories rose slightly to EUR 156.7 billion as at the reporting date (31 December 2021: EUR 155.6 billion). Due to the increase in business volume with the Deutsche Bundesbank, the percentage of business volume in these size categories fell to 58.7 percent (31 December 2021: 61.6 percent). Both institutions continue to account for a significant proportion of the net credit volume in these size categories.

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

Gross credit volume in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio again rose significantly by EUR 11.5 billion or 11.5 percent to EUR 111.8 billion (31 December 2021: EUR 100.2 billion). Volumes at BayernLB were up by EUR 14.1 billion to EUR 52.5 billion, while DKB saw a decline of EUR 2.6 billion to EUR 59.3 billion.

The change in gross credit volume at BayernLB was primarily the result of the rise in the position at the Deutsche Bundesbank of EUR 14.6 billion to EUR 21.0 billion. The volume of financing attributable to foreign countries (EUR 0.7 billion), German municipalities and public-sector special-purpose associations (EUR 0.6 billion) and foreign central banks (EUR 0.5 billion) was also expanded, while transactions with the German state governments declined by EUR 2.5 billion.

The slight decrease in gross credit volume at DKB was primarily the result of the reduction in the position at the Deutsche Bundesbank of EUR 2.3 billion to EUR 36.1 billion. In addition, the volume of business conducted with the German public sector also fell slightly (down EUR 0.3 billion).

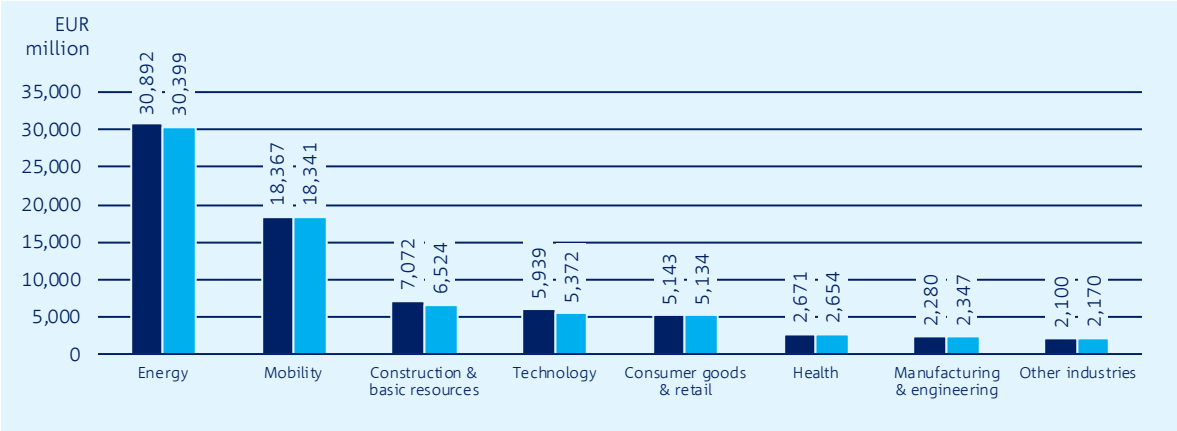
The central bank positions held by BayernLB and DKB are primarily for the purpose of managing liquidity and are therefore subject to considerable fluctuations in value between reporting dates. The significant increase in the gross credit volume held with the Deutsche Bundesbank as at the reporting date was largely the result of the normalisation of the liquidity position, which was significantly reduced as at the end of 2021.

The very high investment grade share in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio improved slightly to 98.9 percent (31 December 2021: 98.7 percent).

Corporates sub-portfolio

The Corporates sub-portfolio has continued to be confronted by significant challenges during the course of 2022. Alongside the ongoing very high pressure on margins, these include the uncertainties resulting from the ongoing coronavirus pandemic, the impact of the Russia-Ukraine war, the substantial energy price rises and the ongoing supply bottlenecks. Despite this economically challenging environment, the sub-portfolio's risk profile remained stable and indeed improved slightly, which was also down to the pursuit of a very selective and risk-oriented management of new business focused on existing investment grade customers in the target sectors. The business volume in the Corporates sub-portfolio grew to EUR 74.5 billion through expansion of business in the target sectors (31 December 2021: EUR 72.9 billion).

Sector breakdown within the Corporates sub-portfolio



■ Total as at 30/06/2022: EUR 74,463 million
■ Total as at 31/12/2021: EUR 72,941 million

The following four sectors, which are examined in more detail below, accounted for the majority of the changes in the business volume.

Gross credit volume in energy, the largest and most important target sector strategically, rose by EUR 0.5 billion or 1.6 percent to EUR 30.9 billion. Growth in this sector was down to EUR 0.7 billion in financing for grid operators and energy utilities, while the volume in renewable energy declined slightly (down EUR 0.2 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 57.1 percent. As the financing for renewables is predominantly granted by DKB, the latter continues to account for an above-average share of the energy sector at 61.3 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 renewable energy, traditional corporate financing for grid operators and energy providers remains a focus within the sector. 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 88.4 percent, the majority of the financing volume in the energy sector is in Western Europe, with Germany accounting for 76.8 percent. The investment grade share rose slightly to 78.0 percent (31 December 2021: 77.4 percent).

In line with strategy, business volume in the technology target sector was expanded by EUR 0.6 billion to EUR 5.9 billion. This increase was mainly the result of lending to telecommunications companies and network operators, as well as manufacturers of electrical goods. The investment grade share in the technology sector, which was already at a very high level, remained largely unchanged (30 June 2022: 85.8 percent; 31 December 2021: 87.9 percent).

Business volume in the construction & basic resources target sector was also expanded considerably by EUR 0.5 billion to EUR 7.1 billion. This is due to an increase in the steel, metal and basic resources sector (EUR 0.6 billion) resulting from the increased demand for loans resulting from rising commodity prices, in particular from our existing customers, while business volume in the construction & infrastructure sector fell slightly (down EUR 0.1 billion). The growth in business in the construction & basic resources target sector was mainly in the investment grade categories, which led to a significant increase in the investment grade ratio in the sector to 67.7 percent (31 December 2021: 59.3 percent).

The other industries sector bundles financing that is no longer part of the BayernLB Group's strategic focus. The gross credit volume in this sector fell accordingly by EUR 0.1 billion to EUR 2.1 billion. The reduction in volume was down to the defence and media industries. As the reduction in business primarily took place in the non-investment grade categories and also because of individual improvements in credit ratings in the sector, the investment grade share rose considerably to 83.1 percent (31 December 2021: 76.9 percent).

The growth in business in the target sectors and the declining volume of business in the other industries sector highlight the successful implementation of the Fokus 2024 strategy in the Corporates sub-portfolio.

The German home market, which is key for the BayernLB Group, continues to drive the Corporates sub-portfolio, with a high share of 74.6 percent (31 December 2021: 74.4 percent).

The sectors in the portfolio that were particularly impacted by credit ratings in the portfolio that were downgraded as a result of the coronavirus crisis began to stabilise or improve to some extent during the period under review. In combination with the growth in business with existing investment grade customers, this contributed to an improvement in the investment grade share to 76.4 percent (31 December 2021: 74.4 percent). Future credit ratings will, however, depend heavily on developments in the increasingly gloomy general economic situation, which currently exhibits many uncertainties with regard to the aforementioned risks.

Commercial Real Estate sub-portfolio

In line with strategy, gross credit volume in the Group's Commercial Real Estate sub-portfolio grew significantly over the reporting period. The sub-portfolio includes both commercial and residential financing. Retail residential construction loans are allocated to the Retail/Other sub-portfolio Growth amounted to EUR 2.4 billion or 3.7 percent, and, in consequence, business volume as at the reporting date was EUR 65.8 billion (31 December 2021: EUR 63.5 billion). Of this amount, EUR 32.5 billion stemmed from BayernLB and around EUR 33.3 billion from DKB. The increase in gross volume during the reporting period was mainly attributable to BayernLB (EUR 1.7 billion) but DKB also grew its business volume further in line with strategy (EUR 0.7 billion).

At BayernLB, most of the growth was in commercial financing (EUR 1.2 billion), which now accounts for a volume of EUR 22.4 billion at BayernLB. The asset classes of offices (EUR 1.1 billion) and property management logistics (EUR 0.4 billion) were the main contributors to this expansion. Both asset classes remained stable or performed positively throughout the coronavirus pandemic Business volume declined in other asset classes (down EUR 0.3 billion) and retail (down EUR 0.1 billion). In addition, business in the residential real estate financing sector was also expanded by EUR 0.5 billion to EUR 10.1 billion. BayernLB's main focus is on the financing of commercial real estate, The business growth was mainly in the German domestic market with a EUR 1.5 billion rise in business volume. In addition, there were noteworthy increases in the US (EUR 0.5 billion), France (EUR 0.4 billion) and Italy (EUR 0.1 billion).

DKB saw growth in both commercial financing to EUR 3.6 billion (EUR 0.3 billion, focused on care homes) and residential financing (EUR 0.4 billion) to EUR 29.7 billion. Due to the coronavirus crisis, there was no appreciable net expansion in tourism property. Growth was concentrated in the German home market.

The already high quality in the Group's Commercial Real Estate sub-portfolio again improved slightly, with the investment grade share increasing to 88.0 percent (31 December 2021: 87.4 percent). The proportion accounted for by Germany declined slightly, largely due to the expansion of business in the USA in line with strategy (31 December 2021: 85.9 percent), which further improved risk diversification. The high quality of the portfolio with regard to collateralisation was maintained: The collateralisation volume increased by around EUR 2.1 billion to EUR 48.4 billion, while the collateralisation ratio rose slightly to 73.6 percent (31 December 2021: 73.1 percent).

The economic recovery in 2021 had a positive impact on real estate transactions in Germany, with further increases in transactions compared with 2020. The portfolio quality of the BayernLB Group's Commercial Real Estate sub-portfolio again remained largely stable in 2022, inter alia due to the adoption of a consistently selective approach to picking exposures. Continued volatility is to be expected in some segments of the commercial real estate sector, while residential real estate should remain stable.

Financial Institutions sub-portfolio

The gross credit volume in the Financial Institutions sub-portfolio rose by around EUR 1.1 billion to EUR 54.9 billion (31 December 2021: EUR 53.8 billion), a rise of 2.1 percent.

Gross credit volume in the sub-portfolio at the BayernLB Group breaks down as follows: around EUR 53.0 billion related to BayernLB and approximately EUR 1.9 billion to DKB.

Gross credit volume in the savings banks sector, the largest sector by volume, increased by EUR 0.5 billion to EUR 28.9 billion. The rise was largely the result of the continuing high demand for government subsidy programmes for the promotion of construction. which were implemented by the participating savings banks.

The banking sector also posted an increase in business, with gross credit volume rising by EUR 0.4 billion to EUR 20.2 billion. The increase was largely the result of an expansion of gross credit volume with global credit banks (EUR 0.6 billion), clearing houses (EUR 0.5 billion) and leasing companies (EUR 0.5 billion), which was somewhat offset by a reduction at Landesbanks (down EUR 0.8 billion). The movements were largely down to fluctuations in transaction values between reporting dates, with such transactions largely taking the form of investments to maintain liquidity and hedging activities.

Business volume in the insurance sector was also expanded slightly by around EUR 0.2 billion and amounted to EUR 5.8 billion as at the reporting date. The lion's share of the rise came from life insurance.

The investment grade share remained unchanged at 99.2 percent (31 December 2021: 99.2 percent), which meant that the quality of the sub-portfolio was maintained at a very high level. The proportion accounted for by Germany declined marginally to 72.1 percent (31 December 2021: 72.2 percent).

Retail/Other sub-portfolio

In the Retail/Other sub-portfolio, gross credit volume increased slightly by EUR 0.2 billion or 0.6 percent to EUR 38.6 billion, of which EUR 35.3 billion (31 December 2021: EUR 35.0 billion) related to DKB and EUR 3.3 billion (31 December 2021: EUR 3.4 billion) to BayernLB.

Business volume at BayernLB fell slightly (down EUR 0.1 billion), with both BayernLB (excluding Bayern Labo) and Bayern Labo contributing to this fall. Bayern Labo's exposure in the sub-portfolio therefore declined slightly to EUR 3.0 billion. The retail business has not formed part of BayernLB's core business for some years and is therefore being wound down as planned. Within the BayernLB Group, the retail business is successfully operated by the Group subsidiary DKB.

Gross credit volume at DKB rose slightly by EUR 0.4 billion to EUR 35.3 billion. Real estate financing (EUR 1.6 billion) and private loans were growth drivers where the growth strategy was successfully implemented in the first half of 2022. This was offset by falls at DKB Visa cards (down EUR 1.7 billion) as a result of the introduction of the DKB Visa debit card.

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

Summary

BayernLB performed well in the challenging overall economic situation, which was characterised by the ongoing coronavirus pandemic, supply bottlenecks, the effects of the Russia-Ukraine war, substantial rises in energy prices and inflationary trends.

Despite this exceptionally difficult environment, the BayernLB Group succeeded in maintaining or slightly improving the quality of its portfolio, which was also down to selective and risk-oriented management of new business.

Particularly worthy of note in this regard is the growth in the strategically important Commercial Real Estate and Corporates sub-portfolios. The successful implementation of the business strategy in the Corporates sub-portfolio was evident in the technology, construction & basic resources and energy target sectors.

The good portfolio quality must also be emphasised in this regard. The investment grade share increased significantly, even when excluding the increase in business volume with the Bundesbank. The non-performing loan ratio was kept steady at 0.6 percent during the reporting period.

The effects of the coronavirus pandemic remained very much evident, although there was some evidence of a slight recovery in particularly impacted sectors during the period under review. This could be seen in the improved creditworthiness, in particular in the Corporates sub-portfolio.

The Bank is continuing to closely monitor and wind down its exposure to the countries directly affected by the Russia-Ukraine war, Russia, Ukraine and Belarus. The risks to the economy as a whole mean that there is still great uncertainty as regards future creditworthiness and portfolio quality. The portfolio will therefore continue to be managed closely and with a risk-oriented approach in the future in order to be able to react rapidly to further developments.

Investment risk

In line with BayernLB's strategic focus, the investment portfolio focuses 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, equity interests not relevant to the business model are being wound down.

As at 30 June 2022, the economic risk capital requirement had increased to EUR 136 million (31 December 2021: EUR 92 million), and this was largely the result of an increase in carrying amounts in the investment portfolio.

Summary

There were no material changes to the scope of consolidation and investment portfolio in the first half of 2022.

Business and strategic risk

The risk capital requirement for the business and strategic risk amounted to EUR 108 million as at 30 June 2022 and was therefore almost unchanged (31 December 2021: EUR 110 million).

Summary

The risk capital requirement for business and strategic risk was in line with expectations.

Market risk

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

Market risk measurement methods are continuously checked for the quality of their forecasting. In the backtesting process, the VaR risk forecasts are compared with actual outcomes (gains or losses). The backtesting results at both DKB and BayernLB fell within the amber zone of the Basel traffic light approach, in particular owing to the heightened market volatility as at 30 June 2022. Corresponding add-on factors are therefore already taken into account in the VaR results at DKB and are currently being prepared at BayernLB.

The effects of interest rate scenarios both on present value and on earnings are used to monitor the interest rate risks in the banking book and referenced against the corresponding (supervisory) thresholds and limits, in compliance with EBA standards at both Bank and Group level. As at

30 June 2022, the effects at both BayernLB and the BayernLB Group were below the thresholds and/or alert thresholds. The present value scenario losses in the regulatory +/-200 basis point shift scenario are provided here for illustrative purposes: BayernLB minus EUR 888 million, which corresponds to 8.2 percent of liable capital (regulatory limit at 20 percent), the BayernLB Group minus EUR 816 million, which corresponds to 6.3 percent of liable capital (regulatory limit at 20 percent). It should be noted that the interest rate reduction scenario is relevant for both BayernLB and the BayernLB Group.

Due to the business model and the great importance of pension obligations, the BayernLB Group's market risks were very strongly concentrated on general interest rate risks. The introduction of a new market risk system at DKB has also allowed DKB to show volatility risk separately since the end of April 2022. Volatility risk had previously been included in the general interest rate risk at DKB. The extent of the loan termination options at DKB permitted by the German Civil Code in particular means that volatility risk at Group level plays a significant role. Equity risk is likely to become increasingly important in the future due to the build-up of plan assets via a contractual trust arrangement (CTA) to hedge pension obligations.

Current situation

The uncertain market conditions (Russia-Ukraine war, rising inflation and ongoing coronavirus pandemic) made the market environment very volatile in the first half of 2022. Extreme (daily) interest rate fluctuations were observed in the bond market, with the upward trend in interest rates accompanied by phases of significant falls.

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

			30 Jun 2022		1 Jan – 30 Jun 2022		
EUR million	30 Jun 2022	31 Dec 2021	of which banking book	of which trading-book	Average	Maximum	Minimum
General interest rate VaR	65.9	63.1	65.2	2.3	66.5	83.8	55.7
Specific interest rate VaR (credit spreads)	15.9	12.4	14.6	2.7	13.4	25.6	10.9
Currency VaR	3.2	1.9	2.5	0.7	2.9	5.8	1.6
Equities VaR	16.6	11.7	16.6	0.0	14.2	16.8	11.2
Commodities VaR	3.0	2.5	–	3.0	2.4	3.2	1.7
Volatility VaR	22.8	1.6	22.8	0.4	10.8[2]	26.5[2]	1.0[1]
Total VaR[1]	**74.4**	**65.0**	**72.0**	**4.9**	**72.0**	**91.0**	**58.3**

1 *When calculating the risk-bearing requirement for BayernLB, in addition to showing the VaR contributions, risk-bearing capacity takes into account monthly VaR premiums for risks on external credit margins and credit risks on money market transactions and a risk premium for some downstream risk aspects in the case of XVA risk.*

2 *Due to DKB's separate disclosure of value at risk since the end of April 2022, the average, maximum and minimum values are only of limited use.*

Total VaR rose by around EUR 9.4 billion compared with 31 December 2021.

The increase in risk originated mainly at DKB and could be attributed first and foremost to the sharp increase in market volatility. As part of its active management of the interest rate position, DKB undertook countermeasures including the conclusion of payer swaps.

The increased market volatility over the first half of the year also led to sporadic increases in risk at BayernLB, but there was no significant change in risk for total VaR compared with the end of 2021. The risk-increasing effects of the heightened market volatility were slightly outweighed by the increased actuarial interest rate and the associated reduction in the risk sensitivity of pension obligations.

The risk capital requirement limits for market risk at Group and Bank level were increased in the first half of the year as a result of the impact of increased macroeconomic uncertainties and the high limit utilisation on risk-bearing capacity, in particular at DKB.

The significant increase in volatility risk was the result of the separate disclosure at DKB following the change in its risk system.

In respect of equity risks, the increased market volatility and planned expansion of CTA investments in equity funds led to an increase in risk.

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

Summary

The first half of 2022 was chiefly characterised by an increase in market volatility, which led in particular to an increase in risk at DKB. At BayernLB, the risk-increasing effects of the elevated market volatility were (more than) compensated for by a reduction in the present value of pension obligations resulting from the increased actuarial interest rate. The continuation of the current uncertain conditions means that volatile markets and the effects of these on market risk are likely to continue in the second half of 2022.

Pension basis risk

Current developments and, in particular the ongoing coronavirus pandemic and the rise in inflation have to date produced no risk-elevating impact on the underlying trend volatility in the pension base risk and thus on the risk capital requirements.

The increase in long-term euro interest rates since the end of last year has, however, substantially reduced the pension basis risk, as it has diminished the present value effect of changes in trend factors.

The risk capital requirements for pension basis risk in the Group as at 30 June 2022 amounted to EUR 142 million (31 December 2021: EUR 249 million).

Summary

Pension basis risk evolved in line with expectations, given macroeconomic developments.

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.

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 2022 compared with 31 December 2021:

Economic liquidity situation at the BayernLB Group and at BayernLB

30 Jun 2022 Cumulative figures in EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
BayernLB Group				
Liquidity counterbalancing capacity	81,886	79,561	79,970	76,094
Liquidity gap	34,171	41,661	53,652	46,321
Total liquidity surplus	**47,715**	**37,900**	**26,318**	**29,773**
BayernLB				
Liquidity counterbalancing capacity	40,408	39,756	37,314	25,892
Liquidity gap	24,906	28,374	34,750	17,289
Total liquidity surplus	**15,502**	**11,382**	**2,564**	**8,602**

31 Dec 2021 Cumulative figures in EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
BayernLB Group				
Liquidity counterbalancing capacity	69,504	66,920	58,571	65,030
Liquidity gap	18,177	25,899	27,678	37,072
Total liquidity surplus	**51,327**	**41,021**	**30,894**	**27,957**
BayernLB				
Liquidity counterbalancing capacity	28,334	26,193	23,846	12,309
Liquidity gap	9,987	14,064	18,519	6,088
Total liquidity surplus	**18,347**	**12,129**	**5,327**	**6,222**

The BayernLB Group's liquidity position was comfortable at all times during the period under review. Despite the ongoing coronavirus pandemic and the Russia-Ukraine war, there were no significant liquidity outflows. On 29 June 2022, DKB made an early partial repayment of TLTRO refinancing of EUR 4.3 billion (remaining drawdown: EUR 22.5 billion).

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 202.8 percent as at 30 June 2022 (31 December 2021: 271.2 percent).

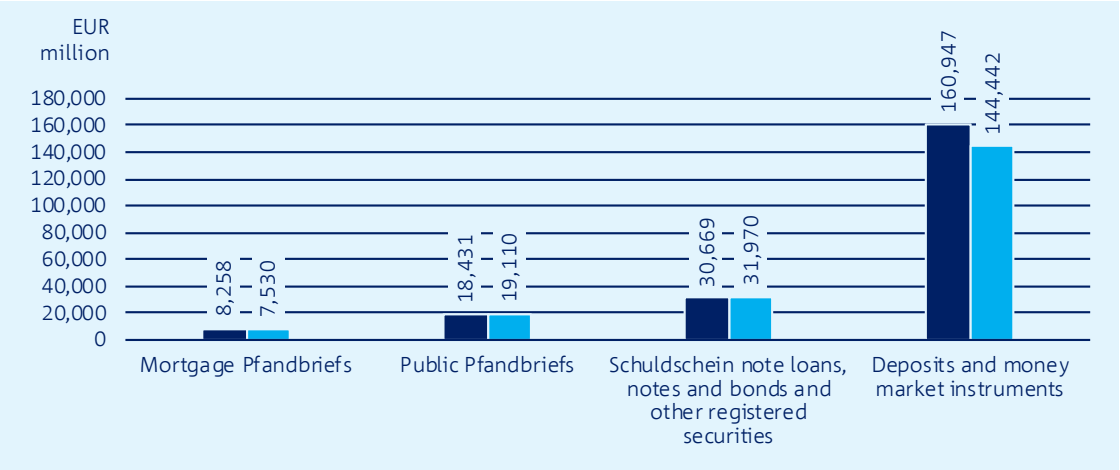
The LCR is calculated by comparing the available highly liquid assets with the net cash outflows for the following 30 days. The minimum supervisory LCR is 100 percent.

The net stable funding ratio (NSFR) at the BayernLB Group stood at 131.5 percent as at 30 June 2022 (31 December 2021: 136.6 percent) and therefore far exceeded the 100-percent minimum ratio required by the regulator.

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 2022 compared with 31 December 2021 was as follows:

Funding structure



■ 30/06/2022
■ 31/12/2021

In addition to equity, BayernLB's structural funding derives mainly from capital market issues, deposits and subsidised loans and ad hoc funding in the money market. The BayernLB Group drew on the ECB's longer-term refinancing facilities (TLTRO III) in 2020, but these were repaid in part in December 2021 and June 2022.

Access to all funding sources was unlimited, despite the macroeconomic challenges and the resulting heightened volatility. Bond conditions in the capital markets did, however, increase costs significantly in all asset classes. In the case of uncovered bonds, this was largely the result of Russia's war of aggression in Ukraine and inflation worries. A high volume of issues in the Pfandbrief market in the first half of the year also gave rise to a saturation effect, with investors generally demanding higher new issue premiums as a result.

The amount of long-term securities issued by the BayernLB Group was almost unchanged. The (gross[20]) funding volume of structural, unsecured liquidity realised at BayernLB amounted to around EUR 1.5 billion (of which around EUR 0.9 billion was in non-preferred format).
EUR 1.7 billion was placed in secured issues. BayernLB issued two Pfandbriefs in benchmark format. Deposits increased due to intrayear money market activities.

20 *Gross sales with no reduction for repurchases; excluding intra-Group transactions*

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 is a further source of funding. BayernLabo meets ad hoc liquidity requirements by drawing time deposits at BayernLB. In the first half of 2022, BayernLabo placed new issues worth around EUR 0.3 billion net.

Customer deposits represented the largest source of funds in the DKB funding mix. In addition, much of the lending business is funded in the form of on-lending loans from development banks. The company's funding activities also include capital market issues. DKB's funding requirements were met by growth in deposits and EUR 1.1 billion in new issues.

Summary

In the coming years, liquidity management and monitoring at the BayernLB Group 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, BayernLB's supervisory and economic liquidity risk management 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 paras 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 2022	31 Dec 2021
Liabilities to banks	3,949	3,824
of which Schuldschein note loans	2,295	2,241
of which other registered securities	1,654	1,583
Liabilities to customers	5,785	6,389
of which Schuldschein note loans	869	833
of which other registered securities	4,916	5,556
Securitised liabilities	17,275	18,642
Liabilities held for trading	382	410
Total	**27,391**	**29,266**

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

EUR million	30 Jun 2022	31 Dec 2021
Liabilities to banks	2,212	2,162
of which Schuldschein note loans	137	60
of which other registered securities	2,075	2,102
Liabilities to customers	705	612
of which Schuldschein note loans	78	28
of which other registered securities	628	584
Securitised liabilities	2,773	2,382
Liabilities held for trading	424	477
Total	**6,114**	**5,634**

Operational risk

Operational risks are estimated 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.

Current situation

The risk capital requirement for operational risks for the BayernLB Group increased slightly to EUR 560.0 million in the first half of 2022 (31 December 2021: EUR 531.0 million).

These changes were due to revaluations of risks and scenarios, in particular due to the Russia-Ukraine war.

Compared with 31 December 2021 (loss at the BayernLB Group: EUR 23.4 million; BayernLB: EUR 7.4 million, DKB: EUR 16.0 million), the total loss at the BayernLB Group in the first half of 2022 amounted to EUR 4.3 million (BayernLB: EUR 0.3 million), DKB: EUR 4.0 million).

In the first half of the year, the total loss at the BayernLB Group stemmed mainly from the event categories "external fraud", with a share of 63.5 percent (31 December 2021: 13.3 percent), "implementation, delivery and process management", with a share of 14.8 percent (31 December 2021: 42.6 percent), and "customers, products and business practices", with a share of 12.8 percent (31 December 2021: 41.7 percent).

Card misuse in the retail customer business, which is included in the external fraud category, remained at a similar level to the previous year in the first half of the year at DKB, with losses amounting to EUR 1.3 million.

Summary

The risk capital requirement for operational risks for the BayernLB Group increased slightly in the first half of 2022 (in particular due to the Russia-Ukraine war). In the first half of the year, the total loss at the BayernLB Group was lower than in the previous year.

General overview

The risk situation remained stable, despite the challenging geopolitical and macroeconomic environment in the first half of 2022. We expect the uncertainty in the markets to remain intact in the second half of 2022, but consider the BayernLB Group to be well equipped to deal with it, thanks to its proven, active risk management.

The BayernLB Group had adequate risk-bearing capacity at all times during the reporting period. The stress scenarios conducted also confirmed that ample capital was held. The liquidity situation remained good. Where necessary, due account was taken of the risks in the credit business by setting aside risk provisions.

Regulatory solvency requirements were met. Own funds available to cover risks amounted to EUR 13.0 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.

Report on expected developments and opportunities

The forward-looking statements made in this report on expected developments are based on estimates and conclusions made, drawing on information available at the time this half-yearly management report was prepared. The statements on future events are based on a range of assumptions.

The occurrence of the future events is subject to uncertainty, risks and other factors, with many falling outside the BayernLB Group's influence. Accordingly, actual events may differ from those predicted in the statements on the future set out below.

The outlook for the second half of 2022 is still fraught with significant uncertainty due to the ongoing conflict between Russia and Ukraine. The Bank is expecting economic and financial consequences which will impact economic activity and therefore the business performance of the BayernLB Group. This could impede the Group's ability to generate earnings in BayernLB's operating segments and negatively impact some portfolios as a result of deteriorations in ratings, higher-than- currently expected loan defaults and potential impairments of assets. The BayernLB Group might find it hard to achieve its financial targets depending on the impact of current and future sanctions, i.e. the negative impact on our business performance, risk positions and key performance and management ratios.

Macroeconomic forecast

The forecasts on economic growth, inflation, interest rates and exchange rates are sourced from BayernLB Research.

Unless otherwise stated, the other statements on the macroeconomic environment are also based on estimates by BayernLB Research, and also take account of external sources of information, such as the European Commission and the International Monetary Fund.

It is not currently possible to provide a macroeconomic outlook as the war in Ukraine has considerably increased economic uncertainty and downside risks.

Supply bottlenecks putting a drag on the global economy

The Russia-Ukraine war, the end of which is not in sight, the supply chain problems caused by the coronavirus pandemic and the jump in inflation will continue to dominate the rest of 2022. Although the direct impact of the pandemic has largely dissipated as expected, its indirect effects are proving markedly persistent. Due to China's ongoing lockdowns, supply chain problems are likely to rumble on until well in to 2023 and resolve themselves only slowly as companies adapt themselves to the challenging new realities (the world dividing itself into Western and Eastern blocs and deglobalisation). Higher prices and loss of purchasing power are rankling consumers in many parts of the world and eating up the huge savings accumulated during the pandemic. This is reflected in lower consumer confidence and an already ebbing drive to make purchases in some cases. Private consumption will expand less than originally anticipated, though two bright spots are tourism and the services sector. The introduction of new coronavirus restrictions cannot, however, be ruled out completely. In 2022, the global economy will not even achieve half the rate of growth that it did in the previous year. In the USA, the Fed's rapid increases in interest rates have pushed up fears of a recession.

With there being a substantial risk of Russia stopping gas supplies for a long period of time – not part of the basic scenario – the outlook for Europe and Germany remains very fragile. We predict that 2022 will bring an extended period of stagflation. Growth is likely to be around 2.2 percent in the eurozone and 1.3 percent in Germany. Expansion rates of about 0.5 percent are expected in both cases in 2023. In contrast to the weak economy in Europe and the USA, where a recession is probable at the end of 2022/start of 2023, China will increasingly show signs of stabilising. As the zero-Covid strategy there has not been ended yet, we should still expect to see regional lockdowns and setbacks. This will take its toll on German industry and make the outlook for exports noticeably gloomier. Companies will continue to be unable to process their high levels of orders and production stoppages should be expected.

Pricing pressure will force a tightening in monetary policy

The underlying pricing pressures were considerably underestimated at the start of the year, but the war in Ukraine has caused energy and food prices to rise even more. The eurozone is now expected to have an inflation rate of 7.8 percent (HICP) in the current year, with Germany's at 7.5 percent (CPI). The additional major tightening of monetary policy already announced on both sides of the Atlantic will not beat back inflation quickly, but it will harm the economy. Base rates (deposit rate) are now expected to be at 1.5 percent at the end of the year. Markets have already priced this in, however, so no sustained jump in yields is anticipated at the long end. Looking forward to 2023, this monetary policy should then bear fruit and cause inflation to tumble. At this point the major central banks will probably put interest rate hikes on pause, with cuts likely in the USA in the second half of 2023.

The greatest risks for the forecast, besides the Russia-Ukraine war, are high inflation and a big jump in interest rates. A Russian gas embargo could temporarily bring whole swathes of industry to a production standstill and create the conditions for a deep recession. The political trend for the world to divide itself into two blocs, with the US and Europe on one side and China and Russia on the other, could cause severe disruption to international trade. Even more severe ructions on financial markets and the more challenging environment on the real estate market and in construction could prove painful to the economy. In a mirror image of the above, there are opportunities for the Bank's economic forecast in a quick end to the Russia-Ukraine war. An even greater upscaling of green and infrastructure investment is another opportunity for the economy in 2022.

Real estate transaction market facing major contraction in 2022

The gloomier picture for the global economy and, in particular, the rising interest rates are currently causing much uncertainty on global real estate markets, which will continue throughout 2022. Demand for real estate investments in Europe, with the focus on western Europe, has remained high. However, in the second quarter of 2022 different price expectations between buyers and sellers will throttle transaction activity as market values of real estate will first need to adjust to the new and currently volatile market developments. After a rapid increase in residential property prices in the first quarter of 2022, price momentum is likely to lose steam over the course of the year due to the jump in interest rates. According to Bank Research, residential real estate prices are still anticipated to increase across Germany by 4.0 percent, which, taking into account a short-term exceptional boom in lending due to pull-forward effects, can already be considered a significant slowdown in demand. In 2023, the property boom, which has lasted for years, is expected to end with prices falling slightly. In the case of commercial real estate, which is sensitive to the state of the economy, and in particular office property, prices are expected to trend slightly downwards in Germany and the top seven cities over the course of the year, according to Research. The fall in prices of bricks-and-mortar retail already seen will also become more pronounced in 2022.

In addition, a significant slump in completion figures is expected in 2022 due to the temporary halt to KfW's development programmes, project delays caused by a shortage of building materials, and structural conditions in the construction sector. In the commercial real estate market, the very constrained supply of office space in the major cities is still counteracting the cyclical decline in demand and has also prevented prices from falling more sharply in the year to date. In the retail sector, the focus remains on bricks-and-mortar non-food retail, particularly in the clothing sector. Due to the sales declines seen over the past two years of the coronavirus, the accelerated trend towards online retail/mobile working and the recent collapse in consumer sentiment, this sector will remain dependent on government assistance in 2022.

Rising yields on bond markets likely to take a breather – stock markets have potential

After soaring yields in the first six months of 2022, we expect bond markets to calm down overall in the second half of 2022, with yields lower on longer-dated Bunds compared with the peaks achieved in June. The main reasons are inflation surpassing its peak and our expectation that the economy will soften markedly, which will also dampen inflation expectations. We forecast yields on 10-year Bunds will be at 1.4 percent by the end of 2022.

We see stock markets stabilising in the second half of 2022 as investors' expectations are already very negative, inflation and yields will slowly calm down, a more favourable stimulus is expected to come from China, and valuations have reached attractive levels in many cases.

Volatility is anticipated to stay high on both bond and stock markets due to the current high levels of uncertainty and reduced central bank liquidity.

Dollar to weaken again

Moving on to exchange rates, Research is still forecasting the dollar will depreciate. In the short term, the Fed will probably meet the high expectations of interest rate hikes over the next few months. But towards the end of the year, we believe inflationary pressures in the USA will start to ease and the Fed will then call a halt to raising interest rates, which will punish the dollar. By contrast the ECB, which has a great deal of catching up to do, is likely to raise interest rates a little bit more than the market is expecting in the coming quarters and into 2023. For the year as a whole, we predict the greenback will slide to EUR-USD 1.12 and the transatlantic spread between US and German bonds at the shorter end will tighten substantially. The dollar would then still be highly valued on purchasing power parity, but no longer by so much as to trigger the high levels of risk aversion and wide transatlantic spreads witnessed in mid-2022.

High level of uncertainty for the banking sector

Under various scenarios, geopolitical conditions can result in very divergent trajectories for macro and financial market data. In the absence of a permanent freeze on gas supplies, the impact of the Russia-Ukraine war should be evident for banks, but easily manageable. Risk costs should rise along with the non-performing loan ratio, but not pose an acute threat given the strong position of the European banking sector. Nonetheless, sector-specific problems will hit some institutions more than others if there is a fresh flare-up in the pandemic. These include those with big exposures to energy-intensive sectors or in sectors sensitive to coronavirus. The change in direction in monetary policy is not entirely bad for the banking sector. Higher interest rates should translate into rising interest income, although with higher spreads for bond financing, the gradual return to more competition for deposits, and the removal of cheap central bank liquidity, interest costs will also rise. In view of high inflation, a focus in the sector will once again be on cost management – with cost/income ratios still too high.

Regulatory environment

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

Capital Requirements Regulation (CRR)

Looking ahead to the next few years, the implementation in Europe of the finalised Basel III regulations in particular will move more sharply into focus. In October 2021, the European Commission's draft of the next CRR update, CRR III, was released. With the trilogue negotiations concluded, the final CRR III is not expected to be published before 2023. Binding application is envisaged from 1 January 2025, according to a Commission draft.

The main revisions to the regulations concern the credit risk standardised approach (CRSA) and the internal ratings-based approach (IRBA). An output floor of 72.5 percent is also being introduced, which will limit the advantages of using the IRBA and link it to the results of the CRSA.

Even though the Commission's draft contains EU-specific adjustments and transitional arrangements compared with the Basel rules, there could be a significant increase in capital requirements, particularly as a result of the introduction of the output floor once the transitional arrangements come to an end (depending on the final structure of CRR III).

Sustainability

In response to the steady warming of the climate, bank regulators will continue to focus on the issue of sustainability over the next few years. The ECB published guidelines which should help banks identify their climate and environmental risks to ultimately make them a part of their existing risk management frameworks. The implementation dates set for the guidelines are spread out over the coming years.

Russia-Ukraine war and energy crisis

In the second half of 2022, the banking supervisory authorities are expected to focus on analysing the impact of the Russia-Ukraine war and the resulting energy crisis and inflation on the banks in greater depth. Following the assessments already carried out on directly affected exposures, the Bank is expecting the banking supervisor to conduct ad hoc surveys on second-round effects and scenario analyses, among other things, in the second half of 2022, among other things.

Harmonisation of internal models (TRIM/EBA repair)

In 2020, the ECB and national supervisors completed Project TRIM (Targeted Review of Internal Models), the purpose of which was to review the internal models used in the banking sector. Various banking requirements are being drawn up based on the findings and other supervisory rules in new EBA guidelines, which are currently being looked at by the banks as part of the "EBA repair programme", and these will be refined and revised over the coming years.

Deposit guarantee scheme and bank levy

The internal consultation process instituted by the Savings Banks Finance Group to implement the changes to the guarantee scheme mandated by the ECB and BaFin is still underway. Based on a timetable and action plan agreed with the supervisory authorities for the period to mid-2023, the Bank is to agree to make certain changes to the statutes, which will come into force no later than 1 January 2024. The Savings Banks Finance Group is expected to reach a satisfactory agreement with the supervisory authorities on the implementation process. As a result of BayernLB decoupling from DKB with respect to contributions (revoking the letter of comfort and terminating the control and profit and loss transfer agreement) in financial year 2021, the Bank has already achieved its target volume for the deposit guarantee scheme. It is therefore currently expected that BayernLB will not need to make any further contribution until 2024. As regards the bank levy, it is expected that a comparable contribution to 2022 will be made at the end of the regular building-up phase in 2023. It still cannot be ruled out that the contribution will increase in subsequent years. Currently, BayernLB has calculated significantly lower contributions for the bank levy for this period, depending on the annual growth in covered deposits.

Company forecasts

BayernLB updates its goals for 2022 and confirms its transformation goals for 2024

Given the pending one-off proceeds from the sale of portfolio properties, the Bank has updated the performance indicators for 2022 as follows despite the geopolitical and macroeconomic uncertainty:

	Outlook for 2022 (31 Dec 2021)	Adjusted outlook for 2022 (30 Jun 2022)
Profit/loss before taxes	EUR 300-500 million	> EUR 500 million
Return on Equity (RoE)	>3 %	>5 %
Cost/income ratio (CIR)	63 % - 67 %	<65 %
Common Equity Tier 1 (CET1) capital ratio	>15 %	>15 %
Leverage ratio	>4 %	>4 %

BayernLB still anticipates it will be able to comfortably bear risks on an ongoing basis and therefore maintain a solid capital base at all times.

The BayernLB Group anticipates that it will once again easily exceed the floor of the liquidity coverage ratio (LCR) in 2022 and that it will stay at the comparatively high level it reached in 2021 (31 December 2021: 271.2 percent).

For 2022, the BayernLB Group is forecasting an NSRF in the region of 115.0-130.0 percent.

Against the backdrop of the Russia-Ukraine war, the Bank already referred to elevated uncertainty in its report on expected developments and opportunities in the annual financial statements for 2021. As this conflict has continued unchanged and its impact, in particular a freeze of gas supplies, on the German and European economies is difficult to assess, uncertainty remains high. In addition, the sharp rise in interest rates and inflation is outside the forecast range used in the planning.

BayernLB has also confirmed its goals for the strategic realignment in the period to 2024. For 2024, the Bank plans to achieve a return on equity (RoE) of ⩾ 7.5 percent and a cost/income ratio (CIR) of < 55 percent. On top of this, it is aiming for a Common Equity Tier 1 ratio (on a consolidated basis) of at least 14 percent in 2024.

Minor adjustments to expectations of the operating business segments

As part of the annual strategy review process, the Bank confirmed its strategic target vision for 2024, with minor adjustments in the operating business segments.

Corporates & Markets segment

In the second half of 2022, the Corporate & Markets segment will continue to build on and refine the strategic objectives and goals implemented in 2021.

The Corporates divisions will continue to concentrate on deepening their expertise to become an investment lender focused on the selected sectors of the future: mobility, energy, technology, manufacturing & engineering, and construction & basic resources. The pooling of advisory and product expertise into cross-functional sector teams with the required sector expertise will create the necessary foundations for providing all-round support for corporate customers. At the same time, they will refine and improve sustainable financing solutions and expand product expertise in structured financing and capital market transactions. Based on current internal measurement criteria for sustainable financing, BayernLB is seeking to double the proportion of sustainable financing for new business by 2024.

The Markets Division will continue to pursue its strategy of implementing the comprehensive transformation programme by focusing its offering on strategically relevant products.

The product range will incorporate changing transparency criteria and market participants' need for framework parameters to be set for financing and the inclusion of financing in banks' sustainable lending portfolios. In asset finance and corporate finance, BayernLB will support its customers with project and special financing with terms of 20 years and longer, including leasing if required. Sustainability and ESG-linked loans will tie the conditions of the financing to the borrower's sustainability performance. BayernLB will provide green loans to directly finance investment in environmental protection and climate change mitigation. Another focus will be on sustainable subsidy programmes. In the middle of 2022, BayernLB was also one of the first banks in Germany and Europe to set up a Group-wide sustainable lending framework. In addition to solar energy and wind power, the Bank's ESG policy also applies to rail transport. The framework, which sets the basic parameters for reducing BayernLB's carbon footprint, is calibrated with the goals and standards of the EU Taxonomy Regulation.

The Non-Core Corporates & Markets Division will support the strategic realignment for the entire segment through the systematic and structured winding down of non-core business that has been bundled into one unit since the start of 2021 and it will systematically continue to do so in the second half of 2022.

Against the background of the current geopolitical challenges and the coronavirus pandemic, the Bank confirmed the chosen strategic direction concerning the focus sectors for the Corporates & Markets segment. Despite the expected impact, from the Russia-Ukraine war in particular, there is currently no discernible need for a significant change of direction. We are anticipating the ratings of our customers will be affected in the short to medium term, but it is very difficult to estimate second and third-round effects. Because of the increased forecast uncertainty associated with this, we will need to pay maximum attention to what is going on and respond rapidly to any sudden new developments.

Real Estate & Savings Banks/Financial Institutions segment

The main thrust of the strategic approach taken in the real estate business remains unchanged. This is to gradually but selectively expand commercial and residential real estate financing in the established asset classes of offices, residential, logistics, retail and property management. Despite a recovery in the hotel sector, new business in this asset class and shopping centres will remain subdued. Adopted by the Board of Management in 2021, the Immo 2024 growth-supporting business area strategy was started in line with planning. Besides Germany, business activities will remained centred on internationally established real estate markets, especially western Europe, selected countries in eastern Europe and the USA. To better diversify income and risks, the foreign share in the portfolio will be raised from the current 36 percent to around 43 percent in the medium term. Most of this expansion will take place in the Paris, London, Milan and New York branches, and probably from Q4 2022, from a sales office in Amsterdam. As regards the macroeconomic situation, the construction industry will remain stable. Capacity utilisation in construction will stay high. However, the outlook is gloomy, especially due to soaring costs and supply delays. In addition, rising interest rates will tend to put pressure on real estate prices. However, location, the quality of the property and commercial lease indexation will keep prices stable. Overall, the transaction market appears to be becoming increasingly subdued. Business activity in the real estate sector will therefore continue to be conducted but with an eye to market developments, in particular the geopolitical situation and the coronavirus pandemic.

The approach to sales will be to achieve high market penetration by having a stronger on-site presence to provide all-round customer support across the entire product range. At the same time, the segment will play a significant role in improving on its sustainable financing solutions, expanding active new syndicated business and improving its distribution capabilities for real estate financing. In the real estate business, BayernLB will crank up the financing of sustainable projects across all the aforementioned asset classes in Germany and in international business. It will incorporate sustainable finance expertise into long-term commercial and project finance, encompassing state-subsidised loans and in conjunction with syndicate banks and savings banks.

The financing will be supplemented by specialised services along the Group's entire real estate value chain, for example through BayernFM (providing an energy use assessment involving

building appraisals and optimisation of energy consumption) or through LBImmoWert (integrating sustainability-relevant criteria in national and international appraisals).

BayernLB's professionalism, expertise and reliability also make it a partner of choice for financial institutions and the public sector. Its successful, trust-based collaboration with savings banks is based on the holistic approach of the sales and customer-oriented support model. As the central bank to the Bavarian savings banks, BayernLB offers the savings banks and their customers a focused and future-oriented range of products and services. The segment's future growth will be supported by the systematic expansion of the sustainable range of products and services and its building on its already strong position in the precious metals market. The Bank's sustainability strategy is also being rigorously implemented in the financial institutions, savings banks and public sector customer groups. This involves developing and selling sustainable financial products and services for these customers both within the Group and in collaboration with selected cooperation partners.

DKB segment

DKB is expecting its three market segments – retail customers, infrastructure and corporate customers – to post a good business performance, thus enabling it to make further progress on digitalising and improving internal processes in order to make the customer experience even more satisfying, increase scalability and accelerate business processes.

Our expectations for the operating business segments and the strategic direction of the BayernLB Group are dependent on various external and internal factors. The full, timely implementation of strategic objectives may be impacted by the reduced earnings capacity of some core businesses in the current challenging macroeconomic and regulatory environment, in particular with regard to the impact of the Russia-Ukraine war, the enduring coronavirus pandemic and the frequent regulatory changes. Although it is too early to predict the medium and long-term effects of the Russia-Ukraine war on business or financial targets or the response by the governments, the BayernLB Group may be significantly negatively impacted by a prolonged downturn in local, regional or global economic conditions.

Future plans for the BayernLB Group

Confirmed again in 2022, the strategic target vision for 2024 and the financial guidelines defined for this will form the strategic framework within which the BayernLB Group will operate. In view of this, in 2022 the Bank will continue to pursue the strategic goals and objectives outlined in the section on the business model and Group strategy in the combined management report for financial year 2021.

Opportunities and risks

The report on expected developments and opportunities for 2021 describes various opportunities for and risks to business performance in 2022 and these are also included in this half-yearly management report During the reporting period, no other significant risks or opportunities were identified beyond those presented in the combined management report for financial year 2021 and in this half-yearly management report for the first half of 2022.

Other risks and opportunities that are currently not known or which are currently assessed to be immaterial may also impact business activities. At present, no risks have been identified that could jeopardise either individually or in combination with other risks BayernLB's future as a going concern.

Consolidated half-yearly financial statements

Statement of comprehensive income

Income statement

EUR million	Notes	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Interest income		2,196	2,486
Interest income from financial instruments determined using the effective interest method		1,611	1,678
Interest income – other		585	808
Interest expenses		(1,268)	(1,481)
Interest expenses from financial instruments determined using the effective interest method		(660)	(660)
Interest expenses – other		(609)	(820)
Net interest income	(5)	928	1,006
Risk provisions	(6)	46	44
Net interest income after risk provisions		973	1,050
Commission income		473	406
Commission expenses		(254)	(216)
Net commission income	(7)	219	189
Gains or losses on fair value measurement	(8)	(9)	145
Gains or losses on hedge accounting	(9)	(33)	(3)
Gains or losses on derecognised financial assets	(10)	1	5
Gains or losses on financial investments	(11)	(1)	7
Administrative expenses	(12)	(787)	(754)
Expenses for the bank levy and deposit guarantee scheme	(13)	(132)	(170)
Other income and expenses	(14)	15	14
Gains or losses on restructuring	(15)	30	1
Profit/loss before taxes		**277**	**485**
Income taxes		(101)	(235)
Profit/loss after taxes		**177**	**249**
Profit/loss attributable to non-controlling interests		(1)	(2)
Consolidated profit/loss		**175**	**248**

Rounding differences may occur in the tables.

Statement of comprehensive income (condensed)

EUR million	Notes	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Profit/loss after taxes as per the income statement		**177**	**249**
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	(37)	(323)	(36)
Change not including deferred taxes		(450)	(53)
Change in deferred taxes		127	17
Changes in the revaluation surplus containing changes in the fair value of currency swaps arising from currency basis spread fluctuations	(37)	14	1
Change not including deferred taxes		12	(5)
Change in deferred taxes		2	5
Currency-related change	(37)	4	(3)
Change not including deferred taxes		4	(3)
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	(37)	(3)	(15)
Change not including deferred taxes		2	(16)
Change in deferred taxes		(5)	1
Change due to remeasurement of defined benefit plans	(37)	730	264
Change not including deferred taxes		815	291
Change in deferred taxes		(85)	(26)
Other comprehensive income after taxes		**421**	**211**
Total reported comprehensive income recognised and not recognised in profit or loss		**598**	**460**
Attributable:			
To BayernLB shareholders		597	458
To non-controlling interests		1	2
Total comprehensive income attributable to BayernLB shareholders:			
From continuing operations		597	458
From discontinued operations		–	–

Rounding differences may occur in the tables.

Balance sheet

Assets

EUR million	Notes	30 Jun 2022	31 Dec 2021
Cash reserves	(16)	37,671	17,542
Loans and advances to banks	(17)	50,381	56,266
Loans and advances to customers	(18)	165,589	158,988
Risk provisions	(19)	(1,101)	(1,117)
Portfolio hedge adjustment assets		(3,157)	231
Assets held for trading	(20)	10,624	8,880
Positive fair values from derivative financial instruments (hedge accounting)	(21)	316	509
Financial investments	(22)	19,503	20,085
Investment property	(23)	16	25
Property, plant and equipment	(24)	396	445
Intangible assets	(25)	177	170
Current tax assets		103	103
Deferred tax assets		556	587
Non-current assets or disposal groups classified as held for sale	(26)	78	65
Other assets	(27)	4,152	3,775
Total assets		**285,305**	**266,554**

Rounding differences may occur in the tables.

Liabilities

EUR million	Notes	30 Jun 2022	31 Dec 2021
Liabilities to banks	(28)	80,110	76,447
Liabilities to customers	(29)	130,890	119,292
Securitised liabilities	(30)	45,015	43,880
Liabilities held for trading	(31)	11,163	8,343
Negative fair values from derivative financial instruments (hedge accounting)	(32)	804	1,073
Provisions	(33)	1,229	1,768
Current tax liabilities		21	98
Liabilities of disposal groups	(34)	-	28
Other liabilities	(35)	667	627
Subordinated capital	(36)	2,582	2,689
Equity	(37)	12,824	12,307
Equity excluding non-controlling interests		12,815	12,297
Subscribed capital		3,412	3,412
Capital surplus		2,182	2,182
Retained earnings		7,275	6,548
Revaluation surplus		(235)	78
Foreign currency translation reserve		5	2
Consolidated profit/loss		175	75
Non-controlling interests		9	11
Total liabilities		**285,305**	**266,554**

Rounding differences may occur in the tables.

Statement of changes in equity

EUR million	Parent								Non-controlling interests	
	Subscribed capital	Compound instruments	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**		**Consolidated equity**
As at 31 Dec 2020[1]	**3,412**	**–**	**2,182**	**5,726**	**165**	**5**	**75**	**11,565**	**18**	**11,583**
Adjusted as per IAS 8	–	–	–	–	–	–	–	–	–	–
As at 1 Jan 2021	**3,412**	**–**	**2,182**	**5,726**	**165**	**5**	**75**	**11,565**	**18**	**11,583**
Changes in the Revaluation surplus										
Changes in the fair value of debt instruments - FVOCIM[2]	–	–	–	–	(36)	–	–	(36)	–	(36)
Rating-related changes in the fair value of financial liabilities - FVPLD (FVO)[3]	–	–	–	0	(16)	–	–	(15)	–	(15)
Changes in the fair value of currency swaps from currency basis spread fluctuations	–	–	–	–	1	–	–	1	–	1
Currency-related changes	–	–	–	–	–	(3)	–	(3)	–	(3)
Changes due to remeasurement of defined benefit plans	–	–	–	264	–	–	–	264	–	264
Other comprehensive income	–	–	–	265	(51)	(3)	–	211	–	211
Consolidated profit/loss	–	–	–	–	–	–	248	248	2	249
Total comprehensive income	–	–	–	265	(51)	(3)	248	458	2	460
Capital increase/ capital decrease	–	–	–	–	–	–	–	–	–	–
Changes in the scope of consolidation and other	–	–	–	5	–	–	–	5	–	5
Distribution of profits	–	–	–	–	–	–	(75)	(75)	(2)	(77)
As at 30 Jun 2021	**3,412**	**–**	**2,182**	**5,995**	**114**	**2**	**248**	**11,953**	**17**	**11,970**

EUR million	Parent								Non-controlling interests	
	Subscribed capital	Compound instruments	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**		**Consolidated equity**
As at 31 Dec 2021	**3,412**	**–**	**2,182**	**6,548**	**78**	**2**	**75**	**12,297**	**11**	**12,307**
Adjusted as per IAS 8	–	–	–	–	–	–	–	–	–	–
As at 1 Jan 2022	**3,412**	**–**	**2,182**	**6,548**	**78**	**2**	**75**	**12,297**	**11**	**12,307**
Changes in the Revaluation surplus										
Changes in the fair value of debt instruments - FVOCIM[2]	–	–	–	–	(323)	–	–	(323)	–	(323)
Rating-related changes in the fair value of financial liabilities - FVPLD (FVO)[3]	–	–	–	0	(3)	–	–	(3)	–	(3)
Changes in the fair value of currency swaps from currency basis spread fluctuations	–	–	–	–	14	–	–	14	–	14
Currency-related changes	–	–	–	–	–	4	–	4	–	4
Changes due to remeasurement of defined benefit plans	–	–	–	730	–	–	–	730	–	730
Other comprehensive income	–	–	–	730	(313)	4	–	421	–	421
Consolidated profit/loss	–	–	–	–	–	–	175	175	1	177
Total comprehensive income	–	–	–	730	(313)	4	175	597	1	598
Capital increase/ capital decrease	–	–	–	–	–	–	–	–	–	–
Changes in the scope of consolidation and other	–	–	–	(3)	–	–	–	(3)	–	(3)
Distribution of profits	–	–	–	–	–	–	(75)	(75)	(3)	(78)
As at 30 Jun 2022	**3,412**	**–**	**2,182**	**7,275**	**(235)**	**5**	**175**	**12,815**	**9**	**12,824**

Rounding differences may occur in the tables.

Details on equity can be found in note 37.

1 Adjusted as per 31 December 2020 (see 2021 Annual Report, note 2)

2 Revaluation surplus - gains or losses on fair value measurement of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category.

3 Revaluation surplus - 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 2022	1 Jan – 30 Jun 2021
Cash and cash equivalents at end of previous period	**17,542**	**9,342**
+/- cash flow from operating activities	20,277	24,103
+/- cash flow from investing activities	(45)	(22)
+/- cash flow from financing activities	(196)	454
+/- exchange-rate, scope of consolidation and measurement-related changes in cash and cash equivalents	93	38
Cash and cash equivalents at end of period	**37,671**	**33,915**

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 2022 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 2022 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 2022 were the same as those used for the 2021 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 2021. 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 2022 the following amended standards that the European Commission has incorporated into European law are to be applied for the first time:

- *IFRS 3*
  As a result of the amendments to IFRS 3 Business Combinations, the reference in IFRS 3 has been updated to the revised 2018 conceptual framework. IFRS 3 also now stipulates that if an acquirer acquires liabilities (with the exception of contingent liabilities) that fall within the scope of IAS 37 or IFRIC 21, the acquirer must apply the rules of IAS 37 or IFRIC 21 instead of the conceptual framework and is also prohibited from recognising acquired contingent liabilities. The changes had no impact on the half-yearly financial statements of the BayernLB Group as at 30 June 2022.

- *IAS 16*
  With the amendments to IAS 16 Property, Plant and Equipment, the main changes included rules stipulating that, in future, proceeds from selling items produced while bringing an asset

into the location and condition necessary for it to be capable of operating in the manner intended by management must be recognised in profit or loss and no longer be deducted from the cost of the asset. There was no impact on the half-yearly financial statements of the BayernLB Group as at 30 June 2022.

- *IAS 37*
  The amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets stipulate that when an entity is determining whether a contract is onerous, it must include all the costs of fulfilling the contract that can be directly related to the contract. The implementation of these amendments, which must be applied in modified form retrospectively, had no material impact on the half-yearly financial statements of the BayernLB Group as at 30 June 2022.

- *Improvements to IFRS – 2018-2020 cycle*
  In the annual improvements to IFRS, several changes were made, including minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IFRS 9 Financial Instruments and IAS 41 Agriculture. For the BayernLB Group these amendments had no impact on the half-yearly financial statements as at 30 June 2022.

Amended standards not yet incorporated into European law were not applied to these half-yearly financial statements. In addition, voluntary, early application of the following amended or newly issued standards incorporated into European law by the European Commission, whose application becomes mandatory in financial year 2023, was waived in the reporting period as permitted:

- *IFRS 17*
  In May 2017, the International Accounting Standards Board published the new Standard IFRS 17 Insurance Contracts, which contains new rules on the recognition of insurance contracts. IFRS 17 and the amendments agreed after first-time publication have replaced the standard IFRS 4 Insurance Contracts. First time application of IFRS 17 (including the amendments) is relevant for financial years beginning on or after 1 January 2023,. The impact on BayernLB's consolidated financial statements is being analysed. No material effects are, however, expected.

- *IAS 1 and IAS 8*
  For a description of the amendments to IAS 1 Presentation of Financial Statements and the amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors including the expected impact on BayernLB's consolidated financial statements, refer to the notes in the consolidated financial statements 2021 (note 1).

(2) Changes on the previous year

In the first half of 2022, loss given default (LGD) was refined in respect of the model structure, data basis and estimation methodology. This led to a reduction in LGDs during the reporting period and therefore a small reduction in risk provisions in Stage 1 and Stage 2. The changes in estimates will also have an impact on future periods which currently cannot be reliably estimated.

(3) Scope of consolidation

Besides the parent company, the group of companies consolidated within BayernLB comprises 15 subsidiaries (31 December 2021: 14), which are consolidated in accordance with IFRS 10.

As before, it does not include any companies within the scope of consolidation that are measured at equity.

Changes in the consolidated Deutsche Kreditbank Aktiengesellschaft sub-group

On 1 January 2022, DKB Wohnungsbau und Stadtentwicklung GmbH, Berlin (DKB WSE) was renamed DKB Immobilien GmbH, Berlin and included in the consolidated financial statements of Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB). At the same time, the subsidiaries DKB PROGES EINS GmbH, Berlin and DKB PROGES ZWEI GmbH, Berlin were divested to DKB Immobilien GmbH. The effects of adding DKB Immobilien GmbH to the DKB's scope of consolidation were immaterial.

Determining the scope of consolidation

BayernLB's scope of consolidation is determined by materiality criteria. 102 (31 December 2021: 107) companies were neither consolidated nor measured at equity due to their negligible importance individually or collectively to the financial position and financial performance of the Group. The impact on the balance sheet from the contractual relationships between Group companies and these non-consolidated companies is reported in the half-yearly financial statements.

Segment reporting

(4) Notes to the segment report

The segment report reflects the business structure of the BayernLB Group. A total of four segments, which are unchanged on the previous year, are shown in the report, comprising the three business segments Real Estate & Savings Banks/Association, Corporates & Markets and Deutsche Kreditbank (DKB), supplemented by the Central Areas & Others (including Consolidation) segment. The earnings of the consolidated subsidiaries and units are also allocated to the segment to which they have been assigned. The Central Areas & Others (including Consolidation) segment is not aggregated for segment reporting purposes but separately as Central Areas & Others and consolidation entries not allocated to any segment in the Consolidation column.

Segment reporting is based on IFRS 8 and thus on the monthly management reports submitted to the Board of Management, which serves as the chief operating decision maker as defined in IFRS 8.7. The management reports – and hence the segmentation – are based on the accounting policies used in the consolidated financial statements under IFRS. Segment reporting does not therefore need to be reconciled with the IFRS accounting policies used in the consolidated financial statements. The earnings contributions reported under the segments are generated largely from banking transactions and financial services. Net interest income and net commission income are shown respectively as net figures comprising interest income and interest expenses

and commission income and commission expenses. The additional information about products and services required under IFRS 8.32 is not available because the cost of producing the information would be excessively high.

The risk-weighted assets (RWAs) shown include the figures as at the reporting date for credit risk, market risk, credit value adjustments (CVA) and operational risk arising from the business activities. For the Group, the average regulatory capital available over the reporting period is reported as equity. For this, Common Equity Tier 1 (CET1) capital is calculated using the supervisory regulations in force at the time. For the purposes of internal management, economic capital is allocated to the segments in the amount of 14 percent of their average risk-weighted assets. Economic capital is reconciled to regulatory capital in the column headed "Consolidation".

The return on equity (RoE) shown is calculated on the basis of internal management information from the ratio of annualised profit before taxes to the average regulatory equity (Group)/the average allocated economic equity (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 2022

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Net interest income	186	137	523	76	6	**928**
Risk provisions	(14)	22	42	(5)	–	**46**
Net commission income	144	42	43	(9)	–	**219**
Gains or losses on fair value measurement	34	4	(43)	1	(6)	**(9)**
Gains or losses on hedge accounting	1	–	(37)	3	–	**(33)**
Gains or losses on derecognised financial assets	–	–	1	–	–	**1**
Gains or losses on financial investments	(4)	–	9	(6)	–	**(1)**
Administrative expenses	(199)	(127)	(370)	(91)	–	**(787)**
Expenses for the bank levy and deposit guarantee scheme	–	–	(71)	(61)	–	**(132)**
Other income and expenses	(36)	3	20	29	–	**15**
Gains or losses on restructuring	–	–	–	30	–	**30**
Profit/loss before taxes	**112**	**80**	**119**	**(33)**	**–**	**277**
Risk-weighted assets (RWAs)	13,845	20,829	25,645	5,834	–	**66,153**
Average economic/regulatory capital	1,880	2,914	3,551	760	1,514	**10,617**
Return on equity (RoE) (%)	11.9	5.5	6.7	–	–	**5.2**
Cost/income ratio (CIR) (%)	61.4	68.8	71.6	–	–	**70.3**

Segment reporting as at 30 June 2021

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Net interest income	173	163	566	96	8	**1,006**
Risk provisions	3	(1)	33	9	–	**44**
Net commission income	135	43	25	(14)	–	**189**
Gains or losses on fair value measurement	37	35	28	57	(12)	**145**
Gains or losses on hedge accounting	–	–	3	(6)	–	**(3)**
Gains or losses on derecognised financial assets	–	1	4	–	–	**5**
Gains or losses on financial investments	–	–	7	–	–	**7**
Administrative expenses	(200)	(144)	(342)	(70)	1	**(754)**
Expenses for the bank levy and deposit guarantee scheme	–	–	(54)	(116)	–	**(170)**
Other income and expenses	6	–	2	6	(1)	**14**
Gains or losses on restructuring	1	–	–	1	–	**1**
Profit/loss before taxes	**155**	**97**	**273**	**(37)**	**(4)**	**485**
Risk-weighted assets (RWAs)	11,730	23,190	24,670	5,489	–	**65,079**
Average economic/regulatory capital	1,678	3,298	3,388	780	1,023	**10,167**
Return on equity (RoE) (%)	18.5	5.9	16.1	–	–	**9.5**
Cost/income ratio (CIR) (%)	56.9	59.5	53.7	–	–	**55.3**

Notes on delimitation of segments

The Real Estate & Savings Banks/Financial Institutions segment incorporates business with commercial and residential real estate customers, 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, as well as credit institutions, insurers and institutional customers world-

wide, 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 the business area of the same name in which BayernLB's financing and capital market activities for corporate customers and institutional investors are bundled together. In the Corporates business, BayernLB serves Mittelstand and large corporate customers focused on forward-looking sectors (energy, mobility, technology, manufacturing & engineering, and construction & basic resources), with the sector team taking an integrative approach. Besides DAX, MDAX, family and international companies in selected markets worldwide, it also has on its books corporate customers of the Bavarian savings banks, which are supported in the syndicated loan business. The products and services on offer in the Corporates business are varied and include traditional loan financing, structured financial products for project financing, leasing, asset financing, securitisation, and export and trade financing for customers active outside of Germany. The Markets Division is a central supplier of financial market products for BayernLB customers. The strategic focus of its range of services includes debt capital market activities and a select range of interest rate and currency products. The division also provides market access for BayernLB's own treasury activities. The Non-Core Corporates & Markets (NCCM) Division is responsible for winding down the non-core portfolios of the Corporates & Markets Business Area which have been selected for scaling back as part of the strategic realignment and focus on BayernLB's customer business, while seeking at the same time to maximise value.

The DKB segment comprises the business of the Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) sub-group within the BayernLB Group. In addition to providing online banking for its retail customers, DKB's business activities also include the infrastructure and corporate banking 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.

The Central Areas & Others segment incorporates the earnings contributions from the central areas Group Treasury, Corporate Center, Financial Office, Operating Office, and Risk Office (including Credit Consulting) and Others. The activities of the Group Treasury Division include asset/liability management and the related money market activities and liquidity management. Earnings contributions from money market transactions for customers are shown in the respective customer segment. The segment includes transactions that cannot be allocated to either a business area or a central area. The Consolidation column, disclosed with the segment on an aggregate basis, includes consolidation entries not allocated to any segment. These mainly arise from differences in the way intra-Group transactions are measured and the application of hedge accounting to cross-segment derivatives transactions.

A breakdown of BayernLB's 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) and risk-weighted assets (RWAs) by geographical region is provided as follows:

Information by geographical region as at 30 June 2022

EUR million	Germany	Europe (ex Germany)	America	Group
Banking operations after risk provisions	1,095	7	48	1,150
Risk-weighted assets (RWAs)	64,025	7	2,121	66,153

Information by geographical region as at 30 June 2021

EUR million	Germany	Europe (ex Germany)	America	Group
Banking operations after risk provisions	1,359	9	26	1,394
Risk-weighted assets (RWAs)	63,368	10	1,701	65,079

Notes to the statement of comprehensive income

(5) Net interest income

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Interest income	**2,196**	**2,486**
Interest income from financial instruments determined using the effective interest method	1,611	1,678
From lending and money market transactions	1,344	1,289
From financial investments	25	49
From the amortisation of significant and non-significant modifications of financial assets	1	–
From negative interest	241	340
Interest income – other	585	808
From lending and money market transactions	33	37
From financial investments	14	17
From hedge accounting derivatives	150	214
From derivatives in economic hedges	254	313
From negative interest	124	228
Other interest income	10	–
Interest expenses	**(1,268)**	**(1,481)**
Interest expenses from financial instruments determined using the effective interest method	(660)	(660)
For liabilities to banks and customers	(343)	(358)
For securitised liabilities	(115)	(117)
For subordinated capital	(41)	(34)
From the amortisation of significant and non-significant modifications of financial assets	(1)	(1)
From negative interest	(150)	(139)
Other interest expenses	(10)	(12)
Interest expenses – other	(609)	(820)
For liabilities to banks and customers	(47)	(50)
For securitised liabilities	(14)	(20)
For hedge accounting derivatives	(205)	(230)
For derivatives in economic hedges	(174)	(260)
From negative interest	(161)	(252)
Other interest expenses	(8)	(9)
Total	**928**	**1,006**

Total interest income amounted to EUR 1,195 million (30 June 2021: EUR 1,153 million) for financial assets measured at amortised cost and EUR 23 million (30 June 2021: EUR 46 million) for financial assets mandatorily measured at fair value through other comprehensive income. Total interest expenses for financial liabilities not measured at fair value through profit or loss were EUR 267 million (30 June 2021: EUR 181 million).

(6) Risk provisions

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Income from risk provisions	**593**	**551**
From the release of risk provisions for on and off-balance sheet transactions	579	533
Income from the write-up of purchased or originated credit-impaired financial assets	1	2
From recoveries on written down receivables	12	16
Expenses for risk provisions	**(547)**	**(506)**
From additions to risk provisions for on and off-balance sheet transactions	(547)	(506)
Total	**46**	**44**

Refer to note 19 for details about the post model adjustment shown as at 30 June 2022.

(7) Net commission income

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Commission income	**473**	**406**
Securities business	60	65
Credit business	102	97
Payments	31	28
Documentary business	3	3
Credit card business	134	75
Fund business	113	109
Trust transactions	8	8
Other	23	20
Commission expenses	**(254)**	**(216)**
Securities business	(35)	(37)
Broker fees	(7)	(6)
Credit business	(45)	(44)
Payments	(29)	(24)
Credit card business	(92)	(56)
Fund business	(43)	(48)
Other	(2)	(1)
Total	**219**	**189**

(8) Gains or losses on fair value measurement

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Net trading income	**84**	**33**
Interest-related transactions	(14)	22
Currency-related transactions	13	19
Equity-related and index-related transactions and transactions with other risks	40	(33)
Credit derivatives	9	(5)
Other financial transactions	38	31
Refinancing of trading portfolios	1	2
Trading-related commission	(3)	(3)
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	**(134)**	**75**
Fair value gains or losses on financial instruments in the "fair value option" category	**41**	**37**
of which:		
Profit/loss attributable to non-controlling interests arising from the capital consolidation	31	(14)
Total	**(9)**	**145**

(9) Gains or losses on hedge accounting

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Gains or losses on micro fair value hedges	**2**	**(7)**
Gains or losses on the measurement of hedged items	1	(51)
Gains or losses on the measurement of hedging instruments	1	45
Gains or losses on portfolio fair value hedges	**(36)**	**3**
Gains or losses on the measurement of hedged items	(3,404)	(400)
Gains or losses on the measurement of hedging instruments	3,368	403
Gains or losses on group fair value hedges	**1**	**1**
Gains or losses on the measurement of hedged items	66	145
Gains or losses on the measurement of hedging instruments	(65)	(144)
Total	**(33)**	**(3)**

(10) Gains or losses on derecognised financial assets

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Gains on derecognised financial assets	**2**	**6**
Gains on disposals	2	1
Gains on significant modifications	–	5
Losses on derecognised financial assets	**(1)**	**(1)**
Losses on significant modifications	(1)	(1)
Total	**1**	**5**

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 2022	1 Jan – 30 Jun 2021
Gains or losses on financial investments in the "financial assets mandatorily measured at fair value through other comprehensive income" category	**(1)**	**7**
Income from financial investments	1	7
Gains on disposals	1	7
Expenses from financial investments	(2)	–
Losses on disposals	(2)	–
Total	**(1)**	**7**

(12) Administrative expenses

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Staff costs	**(418)**	**(428)**
Salaries and wages	(330)	(334)
Social security contributions	(47)	(47)
Expenses for pensions and other employee benefits	(41)	(46)
Other administrative expenses	**(323)**	**(284)**
Expenses from the amortisation, depreciation, loss allowances and writedowns of property, plant and equipment and intangible assets	**(46)**	**(42)**
Total	**(787)**	**(754)**

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

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Expenses for the bank levy	(103)	(75)
Expenses for the deposit guarantee scheme	(28)	(95)
Total	**(132)**	**(170)**

(14) Other income and expenses

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Other income	79	38
Other expenses	(65)	(24)
Total	**15**	**14**

(15) Gains or losses on restructuring

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Income from restructuring measures	50	5
Expenses for restructuring measures	(19)	(3)
Total	**30**	**1**

The gains from restructuring measures were from releases of restructuring provisions.

Notes to the balance sheet

(16) Cash reserves

EUR million	30 Jun 2022	31 Dec 2021
Cash	526	282
Deposits with central banks	36,664	16,819
Debt instruments issued by public entities and bills of exchange eligible for refinancing with central banks	481	441
Total	**37,671**	**17,542**

(17) Loans and advances to banks

EUR million	30 Jun 2022	31 Dec 2021
Loans and advances to domestic banks	45,281	52,165
Loans and advances to foreign banks	5,100	4,101
Total	**50,381**	**56,266**

(18) Loans and advances to customers

EUR million	30 Jun 2022	31 Dec 2021
Loans and advances to domestic customers	136,490	131,650
Loans and advances to foreign customers	29,099	27,339
Total	**165,589**	**158,988**

(19) Risk provisions

EUR million	30 Jun 2022	31 Dec 2021
Loss allowances – Stage 1	155	180
Loss allowances – Stage 2	270	267
Loss allowances – Stage 3	615	612
Loss allowances – POCI	61	58
Total	**1,101**	**1,117**

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 expected 12-month credit loss for financial assets whose credit risk has not significantly increased since initial recognition and which are not in default (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

	Loans and advances to banks		Loans and advances to customers		Total	
EUR million	2022	2021	2022	2021	2022	2021
As at 1 Jan	**4**	**1**	**176**	**154**	**180**	**155**
Currency-related changes	-	–	-	–	**1**	**–**
Changes in the expected credit loss due to changes in the risk parameters	(2)	–	(24)	(19)	**(27)**	**(20)**
Additions due to lending/purchases	1	–	25	21	**26**	**21**
Releases due to disposals/redemptions/sales	(1)	–	(23)	(16)	**(24)**	**(16)**
Reclassifications to Stage 1 from Stage 2	7	1	13	14	**21**	**15**
Reclassifications from Stage 1 to Stage 2	(7)	–	(10)	(17)	**(16)**	**(17)**
Reclassifications from Stage 1 to Stage 3	-	–	(5)	–	**(5)**	**–**
As at 30 Jun	**3**	**2**	**153**	**136**	**155**	**138**

Changes in loss allowances – Stage 2

	Loans and advances to banks		Loans and advances to customers		Total	
EUR million	2022	2021	2022	2021	2022	2021
As at 1 Jan	**5**	**4**	**262**	**295**	**267**	**299**
Currency-related changes	-	–	3	1	**4**	**2**
Changes in the expected credit loss due to changes in the risk parameters	15	(2)	48	46	**63**	**44**
Additions due to lending/purchases	2	–	9	13	**11**	**13**
Releases due to disposals/redemptions/sales	(1)	(1)	(50)	(58)	**(51)**	**(59)**
Reclassifications to Stage 2 from Stage 1	7	–	10	17	**16**	**17**
Reclassifications from Stage 2 to Stage 1	(7)	(1)	(13)	(14)	**(21)**	**(15)**
Reclassifications from Stage 2 to Stage 3	(9)	–	(11)	(19)	**(20)**	**(19)**
As at 30 Jun	**12**	**1**	**258**	**280**	**270**	**282**

Changes in loss allowances – Stage 3

	Loans and advances to banks		Loans and advances to customers		Total	
EUR million	2022	2021	2022	2021	2022	2021
As at 1 Jan	**6**	**6**	**605**	**575**	**612**	**581**
Currency-related changes	**–**	**–**	4	2	**4**	**2**
Changes in the expected credit loss due to changes in the risk parameters	9	–	13	47	**23**	**47**
Additions due to lending/purchases	**–**	**–**	12	12	**12**	**12**
Releases due to disposals/redemptions/sales	**–**		(23)	(39)	**(23)**	**(39)**
Utilisations/writedowns	**–**	**–**	(32)	(48)	**(32)**	**(48)**
Unwinding	**–**	**–**	(7)	(5)	**(7)**	**(5)**
Reclassifications to Stage 3 from Stage 1	**–**	**–**	5	–	**5**	**–**
Reclassifications to Stage 3 from Stage 2	9	**–**	11	19	**20**	**19**
Transfers/other changes	**–**	**–**	2	4	**2**	**4**
As at 30 Jun	**24**	**6**	**590**	**568**	**615**	**575**

Changes in loss allowances – POCI

EUR million	Loans and advances to customers 2022	2021
As at 1 Jan	**58**	**49**
Currency-related changes	**(2)**	**2**
Changes in the expected credit loss due to changes in the risk parameters	7	(4)
Additions due to lending/purchases	1	1
Releases due to disposals/redemptions/sales	(2)	(2)
Utilisations/writedowns	-	(1)
As at 30 Jun	**61**	**44**

The total volume of non-discounted expected credit losses as at first-time recognition of purchased or originated credit-impaired financial assets was EUR 4 million as at the reporting date (31 December 2021: EUR 25 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 253,384 million (H1 2021: EUR 232,005 million) as at the reporting date and comprised:

EUR million	30 Jun 2022	31 Dec 2021
Financial assets – Stage 1	**233,247**	**213,829**
Cash reserves	37,190	17,100
Loans and advances to banks	44,384	51,133
Loans and advances to customers	151,590	145,574
Other assets	82	22
Financial assets – Stage 2	**18,361**	**16,478**
Loans and advances to banks	5,967	5,129
Loans and advances to customers	12,394	11,348
Financial assets – Stage 3	**1,580**	**1,499**
Loans and advances to banks	41	7
Loans and advances to customers	1,540	1,492
Financial assets – POCI	**152**	**155**
Loans and advances to customers	152	155
Trade receivables – simplified approach	**44**	**44**
Other assets	44	44
Total	**253,384**	**232,005**

Change to the post-model adjustment.

Due to the impact of the ongoing coronavirus pandemic and the Russia-Ukraine war, the regular review of the macroeconomic scenarios for the next few years determined that it was necessary to make changes to the post-model adjustment which had been considered in the previous financial statements. This was based on the baseline and "global economic crisis" scenarios which were considered in the consolidated financial statements for 2021. The central parameters un-

derlying the scenarios are the changes in gross domestic product (GDP), consumer prices, the unemployment rate and the leading stock market indices in Germany, Europe and the USA; the changes in yields on long-dated government bonds in Germany and Europe are also taken into account.

Due to the war and inflation, significant adjustments were made to the baseline scenario as at 30 June 2022 compared with the consolidated financial statements for 2021. The impact of the war will lead to a strong downward correction in GDP growth and a strong upwards one in inflation for 2022. The outlook is meanwhile highly uncertain. With the removal of coronavirus restrictions and the normalisation of global supply chains, the prospects at the start of the year of a significant revival in economic activity were good. Over the short term, however, the current problems – some of which are already easing – will cause eurozone inflation to spike to 7.1 percent (Germany: 6.4 percent) in 2022 and will continue to have an impact in 2023. Combined with the shaken confidence of consumers and companies, the direct impact of the war and sanctions has led us to cut our GDP forecast for the eurozone to 1.8 percent (Germany: 1.3 percent) for 2022. The most negatively impacted sectors will include engineering, car makers and logistics. After the low point expected in 2024, GDP will normalise in the eurozone and Germany and then potentially grow. Due to the higher level of inflation, monetary policy will only be directed at supporting the economy in a few exceptional cases, such as China and Japan, in marked contrast to the start of the coronavirus pandemic. In a stagflationary environment, the ECB will aim to wind back its ultra-loose monetary policy in stages (first by ending net asset purchases, followed by interest rate hikes and a reduction in its balance sheet). In contrast, the Fed will initially accelerate its interest rate raises in an even more fast-paced economic environment. Against the backdrop of considerably weaker rates of inflation/economic figures, it is anticipated that the current interest rate hiking cycle will come to its conclusion at the end of 2023/start of 2024, with rates at 2.125 percent (Fed) and 0.75 percent (ECB). Further moderate rises in interest rates are not expected until the end of the forecast horizon, when the economy revives again and this is accompanied in the USA by the new government's fiscal measures. The tightening of monetary policy will stoke volatility on capital markets. Yields on long-dated government bonds are set to rise to 3.1 percent in the case of 10-year US Treasuries and 1.6 percent for 10-year German Bunds by the end of 2026. With the ending of the ECB's net purchases, spreads on peripheral states versus German Bunds and the risk premiums on covered and corporate bonds are likely to widen in 2022/2023 before stabilising from 2024 onwards. Despite the ECB reducing its balance sheet, spreads should tighten somewhat as the economy subsequently recovers before settling at a level well above that of the last few years. The pivot in interest rates has also had a perceptible impact on real estate markets. The high growth rates of the past few years are probably over and likely to be replaced by much lower increases, especially as there is no beneficiary impact from energy price-driven inflation.

The "global economic crisis" scenario predicts that the economy, still fragile due to the coronavirus pandemic, will come under fresh pressure from external shocks. This could happen with the appearance of a resistant virus variant and the resulting fresh round of blanket lockdowns it would trigger or if the Russia-Ukraine conflict widens by way of a NATO involvement or widescale cyber attacks taking place on Western targets. In both cases, there would be an ongoing shock to the economy. In any case, current supply chain problems (especially with semi-conductors) and economic nationalism will intensify. Second-round effects will cause the crisis to spill

out to the financial sector. The eurozone economy will slide into a three-year recession, which will give way to a very sluggish recovery phase from 2025. Unemployment will climb until 2025 The limited elbow room for monetary and fiscal policy in many regions will see the crisis persist for an unusually long time. Given recent experience and the high starting level of inflation at the beginning of the crisis, central banks do not engage in any further quantitative easing and only keep to the measures which were predominantly used in the first half of the year. Due to plunging demand, inflation will retreat markedly as early as 2022. Fiscal policy will be expansive, contributing to an increase in deficits and debt ratios. A large proportion of the significant increase in issues of government bonds will continue to be bought up by central banks. The yield curve for issuers with good credit ratings will drop quite significantly again, but not reach the record lows of the pandemic period. For example, the yield on 10-year German Bunds will begin to rise gradually, but remain in negative territory until 2026. In this risk-averse environment, credit spreads will widen markedly and stay well above their starting level for the entire period. Commodities prices will fall back noticeably due to the state of the economy. Stock markets will remain weak for a long while and not return to modest growth until 2024.

The following, significant parameters were used for the baseline and "global economic crisis" scenarios as at 30 June 2022: the changes in GDP, consumer prices, the unemployment rate and the leading stock market indices in Germany, Europe and the USA. A time horizon of five years (2022 to 2026) was observed. It was found that, based on the above assumptions, the largest impact for the calculation of the post-model adjustment will be on the first two years. This is mainly due to the BayernLB Group's portfolio structure and it becoming increasingly harder to forecast future years with certainty.

Assumptions on the consolidated half-yearly financial statements for 2022

Annual average (baseline scenario/ global economic crisis)		2022	2023	2024	2025	2026
Real GDP growth (%)	Germany	1.3/(1.8)	2.1/(0.3)	1/0	1.1/0.6	1.1/1.1
Price rise (consumer prices) (%)		6.4/2.9	3.5/0.3	2.1/0.6	2/0.7	2/1.3
Unemployment rate (%)		5.1/6	5/6.6	4.7/6.7	4.6/6.7	4.5/6.6
Leading stock market index (%) - year-end price index		(6.7)/(32.3)	5.3/(15.3)	0.9/10.5	4.9/8	2.7/2.9
Real GDP growth (%)	Eurozone	1.8/(0.8)	1.5/(0.7)	0.9/(0.1)	1.1/0.6	1.1/1.1
Price rise (consumer prices) (%)		7.1/3	3.6/0.4	2.1/0.6	2.1/0.8	2/1.3
Unemployment rate (%)		6.9/8.4	6.7/9.1	6.7/9.5	6.6/9.6	6.5/9.5
Leading stock market index (%) - year-end price index		(4.7)/(32)	5.9/(14.5)	0.9/10	4.5/7.4	2.6/2.6
Real GDP growth (%)	USA	3.3/(0.7)	1.8/(0.2)	1.3/0.3	2.1/1.6	1.9/1.9
Price rise (consumer prices) (%)		7.2/3.9	3.4/0.6	2.4/0.9	2.3/1	2.2/1.5
Unemployment rate (%)		3.7/6.3	3.6/7.5	3.7/8.3	3.8/8.6	3.8/8.6
Leading stock market index (%) - year-end price index		1.7/(31.5)	3.1/(14)	1.1/10	5.1/7.5	3.2/2.8
Capital market interest rates (as at year end)						
Capital market interest rates (as at year end) - yields on government bonds (10Y)	Germany/ Eurozone	0.6/(0.6)	1.1/(0.55)	1.2/(0.45)	1.4/(0.3)	1.6/(0.1)

Assumptions on the consolidated financial statements for 2021

Annual average (baseline scenario/ global economic crisis)		2022	2023	2024	2025	2026
Real GDP growth (%)	Germany	4.4/(0.1)	2.0/(0.5)	1.5/0.5	1.3/0.8	1.1/1.1
Price rise (consumer prices) (%)		2.5/1.0	2.1/0.1	1.9/0.4	1.9/0.6	1.9/1.2
Unemployment rate (%)		5.5/7.1	5.3/7.4	5.1/7.4	5.0/7.4	5.0/7.4
Leading stock market index (%) - year-end price index		3.5/(30.6)	3.2/(13.3)	(5.6)/10.9	4.1/7.5	1.0/2.7
Real GDP growth (%)	Eurozone	4.4/(0.1)	2.1/(0.4)	1.6/0.6	1.3/0.8	1.1/1.1
Price rise (consumer prices) (%)		2.2/0.7	2.0/0.0	1.9/0.4	1.9/0.6	1.9/1.2
Unemployment rate (%)		7.5/8.9	7.3/9.5	7.2/9.8	7.2/10.0	7.2/10.0
Leading stock market index (%) - year-end price index		3.1/(30.0)	2.6/(13.1)	(4.3)/9.5	4.0/6.8	0.9/2.6
Real GDP growth (%)	USA	4.5/0.0	2.7/0.2	2.3/1.3	2.0/1.5	1.8/1.8
Price rise (consumer prices) (%)		4.2/2.7	2.4/0.4	2.2/0.7	2.1/0.8	2.0/1.3
Unemployment rate (%)		4.7/7.3	4.2/8.2	4.0/8.6	4.0/8.8	4.0/8.8
Leading stock market index (%) - year-end price index		3.4/(30.5)	3.3/(12.8)	(4.0)/9.0	4.0/7.0	1.1/2.8
Capital market interest rates (as at year end)						
Capital market interest rates (as at year end) - yields on government bonds (10Y)	Germany/ Eurozone	0.20/(1.00)	0.60/(0.90)	0.90/(0.60)	1.10/(0.40)	1.15/(0.20)

Depending on the scenario and sub-portfolio and based on the assumptions shown, it is anticipated that the impacts on the key parameters, such as rating, loss ratio/loss given default (LGD) and collateral values will vary in strength. The effects are initially calculated as far as possible in the form of a model and then subjected to a qualitative review. Expert-based adjustments were again made in individual cases, most notably in the cruise industry, aviation and basic resources (in particular the steel industry) sub-portfolios and, in the case of hotels and shopping centres, within the real estate portfolio.

Compared with the consolidated financial statements for 2021, the cruise industry is on the up. Cruise ships are once again sailing at full or close to full capacity. The cash flows generated from this have, however, not been significant and, as a result, companies are still experiencing shortfalls in cash flow. The shipbuilding sector is also in an ongoing crisis, which could prove fatal. In the aviation sector, passenger numbers began to recover in the second half of 2021 thanks to the successful vaccination drive and gradual lifting of restrictions. This development was brought to an end by the spread of the Omicron variant. However, the positive trend continued, driven mainly by a strong catch-up effect in tourist travel, which has already pushed airlines and airports to their tolerance thresholds. This trend is still subject to much uncertainty, particularly as a result of the currently rising costs (especially of oil) and fears of a new wave of the pandemic in autumn/winter. In respect of hotels and shopping centres, investors are taking a wait-and-see approach before entering the real estate market in Germany, primarily due to the rise in interest rates and other negative factors (e.g. high inflation). In the automotive industry, increased supply-chain disruption and further increases in energy and raw materials prices are squeezing profit margins and liquidity considerably. Uncertainty as to whether the Russia-Ukraine conflict will escalate further is also taking its toll. Owing to the steel industry's heavy dependence on the economy, orders books have slumped and customers are putting off their investment decisions. The negative trend has been reinforced by the collapse in the automotive industry, which is above all a key customer for flat-steel producers.

Consequently, the BayernLB Group took account as at 30 June 2022 of the impact of the expected credit losses by setting up risk provisions of EUR 315 million (31 December 2021: EUR 356 million) in the form of a post-model adjustment. As at 30 June 2022, these risk provisions included around 45 percent for the Corporates & Markets segment (31 December 2021: around 45 percent) and around 30 percent for the DKB segment (31 December 2021: around 35 percent). The risk provisions of EUR 315 million include an expert-based management adjustment of EUR 115 million (31 December 2021: EUR 70 million), which also takes into account the extreme (and in some cases rising) uncertainty about the current situation with regard to future economic growth. This applies to the Corporates & Markets segment in particular due to potential defaults/corporate insolvencies as a result of the suspension of the requirement to apply for insolvency and also to defaults triggered by the Russia-Ukraine war. In the Real Estate segment, this is due to risks from commercial real estate project developments/developers.

If the probability of occurrence was set at 100 percent, this would, without including the expert-based management adjustment, result in a post-model adjustment of around EUR 49 million in the baseline scenario and one of around EUR 385 million in the "global economic crisis" scenario as at 30 June 2022.

An unchanged weighting of 55 percent (31 December 2021: 55 percent) was applied to the baseline scenario and of 45 percent (31 December 2021: 45 percent) to the "global economic crisis" scenario. A change in the described weighting between the baseline scenario and the "global economic crisis" scenario by 10 percentage points in favour or at the expense of the "global economic crisis" scenario would have an effect of EUR -33.4 million or EUR +33.6 million, respectively.

Uncertainty over a potential halt to gas supplies

We believe that any significant restriction or halting of gas supplies from Russia would lead to massive state intervention (as can already be seen with the support being given to the energy company Uniper and the initial measures for German customers). Factoring in this type of intervention, an initial simulation of a halt to gas supplies based on the relevant expert estimates would impact risk provisions in a similar way to the "global economic crisis" scenario. With regard to the higher inflation rates and, taking into account historical observations and expert assessments, it is not possible to draw a general conclusion that default rates will go up and therefore risk provisions as well. Instead, depending on the sub-portfolio, different and in some cases contrary effects will make themselves felt. Therefore, the high weighting of the "global economic crisis" (45 percent) reflects the current pronounced uncertainty over a potential halt to gas supplies that was factored in when preparing the post-model adjustment for the Group's half-yearly financial report for 2022.

(20) Assets held for trading

EUR million	30 Jun 2022	31 Dec 2021
Bonds, notes and other fixed-income securities	1,839	828
Equities and other non-fixed income securities	13	293
Loans and advances	353	574
Positive fair values from derivative financial instruments (not hedge accounting)	8,419	7,185
Total	**10,624**	**8,880**

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

EUR million	30 Jun 2022	31 Dec 2021
Positive fair values from micro fair value hedges	216	453
Positive fair values from portfolio fair value hedges	1	–
Positive fair values from group fair value hedges	99	55
Total	**316**	**509**

(22) Financial investments

EUR million	30 Jun 2022	31 Dec 2021
Bonds, notes and other fixed-income securities	18,617	19,063
Equities and other non-fixed income securities	388	433
Equity interests	476	565
Other financial investments	22	24
Total	**19,503**	**20,085**

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 37.

As at the reporting date, the gross carrying amount of the financial investments in the financial assets measured at amortised cost was EUR 10 million (31 December 2021: EUR 11 million), all of which comprised bonds and notes in Stage 1.

(23) Investment property

EUR million	30 Jun 2022	31 Dec 2021
Leased property	16	25
Total	**16**	**25**

(24) Property, plant and equipment

EUR million	30 Jun 2022	31 Dec 2021
Property	224	275
Furniture and office equipment	48	46
Right-of-use assets from leases	125	124
Total	**396**	**445**

(25) Intangible assets

EUR million	30 Jun 2022	31 Dec 2021
Internally generated intangible assets	79	77
Other intangible assets	98	94
Total	**177**	**170**

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

EUR million	30 Jun 2022	31 Dec 2021
Loans and advances to customers	24	70
Risk provisions	(5)	(5)
Investment property	11	–
Property, plant and equipment	48	–
Total	**78**	**65**

In connection with the strategic realignment of its business model (the "Fokus 2024" transformation programme), BayernLB decided in financial year 2022 to divest itself of other real estate not necessary for operations. On 5 August 2022, BayernLB concluded a notarised property sales

contract to sell four properties at the Munich location which are not necessary for operations. The Bank estimates the transaction will complete in 2022.

As at the reporting date, certain long-term receivables in the "hold to collect" business model met the criteria for classification as a non-current asset held for sale under IFRS 5 after the corresponding sales process had started.

The loss allowances deducted from the carrying amount of non-current assets or disposal groups classified as held for sale for financial assets in the "financial assets measured at amortised cost" category amounted to EUR 5 million (31 December 2021: EUR 5 million) and were all in Stage 3 (for the breakdown of loss allowances, see note 19).

Changes in loss allowances

	Stage 3	
EUR million	**2022**	**2021**
As at 1 Jan	**5**	–
Changes in the expected credit loss due to changes in the risk parameters	1	–
As at 30 Jun	**5**	–

The gross carrying amount of financial assets in the "financial assets in the measured at amortised cost" category amounted to EUR 24 million (31 December 2021: EUR 70 million) as at the reporting date and comprised:

EUR million	**30 Jun 2022**	**31 Dec 2021**
Financial assets – Stage 1	5	49
Financial assets – Stage 3	20	21
Total	**24**	**70**

(27) Other assets

EUR million	**30 Jun 2022**	**31 Dec 2021**
Emissions certificates	2,206	2,879
Precious metals	499	362
Asset from defined benefit plans	472	21
Claims from reinsurance	238	232
Other assets	737	282
Total	**4,152**	**3,775**

(28) Liabilities to banks

EUR million	30 Jun 2022	31 Dec 2021
Liabilities to domestic banks	74,602	73,044
Liabilities to foreign banks	5,507	3,403
Total	**80,110**	**76,447**

Liabilities to banks by product

EUR million	30 Jun 2022	31 Dec 2021
Schuldschein note loans/issues	**5,342**	**5,193**
Schuldschein note loans	2,417	2,281
Registered public Pfandbriefs issued	739	815
Mortgage Pfandbriefs issued	472	433
Other registered securities	1,714	1,664
Book-entry liabilities	**74,767**	**71,254**
On-lending business/subsidised loans	37,710	36,567
Overnight and time deposits	28,339	29,782
Current account liabilities	4,166	4,333
Securities repurchase transactions	3,299	20
Other liabilities	1,253	553
Total	**80,110**	**76,447**

Liabilities to banks included funding measured at amortised cost with a carrying amount of EUR 22,166 million (31 December 2021: EUR 26,532 million), which arose from the Bank's participation in the ECB's long-term refinancing transactions (Targeted Longer-Term Refinancing Operations (TLTRO). These are reported in the balance sheet pursuant to IFRS 9. The interest rate in the TLTRO III is a market rate as the funding rates offered by the ECB correspond to the specific market rates to be used for the ECB's monetary transactions. The interest rate for this funding depends in part on net lending of eligible loans increasing. Owing to the BayernLB Group's very good business performance, the interest rate up to 23 June 2022 was the average interest rate for the deposit facility less a discount of 50 basis points; since 24 June 2022, no discount has been applied to the interest rate. The net interest income from the TLTRO, from the reassessed cash flows, and from the reinvested funds totalled EUR 47 million for the BayernLB Group in the reporting period (30 June 2021: EUR 164 million).

(29) Liabilities to customers

EUR million	30 Jun 2022	31 Dec 2021
Liabilities to domestic customers	119,591	112,052
Liabilities to foreign customers	11,299	7,240
Total	**130,890**	**119,292**

Liabilities to customers by product

EUR million	30 Jun 2022	31 Dec 2021
Schuldschein note loans/issues	**14,774**	**16,361**
Schuldschein note loans	946	860
Registered public Pfandbriefs issued	6,439	7,420
Mortgage Pfandbriefs issued	1,845	1,940
Other registered securities	5,544	6,140
Book-entry liabilities	**116,116**	**102,931**
Overnight and time deposits	40,495	36,230
Current account liabilities	74,707	66,204
Securities repurchase transactions	-	-
Other liabilities	914	497
Total	**130,890**	**119,292**

(30) Securitised liabilities

EUR million	30 Jun 2022	31 Dec 2021
Bonds and notes issued	**37,242**	**37,056**
Mortgage Pfandbriefs	5,941	5,157
Public Pfandbriefs	11,253	10,875
Other bonds and notes	20,048	21,024
Other securitised liabilities	**7,773**	**6,824**
Total	**45,015**	**43,880**

The reporting period saw bonds and notes (including money market securities) to the value of EUR 130,881 million issued and EUR 126,246 million repaid. Repurchases amounted to EUR 1,627 million.

(31) Liabilities held for trading

EUR million	30 Jun 2022	31 Dec 2021
Liabilities	1,058	916
Negative fair values from derivative financial instruments (not hedge accounting)	10,105	7,427
Total	**11,163**	**8,343**

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

EUR million	30 Jun 2022	31 Dec 2021
Negative fair values from micro fair value hedges	532	926
Negative fair values from portfolio fair value hedges	24	19
Negative fair values from group fair value hedges	248	129
Total	**804**	**1,073**

(33) Provisions

EUR million	30 Jun 2022	31 Dec 2021
Provisions for pensions and similar obligations	**482**	**924**
Other provisions	**746**	**844**
Provisions for off-balance-sheet transactions	113	147
Loss allowances for financial guarantees/credit commitments as per IFRS 9	96	119
Provisions for other contingent liabilities/other commitments	17	28
Restructuring provisions	469	530
Miscellaneous provisions	165	167
Total	**1,229**	**1,768**

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 2022	31 Dec 2021
Loss allowances – Stage 1	30	29
Loss allowances – Stage 2	42	63
Loss allowances – Stage 3	21	24
Loss allowances – POCI	3	2
Total	**96**	**119**

Changes in loss allowances

	Stage 1		Stage 2		Stage 3		POCI		Total	
EUR million	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
As at 1 Jan	**29**	**26**	**63**	**56**	**24**	**30**	**2**	**1**	**119**	**113**
Currency-related changes	-	–	2	1	-	–	-	–	**2**	**1**
Changes in the expected credit loss due to changes in the risk parameters	5	(5)	4	5	(4)	(5)	1	–	**7**	**(5)**
Additions due to lending	11	10	10	23	4	4	-	2	**24**	**39**
Releases due to disposals	(12)	(9)	(40)	(27)	(2)	(3)	-	(2)	**(54)**	**(41)**
Unwinding	-	–	-	–	(1)	–	-	–	**(1)**	**–**
Reclassifications to Stage 1 from Stage 2	4	3	(4)	(3)	-	–	-	–	**-**	**–**
Reclassifications to Stage 2 from Stage 1	(7)	(1)	7	1	-	–	-	–	**-**	**–**
Reclassifications to Stage 3 from Stage 2	-	–	-	(1)	-	1	-	–	**-**	**–**
Transfers/other changes	-	–	-	–	-	(4)	-	–	**(1)**	**(4)**
As at 30 Jun	**30**	**24**	**42**	**55**	**21**	**22**	**3**	**2**	**96**	**103**

The exposure to financial guarantees and revocable and irrevocable credit commitments stood at EUR 57,725 million as at the reporting date (31 December 2021: EUR 59,569 million) and comprised:

EUR million	30 Jun 2022	31 Dec 2021
Financial guarantees/credit commitments – Stage 1	50,016	50,641
Financial guarantees/credit commitments – Stage 2	7,508	8,561
Financial guarantees/credit commitments – Stage 3	191	365
Financial guarantees/credit commitments – POCI	11	2
Total	**57,725**	**59,569**

Refer to note 19 for details about the post model adjustment shown as at 30 June 2022.

(34) Liabilities of disposal groups

EUR million	30 Jun 2022	31 Dec 2021
Liabilities to banks	–	28
Total	**–**	**28**

As at the reporting date the Group had off-balance sheet transactions in connection with customer receivables classified under IFRS 5 with an exposure of EUR 1 million (31 December 2021: EUR 1 million). This amount related to revocable credit commitments in Stage 3.

(35) Other liabilities

EUR million	30 Jun 2022	31 Dec 2021
Accruals	247	242
Lease liability from right-of-use assets	127	126
Non-controlling interests (debt instruments)	121	139
Other liabilities	172	120
Total	**667**	**627**

(36) Subordinated capital

EUR million	30 Jun 2022	31 Dec 2021
Subordinated liabilities	2,552	2,659
Profit participation certificates (debt component)	29	29
Dated silent partner contributions (debt component)	1	1
Total	**2,582**	**2,689**

(37) Equity

EUR million	30 Jun 2022	31 Dec 2021
Equity excluding non-controlling interests	**12,815**	**12,297**
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	7,275	6,548
Statutory reserve	1,268	1,268
Other retained earnings	6,007	5,281
Revaluation surplus	(235)	78
Foreign currency translation reserve	5	2
Consolidated profit/loss	175	75
Non-controlling interests	**9**	**11**
Total	**12,824**	**12,307**

Revaluation surplus

EUR million	30 Jun 2022	31 Dec 2021
Gains or losses on fair value measurement of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category	(344)	110
Loss allowances for financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category	8	3
Rating-related changes in the fair value of financial liabilities from the "fair value option" category recognised through other comprehensive income	12	10
Changes in the fair value of currency swaps from currency basis spread fluctuations recognised through other comprehensive income	(5)	(17)
Deferred taxes recognised through other comprehensive income	94	(29)
Total	**(235)**	**78**

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 2022	31 Dec 2021
Loss allowances – Stage 1	2	2
Loss allowances – Stage 2	5	1
Loss allowances – POCI	1	1
Total	**8**	**3**

Changes in loss allowances – Stage 1

	Financial investments	
EUR million	2022	2021
As at 1 Jan	**2**	**3**
Changes in the expected credit loss due to changes in the risk parameters	1	**(1)**
Reclassifications to Stage 1 from Stage 2	1	**1**
Reclassifications from Stage 1 to Stage 2	(2)	**–**
As at 30 Jun	**2**	**2**

Changes in loss allowances – Stage 2

	Financial investments	
EUR million	2022	2021
As at 1 Jan	**1**	**3**
Changes in the expected credit loss due to changes in the risk parameters	3	(1)
Reclassifications to Stage 2 from Stage 1	**2**	–
Reclassifications from Stage 2 to Stage 1	(1)	(1)
As at 30 Jun	**5**	**1**

Loss allowances for purchased or originated credit-impaired financial assets (POCI) remained unchanged at EUR 1 million as at the reporting date (31 December 2021: EUR 1 million) and all of them related to loans and advances to customers.

The gross carrying amount of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category was EUR 19,819 million (31 December 2021: EUR 19,262 million) as at the reporting date and comprised:

EUR million	30 Jun 2022	31 Dec 2021
Financial assets – Stage 1	**17,354**	**18,168**
Cash reserves	481	441
Financial investments	16,873	17,726
Financial assets – Stage 2	**2,464**	**1,094**
Financial investments	2,464	1,094
Financial assets – POCI	**1**	**1**
Loans and advances to customers	1	1
Total	**19,819**	**19,262**

Notes to financial instruments

(38) Fair value of financial instruments

EUR million	Fair value[1] 30 Jun 2022	Carrying amount 30 Jun 2022	Fair value 31 Dec 2021	Carrying amount 31 Dec 2021
Assets				
Cash reserves	37,671	37,671	17,542	17,542
Loans and advances to banks[2]	50,266	50,381	56,266	56,266
Loans and advances to customers[2]	156,425	165,589	161,487	158,988
Assets held for trading	10,631	10,624	8,883	8,880
Positive fair values from derivative financial instruments (hedge accounting)	316	316	509	509
Financial investments	19,503	19,503	20,085	20,085
Non-current assets or disposal groups classified as held for sale	18	19	64	65
Liabilities				
Liabilities to banks	79,308	80,110	77,238	76,447
Liabilities to customers	127,547	130,890	120,877	119,292
Securitised liabilities	43,620	45,015	44,224	43,880
Liabilities held for trading	11,163	11,163	8,343	8,343
Negative fair values from derivative financial instruments (hedge accounting)	804	804	1,073	1,073
Liabilities of disposal groups	–	–	28	28
Other liabilities	121	121	139	139
Subordinated capital	2,458	2,582	2,849	2,689

1 The carrying amounts for each current financial instrument of other assets and liabilities are a reasonable approximation of fair value. In accordance with IFRS 7.29 (a), these are therefore not disclosed. Furthermore, in accordance with IFRS 7.29 (d), the fair value of lease liabilities reported under other liabilities is not disclosed.

2 Carrying amount not including deductions of loss allowances for loans and advances to banks of EUR 38 million (31 December 2021: EUR 15 million) and loans and advances to customers of EUR 1,062 million (31 December 2021: EUR 1,101 million) in the "financial assets measured at amortised cost" category.

Day one profit or loss

In the reporting period, the day one profit or loss reserve changed as follows:

EUR million	Assets held for trading 2022	Assets held for trading 2021
As at 1 Jan	**3**	**–**
Allocations through profit and loss	4	–
As at 30 Jun	**7**	**–**

The day one profit or loss reserve exclusively comprises derivative financial instruments.

(39) Financial instrument measurement categories

EUR million	30 Jun 2022	31 Dec 2021
Assets		
Financial assets measured at fair value through profit or loss	11,743	10,148
Financial assets mandatorily measured at fair value through profit or loss	11,652	10,041
Loans and advances to customers	134	131
Assets held for trading	10,624	8,880
Financial investments	895	1,030
Fair value option	90	106
Financial investments	90	106
Financial assets measured at amortised cost	253,181	232,365
Cash reserves	37,190	17,100
Loans and advances to banks[1]	50,381	56,266
Loans and advances to customers[1]	165,455	158,856
Financial investments	10	11
Non-current assets or disposal groups classified as held for sale	19	65
Other assets	126	66
Financial assets measured at fair value through other comprehensive income	18,990	19,379
Financial assets mandatorily measured at fair value through other comprehensive income	18,990	19,379
Cash reserves	481	441
Loans and advances to customers	1	1
Financial investments	18,508	18,937
Derivative financial instruments in hedges (hedge accounting)	316	509
Positive fair values from derivative financial instruments (hedge accounting)	316	509

[1] *Not including deduction of loss allowances.*

EUR million	30 Jun 2022	31 Dec 2021
Liabilities		
Financial liabilities measured at fair value through profit or loss	16,534	14,852
Held-for-trading financial liabilities	11,163	8,343
Liabilities held for trading	11,163	8,343
Liabilities of disposal groups	–	–
Fair value option	5,371	6,509
Liabilities to banks	212	256
Liabilities to customers	2,699	3,375
Securitised liabilities	2,338	2,739
Other liabilities	121	139
Financial liabilities measured at amortised cost	253,385	236,008
Liabilities to banks	79,898	76,190
Liabilities to customers	128,191	115,917
Securitised liabilities	42,676	41,141
Liabilities of disposal groups	–	28
Other liabilities	38	42
Subordinated capital	2,582	2,689
Derivative financial instruments in hedges (hedge accounting)	804	1,073
Negative fair values from derivative financial instruments (hedge accounting)	804	1,073
Lease liabilities	127	126

In addition, as at the reporting date there was a portfolio hedge adjustment asset of EUR -3,157 million (31 December 2021: EUR 231 million) for hedged items for which fair value hedge accounting in the form of portfolio hedges was used (31 December 2021: EUR 231 million).This is assigned to the "financial assets measured at amortised cost" category.

(40) 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 2021 consolidated annual statements. In the reporting period, a change was made to the valuation methodology for interest options. Instead of the usual Black 76 and displaced diffusion models, the Bank now uses the Bachelier model pursuant to IAS 8.32 et seq., which has now become the market standard and is able to provide a higher quality of market data (volatilities).

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

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

Financial instruments measured at fair value

Financial instruments measured at fair value by level

EUR million	Level 1		Level 2		Level 3		Total	
	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021
Assets								
Cash reserves	481	441	–	–	–	–	**481**	**441**
Loans and advances to customers	–	–	–	–	135	132	**135**	**132**
Assets held for trading	182	370	10,321	8,428	128	86	**10,631**	**8,883**
Positive fair values from derivative financial instruments (hedge accounting)	–	–	316	509	–	–	**316**	**509**
Financial investments	9,706	13,812	9,464	5,896	323	366	**19,493**	**20,074**
Total	**10,370**	**14,623**	**20,101**	**14,832**	**585**	**584**	**31,056**	**30,039**
Liabilities								
Liabilities to banks	–	–	212	256	–	–	**212**	**256**
Liabilities to customers	–	–	2,699	3,375	–	–	**2,699**	**3,375**
Securitised liabilities	–	–	2,338	2,739	–	–	**2,338**	**2,739**
Liabilities held for trading	84	12	11,044	8,318	36	13	**11,163**	**8,343**
Negative fair values from derivative financial instruments (hedge accounting)	–	–	804	1,073	–	–	**804**	**1,073**
Other liabilities	–	–	121	139	–	–	**121**	**139**
Total	**84**	**12**	**17,219**	**15,900**	**36**	**13**	**17,338**	**15,926**

Reclassifications between Level 1 and 2

EUR million	Reclassifications			
	to Level 1 from Level 2		to Level 2 from Level 1	
	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Assets				
Assets held for trading	12	4	1	–
Financial investments	1,006	1,479	3,914	1,159
Total	**1,017**	**1,483**	**3,915**	**1,159**
Liabilities				
Liabilities held for trading	–	–	4	–
Total	**–**	**–**	**4**	**–**

In the reporting period, financial instruments were reclassified between Level 1 and Level 2, as they will be measured again/are no longer measured using prices quoted on active markets. The reclassifications were mainly the result of changes in the bid-ask spreads and the number of available price contributors for bonds. 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 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021
Assets								
Loans and advances to customers	135	132	–	–	–	–	**135**	**132**
Assets held for trading	91	72	37	14	–	–	**128**	**86**
Financial investments	22	24	–	–	301	342	**323**	**366**
Total	**247**	**228**	**37**	**14**	**301**	**342**	**585**	**584**
Liabilities								
Liabilities held for trading	6	6	30	8	–	–	**36**	**13**
Total	**6**	**6**	**30**	**8**	**–**	**–**	**36**	**13**

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		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
As at 1 Jan	**132**	**127**	**86**	**109**	**366**	**326**	**584**	**563**
Currency-related changes	4	(2)	(4)	1	4	1	**4**	**1**
Income and expenses recognised in the income statement	–	–	(25)	(27)	(5)	(2)	**(31)**	**(30)**
Purchase	117	–	81	54	14	10	**212**	**64**
Sales	–	–	(28)	(38)	(53)	–	**(81)**	**(38)**
Settlements	(119)	–	–	–	–	–	**(119)**	**–**
Reclassifications to Level 3 from Levels 1 and 2	–	–	22	2	–	–	**22**	**2**
Reclassifications from Level 3 to Levels 1 and 2	–	–	(113)	(15)	–	–	**(113)**	**(15)**
Transfers/other changes	–	–	109	25	(3)	–	**107**	**25**
As at 30 Jun	**135**	**126**	**128**	**111**	**323**	**335**	**585**	**572**
Income and expenses recognised in the income statement during the period for financial instruments held at 30 June	(1)	–	(25)	(27)	(5)	(2)	**(31)**	**(29)**

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

EUR million	Liabilities held for trading	
	2022	2021
As at 1 Jan	**13**	**7**
Currency-related changes	4	2
Income and expenses recognised in the income statement	126	15
Reclassifications to Level 3 from Levels 1 and 2	4	2
Reclassifications from Level 3 to Levels 1 and 2	(220)	(37)
Transfers/other changes	109	25
As at 30 Jun	**36**	**14**
Income and expenses recognised in the income statement during the period for financial instruments held at 30 June	124	16

The income and expenses recognised in the income statement are shown under net interest income, risk provisions, gains or losses on fair value measurement, and gains or losses on financial investments.

Non-observable inputs were assessed for materiality at the end of the reporting period based on their fair value. As a result, financial instruments were reclassified to Level 3 from Levels 1 and 2 and from Level 3 to Levels 1 and 2, as counterparty and own default risk continued to have or no longer had a significant influence on the fair value measurement as at the reporting date.

The models used to calculate fair value must conform with accepted financial valuation methods and take account of all factors market participants would consider reasonable when setting a price. Within the BayernLB Group, the models used, including any major changes, are reported to the Board of Management for approval mainly by Group Risk Control and Group Development in the form of a separate resolution or as part of their regular reporting. All calculated fair values are subject to internal controls and are independently checked or validated by risk-control units

and the units with responsibility for equity interests in accordance with the dual control principle. The procedures used for this are contained in the guidelines approved by the Board of Management for the BayernLB Group. Significant changes in fair values calculated on the basis of unobservable market data (Level 3) are communicated to the respective division managers and Board of Management separately on the reporting dates.

The fair values of credit transactions assigned to Level 3 of the fair value hierarchy are calculated on the basis of inputs that are not observable on the market. As at 30 June 2022, the sensitivity of these credit transactions to changes in key factors was:

- for a 10-basis point increase (decrease) in the measurement spread:
  EUR -0.5 million (EUR +0.5 million) (31 December 2021: EUR -0.4 million (EUR +0.4 million))

Derivative financial instruments whose significant inputs for measuring fair value are not observable on the market are also allocated to Level 3 of the fair value hierarchy. As at 30 June 2022, 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 -3.5 million (EUR +3.5 million) (31 December 2021: EUR -2.1 million (EUR +2.1 million))
- for a one notch improvement (deterioration) in the ratings:
  EUR +0.2 million (EUR -0.4 million) (31 December 2021: EUR +0.5 million (EUR -0.7 million))

The BayernLB Group holds preferred stock in Visa Inc., San Francisco as a result of a former equity interest in Visa Europe Limited, London. The fair value of the preferred stock is based on the price of the Visa Inc. common stock, conversion ratios and potential risks from legal disputes, in respect of which a risk discount has been applied. As at 30 June 2022, 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 +2.9 million (EUR -2.9 million) (31 December 2021: EUR +5.2 million (EUR -5.2 million))

As at 30 June 2022, 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 -3.8 million (EUR +4.3 million) (31 December 2021: EUR -4.2 million (EUR +5.4 million))
- for a 25-basis-point upward (downward) movement in the market risk premium:
  EUR -3.5 million (EUR +3.9 million) (31 December 2021: EUR -3.8 million (EUR +4.9 million))

The underlying base interest rate moved within a range of 1.00-1.50 percent (average: 1.25 percent) (31 December 2021: -0.15-0.35 percent (average: 0.1 percent)), while the underlying market risk premium moved within a range of 6.75-7.25 percent (average: 7.0 percent) (31 December 2021: 7.25-7.75 percent (average: 7.5 percent)).

(41) 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.

EUR million	Nominal value		Positive fair value		Negative fair value	
	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021	30 Jun 2022	31 Dec 2021
Interest rate risks	522,989	430,271	18,977	11,770	15,898	11,688
Currency risks	132,848	112,583	3,593	1,945	3,794	2,028
Equity and other price risks	5,441	5,462	235	428	871	1,075
Credit derivative risks	324	324	4	–	–	8
Total	**661,602**	**548,639**	**22,809**	**14,142**	**20,563**	**14,799**
of which: Derivatives for trading purposes	538,692	443,394	15,995	9,858	16,293	9,944

Supplementary disclosures

(42) Revenue from contracts with customers

EUR million	1 Jan – 30 Jun 2022	1 Jan – 30 Jun 2021
Commission income	**470**	**402**
Securities business	60	65
Credit business	99	95
Payments	31	28
Documentary business	3	3
Credit card business	134	75
Fund business	113	109
Trust transactions	8	8
Other	22	19
Commission expenses	**(208)**	**(172)**
Securities business	(35)	(37)
Broker fees	(4)	(3)
Credit business	(4)	(5)
Payments	(29)	(24)
Credit card business	(92)	(54)
Fund business	(42)	(47)
Other	(2)	(1)
Total	**262**	**230**

In the reporting period, revenue from contracts with customers of EUR 7 million (30 June 2021: EUR 9 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.

(43) Trust transactions

EUR million	30 Jun 2022	31 Dec 2021
Assets held in trust	**5,859**	**5,744**
Loans and advances to banks	442	418
Loans and advances to customers	5,416	5,325
Liabilities held in trust	**5,859**	**5,744**
Liabilities to banks	460	436
Liabilities to customers	5,399	5,307

(44) Contingent assets, contingent liabilities and other commitments

EUR million	30 Jun 2022	31 Dec 2021
Contingent liabilities	**11,883**	**11,742**
Liabilities from guarantees and indemnity agreements	11,882	11,741
Other contingent liabilities	1	1
Other commitments	**28,727**	**29,224**
Irrevocable credit commitments	28,727	29,224
Total	**40,610**	**40,966**

As at the reporting date, there were contingent assets from loan commitments received in the upper triple-digit million range.

In December 2021, the resolution of HETA Asset Resolution AG (HETA) was concluded under the Austrian Federal Act on the Resolution and Recovery of Banks (BaSAG) and a process to liquidate HETA under the Austrian Stock Corporation Act initiated. BayernLB is expecting liquidation proceeds up to 2030 from this process based on the planned winding up of HETA.

(45) Administrative bodies of BayernLB

Supervisory Board

Dr Wolf Schumacher
Chairman of the BayernLB Supervisory Board
Munich

Walter Strohmaier
Deputy Chairman of the BayernLB Supervisory Board
CEO
Sparkasse Niederbayern-Mitte
Straubing

Jan-Christian Dreesen
Deputy Chairman of the Executive Board
FC Bayern München AG
Munich

Prof. Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

Dr Ute Geipel-Faber
Independent management consultant
Munich

Harald Hübner
Deputy Secretary
Bavarian State Ministry of Finance
and Regional Identity
Munich

Erwin Schneider
since 25 March 2022
Member of the BayernLB Supervisory Board
Chief District Administrator
Altötting

Dr. Jörg Schneider
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

Dr Ulrike Wolf-Prexler
since 1 July 2022
Deputy Secretary
Bavarian State Ministry of Economic Affairs,
Regional Development and Energy
Munich

Dr Kurt Gribl
until 25 March 2022
Member of the BayernLB Supervisory Board

Dr Thomas Langer
until 30 June 2022
Member of the BayernLB Supervisory Board

Board of Management (including allocation of responsibilities)

Stephan Winkelmeier
CEO
Corporate Center
Group Treasury
Deutsche Kreditbank Aktiengesellschaft

Marcus Kramer
CRO
Risk Office

Dr Markus Wiegelmann
CFO/COO
Financial Office
Operating Office

Gero Bergmann
Real Estate & Savings Banks/
Financial Institutions
Bayerische Landesbodenkreditanstalt[21]
Real I.S. AG Gesellschaft für Immobilien Assetmanagement
BayernInvest Kapitalverwaltungs-gesellschaft mbH

Johannes Anschott
Corporates & Markets

(46) Related party disclosures

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

The business with related parties was transacted in the course of ordinary activities at standard market terms and conditions.

21 *Dependent institution of the Bank.*

Relationships with the Free State of Bavaria

EUR million	30 Jun 2022	31 Dec 2021
Loans and advances	1,469	1,970
Assets held for trading	27	9
Financial investments	170	177
Liabilities	612	613
Securitised liabilities	15	15
Liabilities held for trading	4	8
Liabilities held in trust	5,213	5,116
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 2022	31 Dec 2021
Loans and advances to customers	611	552
Assets held for trading	13	15
Financial investments	10	–
Liabilities to banks	3,939	3,822
Liabilities to customers	208	178
Securitised liabilities	70	93
Liabilities held for trading	23	-
Assets held in trust	501	484
Contingent liabilities	7	8
Other commitments	99	191

Relationships with the Association of Bavarian Savings Banks

EUR million	30 Jun 2022	31 Dec 2021
Liabilities	46	37
Other liabilities	3	7

Relationships with investees

EUR million	30 Jun 2022	31 Dec 2021
Loans and advances to customers	105	105
Risk provisions	13	13
Financial investments	25	29
Other assets	2	7
Liabilities to customers	179	192
Provisions	1	2
Other liabilities	–	2
Contingent liabilities	4	4

An expense of EUR 0 million (30 June 2021: EUR 1 million) was recognised for non-recoverable or doubtful receivables in the reporting period.

Relationships with other related parties

EUR million	30 Jun 2022	31 Dec 2021
Liabilities to customers	885	1,193

There were liabilities to benefit plans.

(47) Events after the reporting period

On 5 August 2022, BayernLB concluded a notarised property sales contract to sell four properties at the Munich location which are not necessary for operations (see note 26). As a result of this, BayernLB will realise sales proceeds in 2022, which will have a significant effect on earnings. The Bank is therefore expecting to make a profit before taxes of at least EUR 500 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, 12 August 2022

Bayerische Landesbank
The Board of Management

Stephan Winkelmeier

Marcus Kramer

Dr Markus Wiegelmann

Gero Bergmann

Johannes Anschott

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 01 January 2022 to 30 June 2022 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 interim financial statements in accordance with the 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 interim 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 German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim 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 provisions 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 con-densed consolidated interim 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, 12 August 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Sven Hauke
Wirtschaftsprüfer
(German Public Auditor)

Anne Witt
Wirtschaftsprüferin
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)
- Other earnings components

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 annualised 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 2020: 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 2022)

EUR million	Real Estate & Savings Banks/ Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Profit/loss before taxes	**112**	**80**	**119**	**(33)**	**–**	**277**
Average risk-weighted assets (RWAs)	13,427	20,811	25,361	5,428	–	65,027
Target CET1 ratio (%)	14.0	14.0	14.0	14.0	–	
Average economic/regulatory capital	**1,880**	**2,914**	**3,551**	**760**	**1,514**	**10,617**
Return on equity (RoE) (%)	**11.9**	**5.5**	**6.7**	**–**	**–**	**5.2**

RoE reconciliation calculation (as at 30 June 2021)

EUR million	Real Estate & Savings Banks/ Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Profit/loss before taxes	**155**	**97**	**273**	**(37)**	**(4)**	**485**
Average risk-weighted assets (RWAs)	11,984	23,559	24,200	5,571	–	65,314
Target CET1 ratio (%)	14.0	14.0	14.0	14.0	–	–
Average economic/regulatory capital	**1,678**	**3,298**	**3,388**	**780**	**1,023**	**10,167**
Return on equity (RoE) (%)	**18.5**	**5.9**	**16.1**	**–**	**–**	**9.5**

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 2022)

EUR million	Real Estate & Savings Banks/ Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Administrative expenses	**(199)**	**(127)**	**(370)**	**(91)**	**–**	**(787)**
Net interest income	186	137	523	76	6	**928**
Net commission income	144	42	43	(9)	–	**219**
Gains or losses on fair value measurement	34	4	(43)	1	(6)	**(9)**
Gains or losses on hedge accounting	1	–	(37)	3	–	**(33)**
Gains or losses on derecognised financial assets	–	–	1	–	–	**1**
Gains or losses on financial investments	(4)	–	9	(6)	–	**(1)**
Other income and expenses	(36)	3	20	29	–	**15**
Gross earnings	**325**	**185**	**516**	**93**	**–**	**1,119**
Cost/income ratio (CIR) (%)	**61.4**	**68.8**	**71.6**	**–**	**–**	**70.3**

CIR reconciliation calculation (as at 30 June 2021)

EUR million	Real Estate & Savings Banks/ Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Administrative expenses	**(200)**	**(144)**	**(342)**	**(70)**	**1**	**(754)**
Net interest income	173	163	566	96	8	**1,006**
Net commission income	135	43	25	(14)	–	**189**
Gains or losses on fair value measurement	37	35	28	57	(12)	**145**
Gains or losses on hedge accounting	–	–	3	(6)	–	**(3)**
Gains or losses on derecognised financial assets	–	1	4	–	–	**5**
Gains or losses on financial investments	–	–	7	–	–	**7**
Other income and expenses	6	–	2	6	(1)	**14**
Gross earnings	**351**	**242**	**636**	**140**	**(5)**	**1,363**
Cost/income ratio (CIR) (%)	**56.9**	**59.5**	**53.7**	**–**	**–**	**55.3**

Other earnings components

Other earnings components comprise the total of gains or losses on hedge accounting, gains or losses on derecognised financial assets, gains or losses on financial investments and other income and expenses.

Other earnings components reconciliation calculation (as at 30 June 2022)

EUR million	Real Estate & Savings Banks/ Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Gains or losses on hedge accounting	1	–	(37)	3	–	**(33)**
Gains or losses on derecognised financial assets	–	–	1	–	–	**1**
Gains or losses on financial investments	(4)	–	9	(6)	–	**(1)**
Other income and expenses	(36)	3	20	29	–	**15**
Other earnings components	**(39)**	**2**	**(7)**	**26**	**–**	**(18)**

Other earnings components reconciliation calculation (as at 30 June 2021)

EUR million	Real Estate & Savings Banks/ Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Gains or losses on hedge accounting	–	–	3	(6)	–	**(3)**
Gains or losses on derecognised financial assets	–	1	4	–	–	**5**
Gains or losses on financial investments	–	–	7	–	–	**7**
Other income and expenses	6	–	2	6	(1)	**14**
Other earnings components	**6**	**1**	**16**	**1**	**(1)**	**23**

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Bayern LB

Financing progress.

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