BayernLB

Financing progress.

BayernLB 2021
Annual Report and Accounts

Consolidated financial statements

Finanzgruppe

BayernLB Group at a glance

Income statement (IFRS)

EUR million	1 Jan–31 Dec 2021	1 Jan–31 Dec 2020	Change in %
Net interest income	1,866	1,772	5.3
Risk provisions	(48)	(142)	(65.8)
Net interest income after risk provisions	**1,818**	**1,631**	**11.5**
Net commission income	380	331	14.9
Gains or losses on fair value measurement	190	62	>100
Gains or losses on hedge accounting	(20)	11	-
Gains or losses on derecognised financial assets[1]	6	(14)	-
Gains or losses on financial investments	46	68	(33.0)
Administrative expenses	(1,520)	(1,520)	0.0
Expenses for the bank levy and deposit guarantee scheme	(195)	(161)	21.1
Other income and expenses	108	77	41.2
Gains or losses on restructuring	2	(287)	-
Profit/loss before taxes	**816**	**197**	**>100**
Income taxes	(259)	31	-
Profit/loss after taxes	**556**	**229**	**>100**
Cost/income ratio (CIR)	59.0%	65.9%	(6.9) pp[2]
Return on equity (RoE)	7.9%	2.0%	5.9 pp[2]

Balance sheet (IFRS)

EUR million	31 Dec 2021	31 Dec 2020	Change in %
Total assets	266,554	256,226	4.0
Business volume	313,264	302,097	3.7
Credit volume	226,995	219,926	3.2
Total deposits	195,739	185,774	5.4
Securitised liabilities	43,880	43,037	2.0
Subordinated capital	2,689	1,685	59.6
Equity	12,307	11,583	6.3

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

EUR million	31 Dec 2021	31 Dec 2020	Change in %
Common Equity Tier 1 capital (CET1 capital)	10,966	10,301	6.5
Own funds	13,657	11,993	13.9
Total RWAs	63,315	64,974	(2.6)
Common Equity Tier 1 (CET1) capital ratio	17.3%	15.9%	1.4 pp[2]
Total capital ratio	21.6%	18.5%	3.1 pp[2]

Employees

	31 Dec 2021	31 Dec 2020	Change in %
Number of employees	8,481	8,532	(0.6)

Current ratings

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

1 *For financial assets measured at amortised cost.*

2 *Percentage points.*

3 *Applies to public Pfandbriefs and mortgage Pfandbriefs.*

Contents

Foreword by the Board of Management

Dear customers and business partners,
ladies and gentlemen,

BayernLB posted a profit before taxes of EUR 816 million in financial year 2021. It is especially pleasing that all BayernLB's customer-serving segments contributed to this considerable increase thanks to good operating earnings. In addition, releases of risk provisions, the bonus from participating in the ECB tenders and proceeds from the sale of buildings buoyed the results.
We focused our efforts primarily on shoring up the financial stability of the Group, along with bolstering customer business. This was reflected in our solid capital base as at the close of 2020, which was up year on year at 17.3 percent (CET1 ratio) as at 31 December 2021. This puts us in a position to share our financial success with our owners, the Free State of Bavaria and the Bavarian savings banks, and pay them a dividend of EUR 75 million.
It is not just the solid operating earnings in financial year 2021 that are gratifying. At the same time we made good progress with our Fokus 2024 transformation programme, which is advancing on schedule.
At the beginning of 2021, we consolidated our consulting expertise for our customers by launching a new and efficient teamwork model in the Corporates Division dedicated to the five focus sectors, and since then we have constantly stepped up these activities. Product specialists from corporate finance, project finance, trade & export finance, leasing or asset finance now work hand in hand with credit and sector analysts in agile sector teams. This enables us to further expand our sector expertise and increase the advisory and service quality for our customers. We made more progress in streamlining our capital markets product offering and as a result we achieved good operating earnings via our core product group in the bond and Schuldschein business, in money market trading and interest and currency hedging for our customers.
With the "Immo 2024" initiative launched in autumn, BayernLB is forging ahead with its growth plans in the real estate sector, to consolidate its strong market position in Germany and effectively leverage it abroad. In future we will focus on greater regionalisation with sales managers at German and selected international locations.
Our largest subsidiary DKB has continued on its ambitious growth track and has increased its retail customer base to over five million. Our online banking subsidiary has also made great strides in technically upgrading its IT infrastructure, such as launching the new DKB banking app and automating loan processing in the construction finance and retail lending business.
The IT transformation at BayernLB core Bank progressed as planned. For example, in what is currently the largest single project of our transformation programme – updating the bank governance application landscape – we successfully completed the preliminary project to define the strategic objectives and launched the related implementation project known as "Kopernikus". In addition, we pushed forward with consolidating the trading application landscape and most recently went live with a new trading IT system. In the next few years we will take former systems out of service as part of this consolidation.
Alongside this, we have notched up successes when it comes to improving our efficiency. To mention just one example, BayernLB has greatly simplified some key processes by introducing a new master credit process, including digitalising workflows. In addition, we streamlined our Bank-wide organisational structure and reduced the number of organisational units within BayernLB core Bank.

Rigorously implementing cost-cutting measures and continuously leveraging efficiencies also enabled us to significantly shrink our cost base. Since Fokus 2024 was launched, BayernLB core Bank has implemented savings with a volume of around EUR 100 million.

We have established a new Sustainability Strategy to reflect the greater role sustainability is playing as part of our transformation. This applies to both BayernLB's own operations, which have been climate neutral at all German sites since 2015, and to business with our customers, with whom we work hand in hand as a strategic partner for sustainable finance. Our main focus is on helping our customers finance the transition of their business models, processes and products to more sustainable solutions, for example with a view to decarbonisation. In concrete terms, we help companies make the regulatory requirements arising from the EU Taxonomy tangible. We also structure related investments for our customers, for example using green loans and ESG-linked loans. BayernLB has a long history of expertise in this area. Back in 2016 it placed the first green Schuldschein in the world and has helped arrange nearly half of all sustainable Schuldscheins since then.

BayernLB itself aims to have a climate-neutral portfolio before 2050. To this end, the Bank has joined the Partnership for Carbon Accounting Financials (PCAF). The PCAF brings a standardised methodology to the table, which BayernLB and DKB will use to calculate the emissions in their lending portfolios in future. Measuring greenhouse gas emissions is essential for managing the risk and sustainability aspects of the portfolio and gradually decarbonising it.

But none of this would be possible without motivated and dedicated employees. We would like to thank them most warmly for their hard work and very valuable contribution over the past year, even under the tougher conditions of the coronavirus pandemic, and know that we can continue to rely on their commitment to steer the financier of progress BayernLB successfully into the future.

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

Sincerely,

Stephan Winkelmeier Dr Markus Wiegelmann

Marcus Kramer Gero Bergmann Johannes Anschott

Report by the Supervisory Board

Ladies and gentlemen,

The latest events in Ukraine have shifted the compass of what has to date been our social and economic policy. We now face a new reality, which will necessitate adapting the existing determinants of our economic and social framework. The present report on the work of the Supervisory Board in the past year needs to be read in this light.

2021 was another year marked by the coronavirus pandemic, which again presented major challenges for our economy and society. Not least thanks to the extensive fiscal policy measures taken, the financial sector was able to perform its key role in economic development and stability in the year just passed. This was despite the fact that structural change in the financial sector moved relentlessly ahead during the pandemic – and indeed was to an extent even accelerated by it. The banking sector needs to adapt to changing times. As they endeavour to transform themselves, institutions need to take particular account of global trends: digitalisation and sustainability, and also IT and cyber risks. Over the past year BayernLB again consistently drove ahead the Fokus 2024 multi-year transformation programme launched in January 2020.

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

BayernLB's Board of Management kept the Supervisory Board and its committees informed of key developments at the Bank and within the Group at regular intervals, both promptly and comprehensively, in writing and orally, during the course of 2021. This included its supervisory duty to disclose deficiencies detected by the internal Audit Division.

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

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

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

As in previous years, meetings were once again held in 2021 with both the Joint Supervisory Team from the ECB and national supervisory authorities, and with the Supervisory Board and committee chairs, to discuss the main issues pertaining to each respective body. These focused on strategic, business policy and regulatory matters, committee affairs, governance and BayernLB's risk situation.

In view of the restrictions on meeting in person during the pandemic, the majority of the meetings of the Supervisory Board in the past year and its committees and numerous discussions between members of the Supervisory Board and Board of Management took place using electronic media and, in particular, in the form of video conferences. These functioned perfectly once a routine had become established and thanks to the disciplined approach taken by all parties.

Supervisory Board meetings

In the year under review the Supervisory Board held a total of eight meetings and three training events, which were also attended by representatives of legal supervisory authorities and, in some cases, of banking supervisory authorities.

The main purpose of all scheduled Supervisory Board meetings was the Board of Management's status reports on the ongoing Fokus 2024 transformation programme, which we discussed in addition to the regular reporting on the BayernLB Group's current financial position and performance. We continued to pay particularly close attention to the challenges and progress achieved in updating and developing Group IT in this regard and also, in two special meetings, the implementation of the strategy for the Bank's own real estate. Our work also concentrated in particular on the latest developments in connection with the deposit guarantee scheme of the Savings Banks Finance Group and associated decisions concerning the business strategy of our Group, which we discussed with the Board of Management on an ongoing basis and at a special meeting. In addition to receiving the detailed reports of the various committee chairs, information on regulatory and supervisory topics were regularly the subject of Supervisory Board meetings. The Board of Management also regularly informed us of current business strategy issues, including with regard to the performance of plan and cover assets for pension obligations. Reflecting the growing regulatory importance attached to ESG (Environmental, Social and Governance) issues, reporting on the latest trends in sustainability matters was considered at every regular meeting of the Supervisory Board. We subjected the Board of Management's reports to critical scrutiny and requested additional information in some cases, which was always immediately provided in full.

Over several meetings, after prior consultation in the relevant committees, we dealt with Board of Management and Supervisory Board matters. These included the assessment of both these bodies in accordance with legal and regulatory requirements and matters relating to HR, remuneration and business strategy. We also set the targets for the Board of Management for the new year and agreed the feedback on target achievement to the members of the Board of Management for the past financial year.

Further details regarding the meetings of the Supervisory Board:

At our first meeting in March we considered the economic performance of our foreign branches and held a discussion with the Board of Management on the latest status of the Bank's project portfolio and matters related to Group IT. We also received the HR report.

The focus of another meeting in March 2021 was on the Board of Management's report for financial year 2020, the adoption of the annual financial statements and the approval of the consolidated financial statements. The resolution was based on the recommendations of the Audit

Committee and a detailed discussion with the auditors PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC). In accordance with a proposal by the Audit Committee, the Supervisory Board recommended to the Annual General Meeting that the auditing firm PwC be reappointed to audit the 2021 annual financial statements of BayernLB and the Group, which the General Meeting agreed to. We also addressed the combined separate non-financial report of the BayernLB Group for 2020 in detail. PwC performed an assurance engagement on the combined separate non-financial report of the BayernLB Group for 2020 and expressed a limited assurance conclusion. We also followed the Audit Committee's recommendation on the appropriation of the distributable profits and duly submitted a proposal to the Annual General Meeting. We further proposed to the Annual General Meeting that the Board of Management be discharged for 2020. In addition, we dealt with remuneration policy matters and also discussed Group Audit's annual report.

Our special meeting in May was dedicated to an in-depth discussion of the buildings strategy as regards the Bank's own real estate as part of the Fokus 24 transformation programme.

The other main items on the agenda of our meeting in July 2021 included a further update on key planning parameters and their impact on the medium-term planning. We also examined issues to do with remuneration and – in connection with our subsidiaries – business strategy. We took note of the investment report and the remuneration monitoring report of the remuneration officers.

The main subject of a special meeting in August was the measures to implement the affiliation of our subsidiary DKB to the Compensation Scheme of German Private Banks (EdB).

Our September meeting focused on decisions to do with the guarantee scheme of the Savings Banks Finance Group and related business strategy decisions for our Group. Among the other topics discussed were a number of governance matters, primarily relating to the implementation of the guidelines issued by the European Banking Authority (EBA). We also discussed with the Board of Management the current status of the results of this year's supervisory review and evaluation process (the SREP results) for the Group. In addition the Supervisory Board was informed about the BayernLB IT strategy.

At a special meeting in November the Supervisory Board gave its consent to the sale of two of the Bank's own properties, in line with our buildings strategy.

An additional key focus of the December meeting was to discuss and approve the Group's medium-term planning for 2022-2026. We also considered the latest developments and associated internal processes in connection with combating money laundering and the financing of terrorism, and heard reports on the updating of the recovery plan pursuant to the Recovery and Resolution Act (SAG) and our internal guidelines on IT security. We agreed to various issues raised by the committees relating to organisational matters, remuneration and HR policy.

Supervisory Board committees – an overview

In a total of five meetings, the **Risk Committee** dealt with all the key issues relating to the Risk Strategy agreed by the Board of Management and all aspects of BayernLB's risk situation at both Group and Bank level. It was in this context that the committee also examined the impact of the coronavirus, especially on the business and sector portfolios of BayernLB, and heard reports from the Board of Management on risk-bearing capacity. The committee also approved individual loans requiring authorisation, reviewed whether the terms and conditions in the customer business were in line with the Bank's business model and risk structure, and discussed the Group-wide risk strategies, which must be updated at least once a year, as well as selected risk-relevant individual credit exposures. In addition the Risk Committee received the audit plan of the internal Audit Division, the annual report on reputational risk management and reports on information security.

With an eye to the Fokus 24 transformation programme, the Risk Committee discussed sales and strategy issues with the Board of Management on a regular basis, considering both risk and profitability. The committee also occupied itself to an increasing extent last year with ESG issues and their impact on the Bank's business policy. The Risk Committee was in addition informed of the impact of the ruling by the Federal Court of Justice on the mechanism for amending general terms and conditions of business.

The **Compensation Committee** carried out its legally mandated duties in a total of three meetings. It discussed in particular the Board of Management's reports on the structure of the remuneration systems for employees (focusing partly on their alignment to the Business and Risk Strategy), monitored their suitability and received regular updates on specific issues, including with regard to the performance of plan and cover assets for pension obligations. It evaluated the impact of the remuneration systems on the Bank's and BayernLB Group's risk, capital and liquidity situation and discussed the size and distribution of a total bonus pool. The Compensation Committee also monitored the process for identifying risk takers and Group risk takers, discussed the report by the remuneration officers on the appropriateness of staff remuneration systems and was informed about the Bank's activities to increase the proportion of women in management positions. Under its area of responsibility, the Compensation Committee also provided advice on matters related to Board of Management remuneration and prepared decisions by the Supervisory Board.

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

The Executive and **Nominating Committee** met five times in the reporting period. Its discussions centred in particular on preparations for Supervisory Board meetings, particularly in connection with the strategy and transformation project and business and corporate policy considerations. The committee also prepared decisions on Board of Management matters for the plenary session in accordance with its legally mandated duties. Another focus of the committee's work in 2021 was on evaluating the Board of Management and the Supervisory Board in accordance with the German Banking Act and the ESMA/EBA guidelines on assessing the suitability of members of the management body and holders of key positions.

In a total of four sessions, the **Audit Committee** dealt with the monitoring of the accounting process and the effectiveness of the risk management system, particularly the internal control system and the internal Audit Division. The Committee also oversaw the implementation of the audit of the annual financial statements and of the consolidated financial statements, particularly with regard to the independence of the auditors and the services they provided, including the approvals needed for non-audit services. The Audit Committee also discussed the combined separate non-financial report of the BayernLB Group for 2020 and the findings of the audit undertaken by PwC. Another issue the Committee looked at in detail was the Board of Management's reports on BayernLB's current financial position and performance and on Group IT-related topics. In 2021, the internal Audit Division and Group Compliance reported to the Audit Committee on their work, audit findings and other matters. The Committee deliberated on the reporting and conferred with the auditors PwC on what the audit of the 2021 annual financial statements should focus on. During the past year the Committee also considered the impact the Financial Market Integrity Reinforcement Act, which came into effect in mid-2021, would have on BayernLB, and heard about the latest developments in connection with preventing money laundering and the Group's internal processes in this regard.

In its three meetings, in accordance with its legal duties, the **BayernLabo Committee** dealt with all matters in respect of BayernLabo on behalf of the Supervisory Board and passed resolutions concerning BayernLabo's affairs for which the Supervisory Board is responsible. It also discussed the Business and Risk Strategy, the medium-term planning for 2021-2025, the results of audits and HR planning with both the Board of Management's segment head and BayernLabo's senior management. The Board of Management's segment head and senior management also reported to the committee on BayernLabo's business performance, the implementation status of the Bavarian Baukindergeld Plus and Home Ownership Subsidy, the new service portal and the market environment in the municipal loan business.

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

Additional specialist training

Specialists from the Bank and representatives from auditing firms held three training events for the Supervisory Board. The discussions covered current regulatory developments in regard to regulations, IT/cyber security, sustainability and specific issues relating to remuneration and particular products, and the major challenges resulting from these for banks and their supervisory bodies, with a focus on BayernLB.

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

Corporate governance

The BayernLB Corporate Governance Principles set out the provisions on corporate management and corporate supervision that apply to BayernLB on the basis of binding and in-house regulations. The Supervisory Board discussed compliance with these Corporate Governance Principles in 2021 in its meeting on 23 March 2022. The Board of Management, Supervisory Board and Annual General Meeting agreed that they were aware of no evidence to indicate these principles had not been observed in financial year 2021.

Changes in the composition of the Supervisory Board and Board of Management

Christian Wiglinghaus stepped down from the Supervisory Board on 31 August 2021 and was succeeded by Henning Sohn on 1 September 2021.

Michael Bücker stepped down from the Board of Management of BayernLB on 31 March 2021. Johannes Anschott and Gero Bergmann joined the Board of Management on 1 April 2021. Dr Edgar Zoller left BayernLB's Board of Management with effect from 30 April 2021.

We would like to thank the outgoing members of the Supervisory Board and Board of Management most warmly for their constructive contribution and services in what have been challenging times.

Consolidated financial statements and combined separate non-financial report

The Bank and Group auditor PwC conducted the audit of the Bank's annual financial statements, consolidated financial statements and combined management report for the 2021 financial year and issued an unqualified audit opinion. PwC also audited the annual financial statements and management report of BayernLabo, a legally dependent institution of the Bank and also issued an unqualified audit opinion.

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

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

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

In its meeting of 18 March 2022, the BayernLabo Committee adopted BayernLabo's submitted annual financial statements and approved the management report to BayernLabo's accounts.

On the recommendation of the Audit Committee, and after examining the auditors' reports and the documentation relating to the annual and consolidated financial statements and non-financial reporting, and discussing these in detail with the auditors, the Supervisory Board in its meeting on 23 March 2022 approved the findings of the audit and concluded that it had no reservations following the conclusion of the audits.

In its meeting on 23 March 2022, the Supervisory Board adopted the annual accounts of the Bank as submitted by the Board of Management and also approved the consolidated financial statements and combined management report.

Furthermore, the Supervisory Board proposed to the Annual General Meeting that the Board of Management be discharged and that the reported distributable profits of EUR 75 million be distributed to the shareholders. The Annual General Meeting gave its approval to both proposals in its meeting on 25 March 2022.

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

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

Munich, 25 March 2022

On behalf of the Supervisory Board

Dr Wolf Schumacher
Chairman

Combined management report of the BayernLB Group

Combined management report

Bayerische Landesbank Anstalt des öffentlichen Rechts, Munich (hereinafter also BayernLB or Bank) made use of the option under section 315 para. 5 of the German Commercial Code (HGB) in conjunction with section 298 para. 2 HGB and combined the management report of BayernLB and the BayernLB Group. The information on BayernLB is provided in a separate section within the report on the economic position, which includes disclosures under HGB.

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

The information provided in the combined management report generally relates to the BayernLB Group; if there are material differences with respect to BayernLB, that information is provided separately.

The combined management report includes, in particular in the risk report and the report on expected developments and opportunities, specific statements about the future which are based on current assumptions and forecasts and other information available for this. Various known and unknown risks, uncertainties and other factors may result in the actual results, financial position and the development and performance of the BayernLB Group deviating significantly from the estimates given here. These risks and opportunities are described in the risk report and the report on expected developments and opportunities, among other publications. Terms relating to people are gender-neutral wherever they appear in the combined management report.

Foundations of the BayernLB Group

Group structure

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

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

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

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

Business model and Group strategy

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

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

The BayernLB Group’s operating business segments

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

- Corporates & Markets
- 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),
- DKB – comprising the Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) sub-group

Corporates & Markets segment

Corporates handles business with large German and selected international companies and the Mittelstand corporate customer business in Germany, Austria and Switzerland. BayernLB focuses here in particular on providing financing to corporate customers in the growth sectors of the future – mobility, energy, technology, manufacturing & engineering, and construction & basic resources. The Bank’s core competencies include traditional and, to a large extent, structured credit financing, comprising working capital, capex and trade financing, project and export financing, lease financing and transportation finance.

Markets significantly increased its focus on a smaller range of services as a result of the Group's new strategic direction. In the future, this will largely comprise money market, fixed-income, foreign currency and CO_2 trading product groups, and helping customers tap capital markets for their financing needs, especially through bonds or Schuldschein note loans. Its main customers include the savings banks, banks, German and international corporate and Mittelstand customers, real estate customers and institutional customers, which are served in the respective business areas. On the sustainability front, BayernLB offers the full range of products in debt capital markets with green, social and sustainable bonds and also Schuldschein note loans. It also assists customers in structuring, creating a framework, commissioning a second party opinion and placing.

Real Estate & Savings Banks/Financial Institutions segment

In the real estate business, BayernLB prioritises commercial real estate financing and services, focusing on Germany and established and stable international markets such as the US, UK, France, Italy, the Netherlands and Poland. In commercial real estate, products include financing for existing real estate assets, project development, housing developers and real estate portfolios. In terms of asset classes, the focus is on offices, residential property, retail, and managed real estate in the areas of logistics, hotels and social care.

To serve customers more comprehensively under one roof, the Bank makes extensive use of its close working relationship with subsidiaries and affiliates, such as Real I.S., Bayerische Landesbank Immobilien-Beteiligungs-Gesellschaft mbH & Co. KG, Munich (BayernImmo), LB Immobilienbewertungsgesellschaft mbH, Munich (LB ImmoWert), Bayerngrund Grundstückbeschaffungs- und -erschließungs GmbH (BayernGrund) and Bayern Facility Management GmbH, Munich (BayernFM). Real I.S.-Gruppe is an asset manager that handles real estate investments for retail and institutional investors, with its focus on Germany, Europe and Australia. Along with its real estate services companies, BayernLB offers a coordinated range of products from advising on energy-efficient upgrades, sustainable valuations and green financing products, including the use of subsidies, right through to institutional investments in green assets.

BayernLB also performs key tasks in its Association business for the savings banks (especially those from Bavaria), which are an important group of customers and sales partners. In these times of necessary structural change, the Bank helps the savings banks and their customers become more sustainable by offering them a needs-oriented and growing selection of products and services. This working relationship is centred around complementary products and services for the savings banks' own and end-customer business. These include payment services, capital markets business, international business, syndicated business, subsidised loan business, and foreign notes and coins/precious metal activities. Through its broad range of precious metal products and by expanding the foreign notes and coins and precious metals centre of expertise in Nuremberg, BayernLB has evolved in this segment into one of Germany’s market-leading providers. Funding from the savings banks is also an important source of refinancing for BayernLB, while also strengthening the common liquidity pool.

BayernLB also acts as a lender and service provider to the public sector, and to public-law and non-profit institutions.

Another focus is on providing services to insurers, (correspondent) banks, building societies and asset managers around the globe. In the business with European insurers, BayernLB has a significant volume of guarantee credit business (letters of credit business). An extensive network of institutional customers provides BayernLB with a broad investor pool. This enables the Bank to encourage the development and sales of sustainable financial products and services, and in doing so support customers in their own sustainable alignment or transformation.

Securities asset management for BayernLB is handled by the subsidiary BayernInvest. This asset management company focuses mainly on advisory services and managing securities investment funds for institutional and private investors.

Bayerische Landesbodenkreditanstalt, Munich (BayernLabo) fulfils the public mandate by carrying out the state-subsidised loan business for BayernLB.

DKB segment

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

Strategic focus and objectives

Given the huge, persistent challenges that have been affecting the whole banking industry for many years, BayernLB believes it has been justified in its decision to embark on a new strategic direction in 2019 and continued on this path in financial year 2021. The main thrust of this strategy is to focus distinctly on high-growth fields of the future while lowering the cost base as part of its strategic vision for 2024 (Fokus 2024) and helping DKB to develop into a modern tech bank.

As part of the BayernLB Group's regular strategy process and given the current environment, BayernLB submitted its strategic vision for 2024 to a regular assessment in the first half of 2021. This vision for the BayernLB Group and its segments was confirmed by the Board of Management and Supervisory Board in 2021, with only a few adjustments in some segments. The strategic vision for 2024 and the financial guidelines defined for this will therefore continue to form the strategic framework within which the BayernLB Group will operate.

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

The Group-wide Fokus 2024 transformation programme implements the new strategic direction in a multi-year process through a large number of networked individual projects. These focus on driving forward structural changes within the organisational units and also in respect of the cross-value chain processes and the themes pursued by the Bank and, in doing so, will make an important contribution to achieving the overarching strategic goals.

The following strategic goals were pursued once again in 2021 without any changes:

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

The BayernLB Group also actively focuses on sustainability aspects and has defined a clear vision for the Bank and its subsidiaries for this purpose. A “Sustainability programme 2021 et seq.” was implemented to operationalise the objectives of the sustainability strategy, comprising targets and measures for all relevant areas.

Over the past two years, the Bank’s transformation has proceeded according to plan, despite the huge challenges faced in connection with the Covid-19 pandemic. The Bank has addressed a wide variety of issues in multi-faceted topic clusters and has successfully concluded some key initiatives in relation to them. For further details, refer to the section on BayernLB Group’s business performance in the report on the economic position in this management report.

Sustainability and combined separate non-financial report

The shared understanding of sustainability at the BayernLB Group rests on the 17 global sustainability goals of the UN Agenda 2030, the climate goals of the Paris Agreement, the Bavarian sustainability strategy, the German government's sustainable strategy and EU Taxonomy requirements.

The Group mission statement defines a clear vision for BayernLB and its subsidiaries in which sustainability is a key driver in the business models' strategic direction. The Group Sustainability Guidelines set out the principles of the BayernLB Group's sustainability strategy. They lay the foundations for establishing a clear concept of risk in order to achieve appropriate returns, with clearly defined corporate responsibilities.

In September 2021, BayernLB published a new sustainability strategy in which its sustainability topics are systematically driven forward. In addition, in 2021 BayernLB set up an ESG Assessment system which enables sustainability risks and the positive impact of financing on the achievement of climate and sustainability goals in the portfolio to be identified at an advanced level. DKB is currently revising some key cornerstones of its sustainability strategy and will publish them in the first quarter of 2022.

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

The combined separate non-financial report of the BayernLB Group contains BayernLB's non-financial declaration and the BayernLB Group's non-financial declaration pursuant to section 315b para. 3 HGB in conjunction with section 289b para. 3 sentence 2 HGB and information pursuant to the EU Taxonomy Regulation. The BayernLB Group's combined separate non-financial report for 2021 will be submitted to the operator of the Federal Gazette along with the consolidated financial statements and the Group management report of the BayernLB Group for financial year 2021, and published in the German Federal Gazette. BayernLB's annual financial statements and the BayernLB Group's annual report can also be viewed online at www.bayernlb.de.

Changes to the scope of consolidation

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

On 1 October 2021, BayernLB's 50.1 percent shareholding in Bayern Card-Services GmbH (BCS) was transferred to DKB. As a result, BCS was incorporated into the DKB sub-group for the first time.

Group management

Internal Group management system

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

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

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

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

Indicators	Content
Profit/loss before taxes	As reported in the income statement (IFRS).
Return on Equity (RoE)	Ratio of profit before taxes to economic capital, as calculated according to regulatory requirements. The average Common Equity Tier 1 (CET1) capital available over the financial year is used to calculate the return on the capital employed. For all management levels below this, the average economic capital employed in the financial year is derived from the risk-weightings of the underlying individual transactions (RWAs) specified by regulatory authorities.
Cost/income ratio (CIR)	Ratio of administrative expenses to gross earnings as an indicator of cost efficiency. Gross earnings comprise net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on derecognised financial assets, gains or losses on financial investments and other income and expenses.
Common Equity Tier 1 (CET1) capital ratio	Ratio of Common Equity Tier 1 (CET1) and total risk-weighted assets (RWAs). Common Equity Tier 1 capital comprises subscribed capital plus reserves, the capital contribution of BayernLabo and various supervisory adjustments and deductions.
Leverage ratio (LR)	Ratio of core capital to total exposure (leverage exposure in accordance with CRR) as a non-risk-based metric for indebtedness.
Utilisation of economic capital	Percentage of available capital (economic risk capital) utilised to cover unexpected risks.
Liquidity coverage ratio (LCR)	The LCR is calculated by comparing the available highly liquid assets with the net cash outflows for the following 30 days under stress conditions.

Indicators	Content
Net Stable Funding Ratio (NSFR)	The ratio of the amount of stable funding available to the amount of stable funding required is calculated to determine the NSFR. The amount of stable funding available is the proportion of own and borrowed funds that can be expected to represent a reliable source of funding over a time horizon of one year under persistent stress conditions. The required amount is calculated by aggregating the value of the assets held and off-balance sheet liabilities weighted by one of the factors reflecting the liquidity characteristics.
Non-performing loans (NPLs)	Exposure rated by the BayernLB master rating system as in the default categories as at the reporting date. These comprise the following ratings: Rating 22 default (past due > 90 days), rating 23 default (credit loss), rating 24 default (insolvency).
Non-performing loan ratio (NPL ratio)	NPL ratio in % corresponds to share of rating categories 22 to 24 as a proportion of total gross exposure (GEX)
For information purposes:	
Profit after tax (HGB)	Net income under German accounting standards (HGB) before appropriation of profits

Compliance with the key financial performance indicators is shown in more detail in the report on the economic position. The key risk management indicators are shown in the risk report section of this management report.

For information on the EU Taxonomy Regulation, refer to the combined separate non-financial report of the BayernLB Group.

Internal control system with regard to accounting processes

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

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

- Group-wide guidelines on accounting
- Controls integrated into processes and IT systems
- Principles for segregating duties as organisational measures
- Process-independent monitoring measures

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

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

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

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

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

Clear rules have been laid out for assigning responsibilities for ensuring the effectiveness of the ICS in the processes for producing the financial statements and consolidated financial statements. These have been assigned to designated managers and process owners. The latter file an annual report detailing their assessments and how effective they consider the ICS to be in the accounting process. This assessment is also based on the results provided by the internal Audit Division. In connection with this, the Group units involved in the process confirm how effective the ICS is in the accounting process. Various tools are used to collect findings and document them. Weaknesses in the controlling system are also determined, taking account of their potential impact on the accounting process. The Board of Management and Audit Committee are updated every year on the assessment of how effective the ICS is in the accounting process. If there are material changes in the effectiveness of the ICS, a report is immediately sent to the Board of Management and, if necessary, to the Supervisory Board. This was not necessary in the reporting year.

Human resources

Coronavirus pandemic and transformation

The work of Human Resources was once again focused on providing input and support in the ongoing transformation of the BayernLB Group and on tackling the challenges posed by the ongoing pandemic.

BayernLB set itself challenging personnel targets to achieve the cost objectives set out in the vision for 2024. All of the Bank's business areas need to implement the agreed measures to achieve the various cost objectives on time.

The human resources tools to downsize and restructure the workforce in a socially responsible manner, which were agreed between the Board of Management and BayernLB's General Staff Council in 2019, continued to be well received by employees in 2021. As at the end of 2021, the reductions in the workforce were proceeding according to plan at BayernLB core Bank[1]. As at the start of the second half of Fokus 24, around 60 percent of the agreed reduction was either already secured by contract or soon to be so. The Bank is confident of implementing the remaining downsizing in the workforce despite the challenging conditions.

In view of the ongoing coronavirus pandemic, other areas Human Resources focused on in 2021 were protecting employees' health and ensuring the continuity of business operations. During the reporting year, there was still a strong emphasis on working from home, and some employees began using the newly rolled-out desk-sharing system at the Munich office. The Bank therefore not only responded to the pandemic situation and observed occupational health and safety rules, it also adapted to the demands of the modern working world. In introducing desk sharing, it also made an important contribution to reducing the costs of using building space.

1 BayernLB core Bank, comprising BayernLB Bank and branches; excluding BayernLabo, BayernInvest, Real I.S. and DKB.

Changes in the workforce

Headcount at BayernLB and Group level as at 31 December 2021 was:

Headcount

	BayernLB Group		BayernLB	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Employees	8,481	8,532	3,108	3,317
Proportion of women	4,264	4,278	1,442	1,511
Proportion of men	4,217	4,254	1,666	1,806
Part-time employees	2,115	2,206	861	948
Full-time employees	6,366	6,326	2,247	2,369
Trainees including students on integrated degree programmes	74	87	60	69

The main reason for the fall in the headcount by 51 employees was the reduction in 209 employees at BayernLB, which was partly offset by the strategy to increase headcount at the subsidiary DKB.

Report on the economic position

Macroeconomic environment

Economy, inflation and monetary policy

In 2021, the coronavirus pandemic once again had a huge impact on economic growth both worldwide and in Germany. Following the wide-ranging restrictions on professional and private travel, social life and business activity (lockdowns) at the start of the year, a dynamic recovery set in in May[2] as the restrictions were gradually lifted. The high vaccination rate proved to be extremely effective against the virus. When there were very few restrictions left in Germany and many other developed countries in the period from March to September, industry, trade and construction ran into supply-side problems after demand in certain areas spiked and supply chains were disrupted (especially in Asia). The international sea trade was particularly affected. The consequences were protracted delivery times for raw materials and intermediates and finished products at all levels of the value chain and with imports. Even by the end of 2021, producers reported little improvement. At the end of the year, consumer demand was once again chilled by a massive wave of new coronavirus infections caused by the global spread of the Delta and Omicron variants and by regional lockdowns and interruptions in production.

Around the globe, the economic recovery was stronger or weaker depending on the measures used to fight the pandemic. In 2021, the Chinese economy (now the second largest in the world and currently Germany's most important trading partner[3]) was the fastest to recover from the extremely strict regionally implemented lockdowns and grew by around 8 percent on the previous year. Only slightly behind, the US, another of Germany's key export markets, posted real GDP growth of just under 6 percent. As a result mainly of the ultra-loose fiscal policy under presidents Trump (to the end of 2020) and Biden (from January 2021), economic output exceeded pre-crisis levels by the first quarter of 2021.[4] Private consumption was a big beneficiary of the government's comprehensive transfer payments. Nonetheless, one of the main items on President Biden's agenda, his Build Back Better green and social investment programme, did not get off the ground due to a failure to get a majority in Congress and it appears increasingly unlikely that it will. The eurozone also generated strong growth (just under 5 percent) in 2021, although this should be viewed in the context of the slump in the previous year.[5] The biggest increases in economic output were in Italy and France, which were badly struck by the pandemic in 2020. The situation was similar in the United Kingdom, which generated 7 percent growth despite the completion of Brexit at the start of 2021. This jump was, however, not enough to offset the 9.4 percent contraction in the previous year.[6]

2 *See the publication by the Bavarian state government in 2021, https://www.bayern.de/bericht-aus-der-kabinettssitzung-vom-04-05-2021/*

3 *See German Federal Statistical Office 2022, https://www.destatis.de/DE/Themen/Wirtschaft/Aussenhandel/Tabellen/rangfolge-handelspartner.html*

4 *See Federal Reserve Bank of St. Louis 2022, https://fred.stlouisfed.org/series/GDP*

5 *See Eurostat 2022, https://ec.europa.eu/eurostat/databrowser/view/nama_10_gdp/default/table?lang=de*

6 *See Office for National Statistics 2022, https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyp/qna*

Following the coronavirus-induced recession of 2020, Germany also experienced a recovery in its economic output in 2021, gaining 2.8 percent (adjusted for working days, year on year).[7] Compared in particular with the second half of 2020 when industry was the powerhouse of the German economy, manufacturing was hit by bottlenecks in semi-conductors, raw materials and intermediate products. Production fell until the autumn.[8] But this proved only temporary due to higher incoming orders and a huge backlog. From the second quarter as the lockdown rules were gradually unwound, construction, the services sector and retail took on the role of engines of the economy. Private consumption was not strong enough to compensate for the poor start to the year owing to the lockdown, despite growth being strong in the six months from March, with savings rates, which shot up in the previous year, remaining very high. Another key factor in the expansion of GDP was the government, which turned on the spending taps despite the high budget deficit. Capital expenditure also lifted growth, but proved somewhat disappointing in scale as it failed to meet the high expectations at the start of the year. Investment in construction proved resilient and increased further. The main reasons for this were that building activity was not so restricted and property prices continued to rise in many segments. Exports, which are long-term drivers of capital expenditure, made a significant net negative contribution to growth and were softened by the disruption to international transport routes and Germany's specialisation in high-price capital goods and the cyclical automotive industry. Rising domestic demand fuelled imports.

In spite of higher infection rates, a more restrictive coronavirus policy by the Bavarian government and a clear focus on the automotive industry, which is sensitive to the performance of the economy, Bavaria's economy achieved slightly above average growth in the first half of 2021.[9] The Free State of Bavaria benefited from the fact that a high share of its exports[10] are to economically robust foreign markets such as China, the US and Eastern Europe. The regional government's support packages to soften the impact of the pandemic on small and medium-sized enterprises also helped. On the labour market front, Bavaria defended its top ranking in Germany, with an unemployment rate of 3.5 percent.[11]

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7 *See German Federal Statistical Office 2022, https://www.destatis.de/DE/Themen/Wirtschaft/Volkswirtschaftliche-Gesamtrechnungen-Inlandsprodukt/_inhalt.html;jsessionid=248EF90A85F62ADB36BB657042ACEB65.live741*

8 *See German Federal Statistical Office 2022, https://www.destatis.de/DE/Themen/Wirtschaft/Konjunkturindikatoren/Produktion/kpi111.html;jsessionid=8698F1F3A7EC42D5C89DB425F492E3AA.live731*

9 *See German federal and state statistics offices 2022, http://www.statistikportal.de/de/vgrdl/ergebnisse-laenderebene/bruttoinlandsprodukt-bruttowertschoepfung*

10 *See Bayerisches Landesamt für Statistik 2022, https://www.statistikdaten.bayern.de/genesis/online?language=de&sequenz=tabelleErgebnis&selectionname=51000-003*

11 *See Federal Employment Agency, monthly report December 2021*

Financial and real estate markets

Prices in Germany were stoked by the recovery in demand, supply bottlenecks and the rising cost of raw materials. High inflation even became one of the leading stories of the economy during the year. Over the course of 2021, average consumer prices (VPI) were 3.1 percent[12] higher than the previous year. Energy prices were fired up in particular by Brent crude oil, which rose from below USD 20 per barrel in March 2020 to over USD 85 in October 2021[13] as the global economy recovered, but also by the high cost of natural gas and electricity. Added into the mix were special factors such as the baseline effect caused by the temporary 3 percentage point cut in VAT[14] between July and the end of 2020 and the new CO_2 tax introduced in January 2021. The eurozone also experienced soaring inflation in 2021. With price increases running at 2.6 percent, the ECB's symmetric inflation target of 2 percent, which it set at its strategy process in mid-2021, was smashed.[15] In spite of this, it kept up its highly dovish stance in large part and made no adjustments to base rates. The asset purchase programme (APP) launched at the end of 2019, in which the ECB buys up EUR 20.0 billion per month, was continued, while the average monthly bond purchases in the pandemic emergency purchase programme (PEPP) at EUR 70.0 billion were higher during 2021 than in the second half of 2020. The PEPP was therefore still the main instrument for buying public and private debt. It does not have to take so much account of the ECB's capital key when selecting securities, compared to the APP. This will help in particular the highly indebted Southern European countries which have been affected the most by the pandemic. Demand for targeted longer-term refinancing operations (TLTRO III) which benefit banks, in particular by helping them to maintain lending to households and companies through discounted interest rates, was lower than in 2020, although, from September, few banks made use of the option to repay the tender early. At the end of the year, the ECB took its first step towards normalising monetary policy when it confirmed the PEPP would end in March 2022 due to the ongoing recovery of the economy from the pandemic and elevated inflation. The ECB also launched the digital euro project, which could transform economic life and the banking system within the space of just a few years. In the US, as the pandemic kept rumbling on, the Fed extended QE in 2021 and held interest rates close to zero. However, it responded more quickly to the much faster recovery in the economy. As early as November, the FOMC voted to start tapering bond purchases and accelerated this in December for 2022 owing to high inflation and the improvement in the labour market.[16] In March 2022, the Fed will end its purchases in line with its approved policy.

In 2021, the picture was very much of rising yields on bond markets in the eurozone and the US, with extreme volatility. As the economy recovered and inflation expectations soared, yields on 10-year US Treasuries went from 0.9 percent at the start of the year to around 1.7 percent at the end of March. Later on in the year, 10-year US fixed-income fluctuated between 1.2 percent and

12 *See German Federal Statistical Office 2022, press release no. 005.*
13 *See Brent oil price, taken from Refinitiv Datastream on 11/01/2022*
14 *See economic package provided by the German government 29 June 2020, https://www.bundesregierung.de/breg-de/aktuelles/corona-steuerhilfegesetz-1759296*
15 *See German Federal Statistical Office 2022, https://www.destatis.de/DE/Themen/Wirtschaft/Konjunkturindikatoren/Basisdaten/vpi001j.html*
16 *See Board of Governors of the Federal Reserve System 2022, https://www.federalreserve.gov/newsevents/pressreleases/monetary20211215a.htm*

1.7 percent (end of year: 1.5 percent).[17] 10-year German government bond yields also headed north and met with rough turbulence over the course of the year. Starting 2021 at -0.6 percent, yields picked up to reach a high for the year of -0.1 percent owing to a surge in inflation expectations. By the end of 2021, 10-year Bunds were ticking over -0.2 percent.[18] The fiscal packages brought in to combat the pandemic propelled governments' financing needs sharply upwards, causing the supply of bonds to mushroom. Much of this was absorbed in the US and the eurozone by the Fed's and the ECB's bond-buying programmes. Overall, the increase in yields was moderate given the jump in inflation. Due to the ECB's ongoing policy to keep interest rates low or in negative territory, yields on 2-year Bunds (German Federal Treasury notes) remained around -0.7 percent overall despite some volatility.[19] In 2021, the 2-year/10-year yield curve for the Bund market steepened as a result.

The booming German residential real estate market contributed to inflation in Germany in 2021 too. However, prices on the commercial property market, which is sensitive to how the economy performs, stagnated. This was a delayed reaction to the severe economic contraction in 2020. There were modest gains once again in the prices of office properties over the course of the year, while those in bricks-and-mortar retail tumbled. The German real estate market was supported by a return to strong demand thanks to historically low interest rates and a drop in unemployment over the course of the year. Supply also remained tight despite the increase in completions of residential and office properties, especially in metropolitan areas.

Risk premium on Pfandbriefs and covered bonds narrowed during the year, on average by 4.6 bp.[20] The main drivers for the positive market environment in the first half of the year were the low level of new issues and the ECB's purchasing programme. Demand was supported by the third covered bond purchase programme (CBPP3), which continues to buy large volumes, while the generous long-term refinancing measures for banks (TLTRO III) made it unappealing for them to issue covered bonds and kept supply low. At just over EUR 100.0 billion, the volume of new euro benchmark issues (> EUR 500 million) was therefore relatively low in 2021, but 8 percent above the even weaker 2020, which was racked by coronavirus.[21]

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17 See 10-year Treasury yield, taken from Bloomberg on 11/01/2022
18 See 10-year Treasury yield, taken from Bloomberg on 11/01/2022
19 See 2-year Treasury yield, taken from Bloomberg on 11/01/2022
20 See Index iBoxx Euro Covered, taken from Markit on 11/01/2022
21 See primary issues of covered bonds, taken from Bloomberg on 11/01/2022

For the year as a whole, credit spreads on investment-grade bonds were slightly down (asset swap spread of 59 bp[22] at the end of 2021), the same as before the pandemic. Compared with the previous year, spreads in 2021 moved within a narrow range, bottoming out for the year at 51 bp on 11 November 2021. Heavily bolstered by the ECB's bond buying programme, this was also supported by the ongoing economic recovery and sharp drop in default rates. As expected, primary market activity receded compared with the previous year. Placed gross issue volumes of EUR 420.0 billion (FY 2020: EUR 510.0 billion)[23] resulted in another fall in net issue volumes, which had a positive impact on spreads. The arrival of the Omicron strain triggered pronounced volatility among spreads at the end of November, but the situation calmed within a few days with conditions returning to how they had been at the start.

In the first half of 2021, the euro generally remained stable against the US dollar. In the middle of June, however, the Fed unexpectedly forecast much higher interest rates for the following years, which resulted in a steady increase in market expectations of US base rate hikes from 2022 against the backdrop of inflationary pressures. It also decided to scale back its bond purchases under QE and then voted in December to accelerate the pace of this tapering. In contrast, in the eurozone interest rate hikes by the ECB are still not on the horizon, even though market-based inflationary expectations markedly climbed and real yields on longer-dated sovereigns fell heavily in the second half. On top of that, the dollar benefited against the euro in 2021 from purchases to cover open short positions, which were still high at the start of the year. As a result, by the end of 2021 the euro had depreciated against the dollar by a total of 7.4 percent to EUR-USD 1.13.[24] The Swiss franc also managed to benefit from the euro's weakness and continued to be a safe haven during a period of high inflationary pressure, gaining 4.6 percent to reach EUR-CHF 1.03.[25] Pound sterling also appreciated against the euro, rising 6.1 percent to EUR-GBP 0.84.[26] This was initially due in the spring to the rapid campaign to vaccinate large sections of the population against coronavirus. In the second half of the year, the currency was then supported by increasing expectations of the first rate hike by the Bank of England, which duly took place in December.

On the stock markets, the strong recovery that took place after the correction of the previous year caused by the pandemic remained intact. The broad-based benchmark indices in Europe (STOXX Europe 600) and the US (S&P 500) hit record highs, although volatility set in during the second half of the year. Equities received steady support as a result of the ample liquidity from the central banks' ultra-loose monetary policy but fundamental factors also proved favourable, aided by monetary and fiscal stimuli. For example, corporate earnings were markedly higher despite setbacks such as supply bottlenecks and rising input prices. In light of this, the German stock market index (DAX), which includes dividend payments, rose by 15.8 percent in 2021 to 15,885 at the end of the year. The German leading index increased by 13.2 percent in the first half of the year, though the rise was a much more modest 2.3 percent in the second half due to volatility.[27] The EURO STOXX 50, which contains large caps from the eurozone, posted a price

22 *See Index iBoxx Euro Non-Financials, taken from Refinitiv Datastream on 11/01/2022*
23 *See primary issues of corporate bonds, taken from Bloomberg on 11/01/2022*
24 *See EUR-USD Exchange Rate, taken from Refinitiv Datastream on 11/01/2022*
25 *See EUR-CHF Exchange Rate, taken from Refinitiv Datastream on 11/01/2022*
26 *See EUR-GBP Exchange Rate, taken from Refinitiv Datastream on 11/01/2022*
27 *See Deutsche Börse: DAX performance, taken from Refinitiv Datastream 11/01/2022*

gain of 21.0 percent and a total return (including dividends) of 24.1 percent, outperforming the DAX[28]. The US stock market did even better. As measured on the performance of the S&P 500 to the end of the year, it posted a price gain of 26.9 percent and total return of 28.7 percent.[29]

Sector-related conditions

In 2021, ongoing support measures by central banks and governments de-escalated problems banks were experiencing as a result of the coronavirus.

Share prices of the larger listed banks rallied over the year, as the around 45 percent increase in the EURO STOXX Banks Index in the period to the end of 2021 confirmed.[30] Risk premiums as measured by the iTraxx Europe Senior Financial Index and iBoxx Banks Senior Index trended sideways in a narrow range, in line with what was seen before the start of the pandemic and reflecting markets' confidence in the creditworthiness of banks.[31]

At the end of September 2021, the CET1 ratio and the leverage ratio (both fully loaded) EU-wide were at 15.4 percent and 5.7 percent respectively.[32] Liquidity as measured by the liquidity coverage ratio (LCR) was at around 175 percent.[33] The recently reported profitability figures for the third quarter of 2021 were comparable to before the start of the pandemic, even though they were supported by low loss allowances. Although the net interest margin was at its lowest ever level, the downwards trend appears to be stopped.

After a 4.7 percent jump in credit growth in the private sector driven by the corporate sector in 2020 (eurozone), the trend was still robust in 2021 at 4.2 percent but equally fed by households. The increase in the case of non-financial companies was 4.3 percent.[34] The quality of assets in the form of the non-performing loan ratio improved further across the EU and the feared increase was kept at bay by the support measures mentioned. The damage from the pandemic was, however, still visible in balance sheets, as evidenced by the high proportion of loans in Stage 2 as per IFRS 9.

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28 *See STOXX: EURO STOXX 50, taken from Refinitiv Datastream 11/01/2022*

29 *See S&P Dow Jones Indices: S&P 500, taken from Refinitiv Datastream 11/01/2022*

30 *See EURO Bank Performance Index, taken from Bloomberg on 11/01/2022*

31 *See Markit iTraxx Europe Senior Financial Index and iBoxx Euro Banks Senior Index, taken from Refinitiv Datastream on 11/01/2022*

32 *See European Banking Authority 2021, https://www.eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20dashboard/Q3%202021/1025829/EBA%20Dashboard%20-%20Q3%202021%20v2.pdf?retry=1*

33 *ibidem*

34 *See ECB 2022, https://www.ecb.europa.eu/pub/pdf/annex/ecb.md2112_annex.en.pdf?41549812cf289deb08840c13afca7be1*

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 in Germany in particular (owing to the highly fragmented nature of the sector there) was still tough, some degree of consolidation in the form of mergers and acquisitions took place in a few eurozone countries.

Regulatory environment

Capital Requirements Regulation (CRR)

CRR II, whose rules became mandatory from 28 June 2021, has resulted in some key changes to the leverage ratio (LR) and the net stable funding ratio (NSFR), new indicators which became binding for the first time. Under the solvency regime, a new standard method to measure counterparty risks from derivatives transactions was introduced along with the reporting requirement for the new market risk rules (Fundamental Review of the Trading Book). In addition, changes were made to the presentation of investment funds, capital requirements for the NPL backstop were introduced along with minimum cover for problem loans and extensive changes were made to reporting forms and disclosure requirements.

Changes were also made to the large exposure regulations. For example, the reference values for calculating large exposures were switched from eligible own funds to Tier 1 capital. The definitions and ceilings for large exposure fell accordingly. In addition, the mandatory substitution method had to be applied for the first time to all collateral providers.

In October 2021, the European Commission published a draft version of the CRR III and CRD VI, under which the finalised Basel III rules of December 2017 are to be implemented in Europe.

EBA stress test

In the first half of 2021, the European Banking Authority (EBA) completed the bank stress test, which is designed to determine the general resilience of banks within the EU to adverse economic developments. This was performed on BayernLB and another 50 banks across the whole European Union. The EBA published the results of the bank stress test for 2021 on its website on 30 July 2021.

BayernLB completed the stress test in 2021 and achieved solid scores. The stress scenario showed an economic and asset price-based shock due to the uncertainty about the course of the coronavirus pandemic. The capital ratio (CET1 ratio) stood at 10 percent in this adverse scenario, which means BayernLB met the capital requirements even under this scenario.

Coronavirus pandemic

Although the impact on the banking sector has to date been relatively modest – compared with the real economy – the still ongoing coronavirus pandemic was again one of the focuses of the ECB's supervisory practices in 2021. The management of credit risks, for example, was right at the top of the agenda.

Various measures used by the EBA, ECB and BaFin in 2020 to ensure banks can continue operating smoothly in crisis situations were continued in 2021. Permission to allow banks to operate with lower levels of capital than they are normally required to hold in accordance with Pillar-2 guidance and the capital conservation buffer was extended. The option to allow banks to exclude central bank deposits from the exposure used to calculate the leverage ratio was also extended until March 2022.

However, the banking supervisor decided not to extend into 2021 the operating reliefs it granted in crisis-hit 2020, such as the ability to structure the SREP process in a pragmatic way and the option to postpone external reporting dates. At the same time, additional reporting and disclosure requirements in connection with coronavirus-related measures and impacts were kept in place.

Sustainability

To operationalise regulatory and strategic requirements and market requirements relating to sustainability, BayernLB initiated the ESG project "Sustainability" in 2021 which also handled the ECB requirements on climate risks and the preparations for climate stress testing. The project oversees the implementation of a comprehensive package of measures to put into effect the regulations on ESG, taking account of strategic advantages and options for sales approaches and business opportunities. DKB also initiated a project with similar objectives in 2021.

The first step to embedding the topic of sustainability in banks' reporting is the reduced reporting obligation based on Article 8 of the EU Taxonomy Regulation, which was met in the 2021 annual financial statements.

Resolution regime

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

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)). In 2020, following a review of the guarantee system of the Savings Banks Finance Group, the ECB and BaFin communicated to the DSGV certain expectations they have as to how the guarantee system should be fine-tuned and updated. The Savings Banks Finance Group is still conducting an internal consultation process. Based on a timetable and action plan, it is envisaged the necessary changes will be implemented by the end of 2023.

On 8 June 2021 the Federal Ministry of Finance issued a directive on the statutory compensation scheme of the Bundesverband Öffentlicher Banken Deutschlands GmbH (EdÖ), ending its mandate as a statutory compensation scheme with effect from 1 October 2021. On 1 October 2021, Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) was legally assigned to the Entschädigungseinrichtung deutscher Banken GmbH (EdB), a subsidiary fully owned by the Association of German Banks (BdB). In addition, DKB remains a member of the deposit insurance fund run by the Association of German Public Sector Banks, e.V., which is a voluntary body that provides protection to deposits beyond what is required by the law.

The BayernLB Group's business performance

Statement by the Board of Management on business performance in 2021

Profit before taxes beats expectations and all segments grow earnings

The BayernLB Group posted a profit before taxes of EUR 816 million (FY 2020: EUR 197 million), easily beating the previous year and therefore significantly above the expectations for financial year 2021. Overall, all operating business segments of the Group contributed to the higher profit before taxes.

The very good performance was supported by strong net interest and commission income, a lower level of risk provision and an improvement in gains or losses on fair value measurement. It also benefited from proceeds from the sale of buildings. Earnings were, however, dented by increased regulatory contributions to the bank levy and deposit guarantee scheme and high income tax expenses.

Net interest income posted by the BayernLB Group rose by EUR 94 million to EUR 1,866 million (FY 2020: EUR 1,772 million). Despite the strong pressure on margins, the Group also benefited from a significant increase in volumes in DKB's retail customer business and BayernLB's real estate business as well as the greater utilisation of the tender bonus in the TLTRO III refinancing programme.

The Group generated a 14.9 percent increase in net commission income, taking this figure to EUR 380 million (FY 2020: EUR 331 million), benefiting in particular from good performance in the high-commission fund business of its asset management companies Real I.S. and BayernInvest, and from DKB's card business.

Gains or losses on fair value measurement came in at EUR 190 million in the reporting period (FY 2020: EUR 62 million), mainly due to positive measurement effects triggered by the recovery in financial markets. The foreign notes and coins and precious metals business contributed EUR 46 million to earnings (FY 2020: EUR 55 million).

Net additions to risk provisions fell to EUR 48 million in financial year 2021 (FY 2020: net additions of EUR 142 million). To prepare itself for potential future credit defaults as a result of the coronavirus crisis, the BayernLB Group set aside an additional risk provision of EUR 32 million (post model adjustment) (FY 2020: EUR 266 million). Risk provisions arising from the PMA increased as a result to EUR 356 million (FY 2020: EUR 325 million).

Administrative expenses remained unchanged overall year on year at EUR 1,520 million (FY 2020: EUR 1,520 million). The EUR 12 million fall in staff costs to EUR 844 million (FY 2020: EUR 856 million) was completely offset by the EUR 12 million rise in general expenses (other administrative expenses plus amortisation and depreciation of property, plant and equipment and intangible assets) to EUR 676 million (FY 2020: EUR 664 million). Due to the implementation timeframe, the impact of the restructuring and transformation measures on administrative expenses could not yet be clearly seen in the reporting year.

The mandatory contributions for the European bank levy and to both private commercial banks' and statutory deposit guarantee systems, which are shown separately, increased by 34 EUR million to EUR 195 million (FY 2020: EUR 161 million) due to higher estimated target volumes.

Gains or losses on restructuring stood at EUR 2 million in 2021 (FY 2020: EUR -287 million). The previous year included EUR 286 million related to the future expected costs for the restructuring and transformation measures to achieve the vision for 2024.

The income taxes for financial year 2021 in the amount of EUR 259 million (2020: tax income of EUR 31 million) largely comprised current tax expenses of EUR 132 million and deferred tax expenses of EUR 127 million.

The BayernLB Group posted a consolidated profit of EUR 553 million in financial year 2021 (FY 2020: EUR 226 million).

As before, the credit business made up a large proportion of the BayernLB Group's net assets. Despite low interest rates, ongoing heavy pressure on margins and the continuing need to tackle the challenges of the coronavirus pandemic, the BayernLB Group grew its business and credit volumes and therefore its total assets by building volumes in the customer business, by benefiting from the upturn in financial markets and by drawing on liquidity from the TLTRO III programme.

EUR billion	**31 Dec 2021**	**31 Dec 2020**	**Change in %**
Total assets	266.6	256.3[3]	4.0
Business volume[1]	313.3	302.1	3.7
Credit volume[2]	227.0	219.8	3.3

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..

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

Capital adequacy base strengthened, solid liquidity and low NPL ratio

The BayernLB Group still has a very solid capital adequacy base and strengthened it on the previous year. The Common Equity Tier 1 ratio (CET1 ratio) stood at 17.3 percent (FY 2020: 15.9 percent), with risk-weighted assets (RWAs) falling to EUR 63.3 billion (FY 2020: EUR 65.0 billion). This was well above the minimum regulatory level of 8.6 percent (including the combined capital buffers and SREP capital requirements (P2R), but excluding the SREP capital recommendation (P2G)).

As at 31 December 2021, the MREL ratio of the BayernLB Group (which must be met with subordinated funds) was 57.2 percent in relation to the RWAs and 18.4 percent in relation to the leverage ratio (LR). This was therefore above the required 22.1 percent of RWAs and 7.2 percent of leverage exposure set by the competent resolution authorities. The capital set aside for capital buffers was excluded when calculating the RWA ratio.

As at 31 December 2021, the leverage ratio (LR) stood at 5.3 percent and therefore exceeded the regulatory minimum ratio (adjusted leverage ratio) of 3.1 percent.

The BayernLB Group's liquidity position was comfortable at all times during the period under review. Liquidity outflows were manageable at all times. The liquidity coverage ratio (LCR) rose to 271.2 percent (FY 2020: 211.0 percent adjusted) and was therefore above the 100.0 percent threshold required by the regulator.

The risk profile of the BayernLB Group remained stable in the financial year. The BayernLB Group had adequate risk-bearing capacity at all times in the financial year and as at 31 December 2021, despite the ongoing coronavirus pandemic. The stress scenarios conducted confirmed that adequate capital is held.

The BayernLB Group's non-performing loan ratio (NPL ratio) remained unchanged at 0.6 percent during the reporting period. While BayernLB saw a slight increase from 0.6 percent to 0.9 percent, DKB posted a fall from 0.5 percent to 0.3 percent. Excluding the increase in the business volume with the Deutsche Bundesbank, the BayernLB Group also had an NPL ratio of 0.6 percent.

BayernLB Group forges ahead with its transformation, with progress made in all implementation projects

In 2021, the Group continued its transformation process initiated in 2021. Almost all the implementation projects within the Fokus 2024 transformation programme achieved their milestones in 2021 and are still operationally on track despite the challenges posed by the coronavirus pandemic.

The following key milestones were achieved or driven forward in 2021:

- Sustainably strengthen customer focus by creating a new efficient teamwork model to serve customers in the five promising sectors in Corporates.
- Streamline the product range and reducing its complexity, particularly by markedly scaling back the less profitable capital markets business: the process, agreed in 2020, to close down the interest rate, currency and commodities management business for corporate customers of the savings banks and transfer the existing portfolio (subject to approval from customers and savings banks) to Landesbank Baden-Württemberg, Stuttgart, and to shut down client clearing was concluded in 2021.
- Forge ahead with the growth initiatives in the Real Estate Business Area while maintaining the same product and property focus to steadily expand the Group's strong position in Germany and effectively exploit market opportunities abroad by leveraging existing expertise in familiar markets.
- Grow DKB's retail customer business, especially through ambitious customer growth and increasing lending volumes. In addition, continue to pursue projects to improve digitalisation

and internal processes to accelerate business processes and create excellent customer experiences.
- Transform IT by updating the bank management applications environment, which is the largest individual project within the Fokus 2024 transformation programme. The preliminary project to design the strategic vision for IT bank management was successfully concluded in 2021 and the related "Kopernikus" implementation project was initiated.
- Put into operation a new trading system, which will achieve an important milestone to consolidate the trading application landscape and meet the conditions for switching off systems, among other things.
- Implement process simplifications, partly by introducing a new master credit process, including by digitalising workflows.
- Make further improvements to the Bank-wide organisation, partly by slashing the number of organisational units on the basis of the new strategic vision.
- Optimise the building inventory by selling two buildings at the Munich location which are not necessary for business operations.
- Optimise the portfolio of investments and the distribution of tasks throughout the Group by selling BayernLB's previous 50.1 percent shareholding in BCS to DKB.

The human resources tools to downsize and restructure the workforce in a socially responsible manner, which were agreed between the Board of Management and BayernLB's General Staff Council in 2019, continued to be well received by employees in 2021. As at the end of 2021, the reductions in the workforce were proceeding according to plan at the core Bank. As at the start of the second half of Fokus 24, around 60 percent of the agreed reduction was either already secured by contract or soon to be so.

In summary, in the second year of the transformation BayernLB achieved important milestones on its journey to reaching its new strategic vision for 2024. BayernLB core Bank achieved its 2021 operating savings target of EUR 50 million by rigorously implementing cost-cutting measures and making steady improvements to efficiency.

Portfolio of sustainable refinancing instruments further expanded

The BayernLB Group continued to successfully expand its portfolio of sustainable refinancing instruments and initiated a green commercial paper programme. Details on the Group's issuing activities in the ESG segment can be found in the combined separate non-financial report of the BayernLB Group.

Change to DKB's deposit guarantee scheme, revocation of the letter of comfort and termination of the control and profit and loss transfer agreement (CPLTA) between BayernLB and DKB, and strengthening of DKB's capital by EUR 1.2 billion

On 8 June 2021 the Federal Ministry of Finance issued a directive on the statutory compensation scheme of the Bundesverband Öffentlicher Banken Deutschlands GmbH (EdÖ), ending its mandate as a statutory compensation scheme with effect from 1 October 2021. On 1 October 2021, Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) was legally assigned to the Entschädigungseinrichtung deutscher Banken GmbH (EdB), a subsidiary fully owned by the Association of German Banks (BdB).

DKB's changeover from the EdÖ to the EdB deposit protection scheme resulted in the following changes between BayernLB and DKB.

BayernLB revoked and terminated the letter of comfort for DKB with effect from 30 November 2021. Customers that become new customers of DKB after 19 August 2021 are not permitted to utilise this letter of comfort from this date. BayernLB's statement that it has revoked the letter of comfort can be found in BayernLB's published half-yearly report as at 30 June 2021. The report can be found on BayernLB's home page at www.bayernlb.de.

In addition, BayernLB terminated the control and profit and loss transfer agreement (CPLTA) between it and DKB, effective on 30 September 2021. The resulted in the ending of the income tax group comprising BayernLB (parent company) and DKB (controlled company), effective upon the ending of the 2020 assessment period and the ending of the VAT tax group, effective on 30 September 2021. The ending of the income tax group gave rise to first-time tax expenses for the BayernLB Group from DKB in the amount of EUR 60 million in financial year 2021.

Owing to the termination of the CPLTA and the revocation of the letter of comfort, DKB has had to meet additional capital requirements in the Supervisory Review and Evaluation Process (SREP) at institution level since 1 December 2021. To ensure it does, BayernLB provided DKB with Common Equity Tier 1 capital of EUR 1.2 billion in September.

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

Group performance beats expectations

As the coronavirus pandemic was still ongoing at the time the consolidated financial statements as at 31 December 2020 were being prepared, it was difficult to forecast the severity, length and extent of its impact on the profitability of the BayernLB Group and its performance indicators. The estimates and assumptions relevant for the financial statements that were made or imputed at the time of the planning were based on the knowledge at hand and best available information at the time.

Comparison of the 2020 forecasts for the financial performance indicators for 2021 against actual business performance

In view of the fact that earnings performance was very good in the first half of 2021 and that the Group was therefore expected to be in a position to beat the targets set in 2021, BayernLB raised its outlook for financial year 2021.

	Forecast for 2021 (31 Dec 2020)	Adjusted forecast for 2021 (30 June 2021)	Results for 2021
Profit/loss before taxes	EUR 200 million-EUR 400 million	EUR 500 million-EUR 700 million	EUR 816 million
Return on equity (RoE)	>3%	>5 %	7.9 %
Cost/income ratio (CIR)	65% - 70%	60 % - 65 %	59.0 %
Common Equity Tier 1 (CET1) ratio	>14%	>15 %	17.3 %
Leverage ratio (LR)[1]	>4%	>4 %	5.3 %

1 Valid from 30 June 2021.

The forecast-actual comparison at the end of the year shows that the upwards revised earnings forecast was exceeded despite the persisting challenging conditions in connection with the coronavirus pandemic and the restrictions imposed by the transformation programme.

Profit before taxes in financial year 2012 came in at EUR 816 million (FY 2020: EUR 197 million), which was much higher than expected. Whereas the previous year was marked by high expenses for restructuring and additional risk provisions (post model adjustment) as a result of the coronavirus pandemic, the Group benefited in the forecast period from volume and margin growth in the customer business that forms part of the strategy, the removal of products that will no longer be sold in line with the strategy, the tender bonus from its participation in the TLTRO III refinancing programme run by the ECB and the increase in net interest and net commission income that this brought. The consolidated profit was boosted by lower risk provisions and an improved gains or losses on fair value measurement performance. In addition, the sale of buildings generated sales proceeds in financial year 2021. The BayernLB Group also came nearer to achieving its cost and growth targets in respect of Fokus 2024, but the effects of this will not be visible in administrative expenses for some time.

Thanks to its very good earnings performance in 2021, the BayernLB Group achieved an RoE of 7.9 percent (FY 2020: 2 percent), putting it above the expected minimum threshold of 5 percent.

The CIR was 59 percent (FY 2020: 66 percent) and therefore slightly below adjusted expectations.

For 2021, based on medium-term planning the Group forecast RWAs of EUR 73.0 billion and a CET1 ratio of >14 percent. In 2021, RWAs declined to EUR 63.3 billion (FY 2020: EUR 65.0 billion). Strategic business growth was more than offset by the unwinding of RWAs in line with strategy and rating improvements. In addition, the expected, model-based boost to RWAs from a crisis-driven increase in ratings as a result of the coronavirus pandemic in the amount of around EUR 5.4 billion failed to materialise, which meant that the Group undershot its RWA target by a large amount. Besides the growth in earnings, the reason for the CET1 ratio of 17.3 percent (FY 2020: 15.9 percent) significantly exceeding the Group's target was the lower volume of RWAs.

The leverage ratio (fully loaded) stood at 5.3 percent, above forecast. The regulatory minimum threshold of 3.1 percent was maintained.

The BayernLB Group's results of operations

EUR million	1 Jan – 31 Dec 2021	1 Jan – 31 Dec 2020	Change in %
Net interest income	1,866	1,772	5.3
Risk provisions	(48)	(142)	(65.8)
Net interest income after risk provisions	**1,818**	**1,631**	**11.5**
Net commission income	380	331	14.9
Gains or losses on fair value measurement	190	62	>100
Gains or losses on hedge accounting	(20)	11	–
Gains or losses on derecognised financial assets	6	(14)	–
Gains or losses on financial investments	46	68	(33.0)
Administrative expenses	(1,520)	(1,520)	–
Expenses for the bank levy and deposit guarantee scheme	(195)	(161)	21.1
Other income and expenses	108	77[1]	41.2
Gains or losses on restructuring	2	(287)	–
Profit/loss before taxes	**816**	**197**	**>100**
Income taxes	(259)	31[1]	–
Profit/loss after taxes	**556**	**229**	**>100**
Profit/loss attributable to non-controlling interests	(3)	(3)	2.3
Consolidated profit/loss	**553**	**226**	**>100**

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

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

Net interest income

EUR million	1 Jan – 31 Dec 2021	1 Jan – 31 Dec 2020	Change in %
Interest income	**4,682**	**5,258**	**(10.9)**
of which from:			
Credit and money market transactions	2,649	2,815	(5.9)
Financial investments	101	179	(43.6)
Hedge accounting derivatives and derivatives in economic hedges	1,023	1,654	(38.1)
Negative interest	906	608	48.9
Other interest income	3	2	95.1
Interest expenses	**(2,816)**	**(3,486)**	**(19.2)**
of which:			
From liabilities to banks and customers	(808)	(983)	(17.8)
For securitised liabilities	(248)	(343)	(27.7)
For subordinated capital	(72)	(71)	2.8
From hedge accounting derivatives and derivatives in economic hedges	(911)	(1,448)	(37.1)
From negative interest	(731)	(576)	27.0
Other interest expenses	(45)	(64)	(30.0)
Net interest income	**1,866**	**1,772**	**5.3**

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

Net interest income came in at EUR 1,866 million (FY 2020: EUR 1,772 million), a major improvement on the previous year. The BayernLB Group was mainly helped here by the favourable refinancing conditions of the ECB tenders (TLTRO III) and further growth in volumes in customer business that forms part of the strategy. The Group's credit volumes rose by EUR 7.2 billion to EUR 227.0 billion (FY 2020: EUR 219.8 billion) as a result.

As at 31 December 2021, the BayernLB Group had drawn EUR 26.8 billion (FY 2020: EUR 27.0 billion) under the TLTRO III funding programme. While BayernLB repaid funds of EUR 13.0 billion (that it drew down in the previous year) in the reporting year, DKB increased its draw-downs by EUR 14.0 billion to EUR 26.8 billion. By taking advantage of the reduced interest rates in the TLTRO III and reinvesting funds, BayernLB Group produced net interest income of EUR 166 million (FY 2020: EUR 13 million). Of this amount, EUR 59 million (FY 2020: EUR 0 million) related to BayernLB and EUR 107 million (FY 2020: EUR 13 million) to DKB.

The positive effects were countered in part by lower interest income from discontinued business activities in the wake of the implementation of the transformation strategy. The transfer of the euro-denominated OTC derivatives in economic hedges from LCH.Clearnet Ltd., London, UK (LCH.Clearnet) to Eurex Clearing Aktiengesellschaft, Frankfurt am Main (Eurex Clearing) weighed on this line item, with the charge amounting to EUR 59 million. The positive effect was due in part to gains or losses on fair value measurement.

Risk provisions

EUR million	1 Jan – 31 Dec 2021	1 Jan – 31 Dec 2020	Change in %
Additions	(1,055)	(1,240)	(14.9)
Direct writedowns	(14)	(14)	1.0
Releases	963	918	4.9
Recoveries on written down receivables	55	182	(70.0)
Income from the write-up of purchased or originated credit-impaired financial assets	3	13	(76.8)
Risk provisions	**(48)**	**(142)**	**(66.1)**

In posting a net improvement in risk provisions, the BayernLB Group benefited from the good quality of the credit portfolio and more favourable market conditions. Compared with the previous year, the BayernLB Group reported lower net additions of risk provisions in the amount of EUR 48 million (FY 2020: net additions of EUR 142 million). The risk provisions item of the previous year included a post model adjustment (PMA) which was made as a result of the deteriorating macroeconomic outlook brought on by the coronavirus pandemic, of EUR 266 million. Following the regular review of the macroeconomic scenarios, it was determined that EUR 32 million needed to be added to the PMA as a result of the improved assessment of the macroeconomic outlook as at 31 December 2021. As at the last day of the year, PMA amounted to EUR 356 million (FY 2020: EUR 325 million). For further information about how the PMAs are made, refer to the notes to the consolidated financial statements. Repayments of problem loans had a significant positive impact on the risk provisions line item. Recoveries on written-down receivables produced a gain for the BayernLB Group of EUR 55 million (FY 2020: EUR 182 million). Most of this amount came from receipts from the resolution of HETA Asset Resolution AG, Vienna.

Net commission income

EUR million	1 Jan – 31 Dec 2021	1 Jan – 31 Dec 2020	Change in %
Fund business	128	106	20.9
Credit business	104	122	(14.9)
Card business	54	39	37.5
Securities business	50	49	1.6
Trust transactions	16	16	3.2
Payments	3	(16)	–
Documentary business	6	6	(3.4)
Other net commission income	25	31	(20.2)
Net commission income	**380**	**331**	**14.9**

Net commission income continued to improve in spite of the still difficult market environment, increasing by EUR 49 million to EUR 380 million (FY 2020: EUR 331 million). As before, the high-commission fund and credit business and also the card business accounted for a large proportion of this.

Most of the contribution to earnings from the fund business came from the asset management companies Real I.S. and BayernInvest. The main boost to net commission income came from the higher overall amounts of purchase fees and management fees charged on the increased volume of assets under management and assets under control.

The contribution to earnings from the card business in the reporting year was smaller than in the previous year. This was due to the planned fall in new business volumes and the strategy-related withdrawal from certain product groups in the Corporates Division. A big impact on the previous year's figure came from demand for financing products as a result of the coronavirus support programmes.

Another boost came from higher income in DKB's card business.

Gains or losses on fair value measurement

EUR million	1 Jan – 31 Dec 2021	1 Jan – 31 Dec 2020	Change in %
Gains or losses on financial assets in the FVPLM category[1] not held for trading	117	(55)	–
Net trading income	45	144	(68.9)
Gains or losses on the fair value option category	29	(27)	–
Gains or losses on fair value measurement	**190**	**62**	**>100**

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

Gains or losses on fair value measurement produced a gain of EUR 190 million (FY 2020: gain of EUR 62 million). This significant increase was largely due to measurement gains arising from the normalisation of financial markets and the Group's strategic focus on standardised trading products. The previous year was marked by measurement volatility in connection with the coronavirus pandemic.

The Group recorded a gain on financial instruments mandatorily measured at fair value due to measurement gains on the DKB sustainability fund in the amount of EUR 68 million (FY 2020: EUR 29 million) and an equity interest in the amount of EUR 44 million (FY 2020: EUR -87 million). The measurement gains from equity interests were offset by measurement losses from the corresponding hedges, which are booked to net trading income. This was largely due to the deterioration in net trading income of EUR 69 million to EUR 45 million (FY 2020: EUR 144 million). The foreign notes and coins and precious metals business contributed EUR 46 million to earnings (FY 2020: EUR 55 million).

The gains or losses on the fair value option category included one-off effects from transfer of the euro-denominated OTC derivatives in economic hedges from LCH.Clearnet to Eurex Clearing in the amount of EUR 59 million. The corresponding loss was booked to net interest income. The gains or losses on the fair value option category included negative changes in value of liabilities to non-controlling interests in DKB sustainability funds in the amount of EUR -24 million (FY 2020: EUR -8 million).

Gains or losses on hedge accounting

Gains or losses on hedge accounting produced a loss of EUR 20 million in the reporting year (FY 2020: gain of EUR 11 million). This line item was influenced by the interest-rate induced effects within hedge accounting of the interest-rate derivatives concluded for hedging purposes and their hedged items.

Gains or losses on financial investments

Gains or losses on financial investments fell by EUR 22 million to EUR 46 million (FY 2020: EUR 68 million) and largely comprised income from equity interests in the FVPLM category.

Administrative expenses

EUR million	1 Jan – 31 Dec 2021	1 Jan – 31 Dec 2020	Change in %
Staff costs	(844)	(856)	(1.4)
Other administrative expenses	(588)	(587)	0.3
Amortisation and depreciation of property, plant and equipment and intangible assets (not including goodwill)	(88)	(78)	12.5
Administrative expenses	**(1,520)**	**(1,520)**	**–**

Administrative expenses remained stable overall at EUR 1,520 million (FY 2020: EUR 1,520 million). Of this, EUR 667 million (FY 2020: EUR 621 million) related to DKB and EUR 633 million (FY 2020: EUR 668 million) to BayernLB. The Group's staff costs fell by EUR 12 million to EUR 844 million (FY 2020: EUR 856 million). At BayernLB, staff costs fell by EUR 43 million to EUR 364 million (FY 2020: EUR 407 million). The previous year's figure included significant measurement effects from the adjustment to pension provisions and the resolution of legacy issues. The downsizing of BayernLB's workforce proceeded according to plan, resulting in a reduction of 209 employees. However, due to the implementation timeline the measures are not clearly evident in the staff costs of the reporting year. In contrast, DKB posted an increase in employee numbers due to strategic growth, resulting in staff costs rising by EUR 35 million to EUR 346 million (FY 2020: EUR 311 million).

General expenses (other administrative expenses plus amortisation and depreciation of property, plant and equipment and intangible assets in the reporting year) amounted to EUR 676 million (FY 2020: EUR 665 million). Despite future-proofing investments in IT restructuring, digitalisation and sales, other administrative expenses fell slightly to EUR 588 million (FY 2020: EUR 587 million). Although IT costs rose Group-wide by EUR 13 million, this was offset by the savings achieved in other general expenses categories due to strict cost management. The restructuring of the IT applications environment at BayernLB and the expansion of DKB into a tech bank also impacted depreciation and amortisation of property, plant and equipment and intangible assets. These rose to EUR 88 million (FY 2020: EUR 78 million), largely on account of higher amortisation of intangible assets.

Expenses for the bank levy and deposit guarantee scheme

Expenses for the bank levy and deposit guarantee scheme weighed on earnings by EUR 195 million overall (FY 2020: EUR 161 million). The costs included EUR 75 million for the mandatory contribution to the bank levy (FY 2020: EUR 67 million) and EUR 120 million for the mandatory contribution to the deposit guarantee scheme (FY 2020: EUR 94 million), with BayernLB paying around 60 percent of this. The reason for the higher bank levy was the increase in the target volume due to the increase in covered deposits in the eurozone. To achieve the higher target volume, the coefficient for determining the annual target payment was increased from 1.25 percent to 1.35 percent of the covered volume of deposits. The increase in the deposit guarantee was because of the growth in deposits at DKB, which are attributable to BayernLB.

Other income and expenses

Other income and expenses came to EUR 108 million (FY 2020: EUR 77 million) overall and largely comprised gains from the sale of buildings at the Munich location not needed for business operations in the amount of EUR 101 million.

Gains or losses on restructuring

The gains or losses on restructuring line item produced a net gain of EUR 2 million (FY 2020: loss of EUR 287 million). The previous year's figure included in the amount of EUR 286 million (FY 2019: EUR 201 million) expenses from the recognition of restructuring provisions in connection with the Fokus 2024 transformation programme and related individual projects. Besides gains from measurement-related adjustments to reported provisions, gains or losses on restructuring in the reporting year also comprised transformation costs for activities to safeguard and achieve the vision for 2024.

Income taxes

In financial year 2021, the Group reported tax expenses of EUR 259 million (FY 2020: tax income of EUR 31 million). The item comprised current tax expenses of EUR 132 million (FY 2020: expenses of EUR 47 million) and deferred tax expenses of EUR 127 million (FY 2020: income of EUR 79 million). A large proportion of the deferred tax expenses comprised the utilisation of recoverable tax losses brought forward, the change in the value of the loss carryforwards and temporary differences in BayernLB's consolidated tax group. The deferred taxes on loss carryforwards are measured using a recoverable analysis and tax planning calculations for the respective reporting unit and consolidated tax group of BayernLB, based on corporate planning. The main reason for the increase in current tax expenses was measurement differences on the tax balance sheet and DKB's exit from BayernLB's consolidated tax group. Due to the ending of the control and profit and loss transfer agreement with DKB in 2021 and the resulting ending of the income tax group with effect on 1 January 2021, current tax expenses of EUR 75 million and deferred tax income of EUR 15 million from DKB were recognised in the Group's income taxes for the first time in financial year 2021.

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 31 December 2021, comprised the following three segments under the business strategy:

- Real Estate & Savings Banks/Financial Institutions including the legally dependent BayernLabo and the consolidated subsidiaries Real I.S. and BayernInvest
- Corporates & Markets
- DKB, with the business activities of the DKB group and the Group subsidiary Bayern Card-Services GmbH - S-Finanzgruppe, Munich (BCS), which was incorporated into the DKB sub-group when BayernLB's 50.1 percent shareholding was transferred to DKB on 1 October 2021

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 816 million (FY 2020: EUR 197 million) are shown below:

EUR million	1 Jan – 31 Dec 2021	1 Jan – 31 Dec 2020[1]	Change in %
Real Estate & Savings Banks/Financial Institutions	271	186	46.0
Corporates & Markets	87	(51)	>100
DKB	369	264	39.8
Central Areas & Others (including Consolidation)	88	(202)	>100

1 Previous year's figures except for DKB adjusted; see note 2 in the notes to the consolidated financial statements.

Real Estate & Savings Banks/Financial Institutions segment

- The Real Estate Division again reports rising operating earnings and an uptick in new business
- The Savings Banks & Financial Institutions Division once again benefited from a good performance in the precious metals and capital market products businesses
- Asset manager Real I.S. posted a big increase in profits on the previous year

The Real Estate & Savings Banks/Financial Institutions segment's profit before taxes was EUR 271 million (FY 2020: EUR 186 million), which was much higher than in the previous year.

The Real Estate Division again made a significant contribution to the segment's earnings with a profit before taxes of EUR 164 million (FY 2020: EUR 104 million). The jump in profits was largely the result, on the income side, of higher net interest and commission income totalling EUR 280 million (FY 2020: EUR 240 million) due to better volumes and margins. Risk provisions were also lower at EUR 26 million than in the previous year (FY 2020: EUR 50 million), when additional charges expected from the coronavirus pandemic were to be covered.

The Savings Banks & Financial Institutions Division once again turned in a higher profit before taxes of EUR 38 million (FY 2020: EUR 23 million) compared with the previous year. The main driver for this was the drop in administrative expenses to EUR 156 million (FY 2020: EUR 179 million) as a result of the streamlining of the Bank under the ongoing transformation process. Although earnings benefited once again from the buoyant precious metals business and greater customer demand for money market and capital market products, the total figure of EUR 200 million (FY 2020: EUR 204 million) was slightly below the previous year.

BayernLabo posted a profit before taxes of EUR 38 million (FY 2020: EUR 33 million). The main reason for the better profits was an improvement in gains or losses on measurement compared with the previous year due to market interest rates.

Profit before taxes at Real I.S. amounted to EUR 27 million, which was well above the previous year (FY 2020: EUR 19 million). Key drivers of the increased earnings were the purchase and portfolio management fees collected from assets under management, which beat expectations to rise significantly. The good performance in net commission income more than compensated for the rise in administrative expenses caused by the expansion of the business and related to projects that were carried out.

Profit before taxes at BayernInvest stabilised at EUR 5 million (FY 2020: EUR 5 million). The increase in net commission income due to the increase in assets under control was offset by a rise in associated administrative expenses.

Corporates & Markets segment

- Net interest and commission income slightly down on the previous year largely due to a smaller volume of high-commission new business at Corporates
- High risk provisions in the previous year to cover expected charges from the coronavirus pandemic
- Marked decline in administrative expenses reflected the initial results of the decision to focus on a narrower range of products and services in the capital markets business

The Corporates & Markets segment generated a profit before taxes of EUR 87 million (FY 2020: loss of EUR 51 million). Most of this big improvement in earnings was the drop in risk provisions. In the previous year, net risk provisions stood at EUR 169 million, partly to cover expected credit defaults resulting from the coronavirus pandemic. This fell in the financial year under review to EUR 60 million. Administrative expenses in the segment fell back to EUR 283 million (FY 2020: EUR 327 million) due to the firm focus on the capital markets business. Net interest and commission income were slightly down at EUR 395 million (FY 2020: EUR 406 million), largely due to a lower volume of high-commission new business at Corporates.

DKB segment

- Jump in earnings mainly due to significant improvements in net interest and commission income, measurement gains from the DKB sustainability fund and a much better risk provision profile
- Higher administrative expenses due to strategic increase in headcount to support DKB's growth and digitalisation targets
- DKB breaks through the five million retail customers threshold

The DKB segment's profit before taxes amounted to EUR 369 million, well ahead of the previous year's EUR 264 million.

Most of this – EUR 363 million (FY 2020: EUR 254 million) – was produced by the DKB sub-group, which, from the fourth quarter 2021, also included the earnings from BCS. Net interest and net commission income came in at EUR 1,052 million (FY 2020: EUR 934 million), a marked improvement on the previous year largely as a result of the utilisation of TLTRO III reduced interest rates in the amount of EUR 107 million, higher net commission income, especially in the credit card business and from payments and account management. Measurement gains on the DKB sustainability funds also contributed to the big increase in earnings.

The risk provision situation was much better than in the previous year (a net positive EUR 3 million versus a net negative EUR 44 million) despite further additions to cover potential future charges in connection with the coronavirus pandemic.

DKB's status as Germany's second-largest online bank was further cemented by an increase in retail customer numbers to just over 5 million (FY 2020: around 4.6 million). To safeguard its market position for the long term, additional investments were made in the financial year on sales, digitalisation and workforce buildup, which, coupled with the pro-rated share of BCS's staff and operating expenses, pushed up administrative expenses to EUR 667 million (FY 2020: EUR 621 million).

There was also an increase in expenses for the bank levy and the deposit guarantee scheme, with the total amount reaching EUR 79 million (FY 2020: EUR 57 million).

BCS's profit before taxes amounted to EUR 7 million up to the point when BayernLB's shareholding was transferred to DKB on 1 October 2021.

Central Areas & Others segment

- Notable increase in earnings owing to the sale of buildings not needed for business operations and the utilisation of TLTRO III reduced interest rates
- Profit before taxes in the previous year was weighed down considerably by a loss on restructuring of EUR 248 million
- Segment earnings once again strongly dented by the bank levy and deposit guarantee scheme

The Central Areas & Others segment produced a profit before taxes of EUR 88 million (FY 2020: loss before taxes of EUR 202 million). As in the previous year, this was mainly due to a charge totalling EUR 116 million (FY 2020: EUR 104 million) for the bank levy and deposit guarantee scheme, not including DKB's share.

While the previous year's figure was heavily affected by a loss on restructuring of EUR 248 million, the segment benefited in 2021 largely from high one-off gains of EUR 101 million from the sale of buildings at the Munich location not required for operational purposes.

The utilisation of TLTRO III reduced interest rates in the amount of EUR 59 million was another contributor to the marked improvement in net interest income in the Group Treasury Division. However, the boost to net interest income was outweighed by the transfer of clearing activities from LCH.Clearnet to Eurex Clearing, the result of which was to shift EUR 59 million of earnings from net interest income to gains or losses on fair value measurement.

Administrative expenses went up compared with the previous year by EUR 23 million to EUR 146 million. Besides one-off expenditure from staff restructuring, much of this increase came from expenses for transformation projects.

Risk provisions of EUR 40 million (FY 2020: EUR 124 million) showed a net decrease, due once again to a significant amount of recoveries on written down receivables, although these were much smaller than in the previous year.

The BayernLB Group’s net assets

Assets

EUR million	31 Dec 2021	31 Dec 2020	Change in %
Cash reserves	17,542	9,342	87.8
Loans and advances to banks	56,266	56,177	0.2
Loans and advances to customers	158,988	152,376	4.3
Risk provisions	(1,117)	(1,084)	3.0
Portfolio hedge adjustment assets	231	1,014	(77.2)
Assets held for trading	8,880	12,110	(26.7)
Positive fair values from derivative financial instruments (hedge accounting)	509	876	(41.9)
Financial investments	20,085	21,881	(8.2)
Investment property	25	28	(10.2)
Property, plant and equipment	445	489	(9.0)
Intangible assets	170	144	17.8
Tax assets	690	735[1]	(6.1)
Non-current assets or disposal groups classified as held for sale	65	26	>100
Other assets	3,775	2,113	78.7
Total assets	**266,554**	**256,226**	**4.0**

1 Previous year’s figure adjusted; see note 2 in the notes to the consolidated financial statements.

Cash reserves and loans and advances to banks

Cash reserves and loans and advances to banks increased by EUR 8.3 billion to EUR 73.8 billion (FY 2020: EUR 65.5 billion). This was partly due to DKB’s participation (in the amount of EUR 26.8 billion) in the ECB’s third series of the long-term refinancing programme (TLTRO III). While BayernLB repaid funds of EUR 13.0 billion (that it drew down in the previous year) in full, DKB increased its draw-down by a further EUR 12.8 billion to EUR 26.8 billion (FY 2020: EUR 14.0 billion).

Loans and advances to customers

Loans and advances to customers increased by EUR 6.6 billion to EUR 159.0 billion (FY 2020: EUR 152.4 billion). This was due to the increase in customer lending at DKB.

Risk provisions

Risk provisions rose year on year by EUR 33 million to EUR 1,117 million (FY 2020: EUR 1,084 million).

The risk provisions for loans still being serviced by customers (Stages 1 and 2) decreased by EUR 7 million to EUR 447 million (FY 2020: EUR 454 million). The provision for non-performing loans (Stage 3) climbed by EUR 31 million year on year to EUR 612 million (FY 2020: EUR 581 million). The provision for loans already impaired upon initial recognition increased by EUR 9 million year on year to EUR 58 million (FY 2020: EUR 49 million).

The risk provisions recognised as at the reporting date included a post model adjustment (PMA) of EUR 356 million (FY 2020: EUR 325 million) to take account of the risks to lending activities in various macroeconomic scenarios in light of the continuing coronavirus pandemic. Following the regular review of the macroeconomic scenarios, it was determined that EUR 32 million needed to be added to the PMA in Stages 1 and 2 as a result of the improved assessment of the macroeconomic outlook as at 31 December 2021 (FY 2020: EUR 266 million).

Overall, the BayernLB Group managed to maintain a very good quality portfolio. This is reflected an unchanged low NPL ratio of 0.6 percent (FY 2020: 0.6 percent) and a higher investment-grade share of 89.1 percent (FY 2020: 87.9 percent). There was also a big increase in gross credit volumes in the very good rating categories (master ratings of 0-7), with a rise of EUR 16.5 billion to EUR 224.6 billion (FY 2020: EUR 208.1 billion). The main reasons for this were higher gross credit volumes at the Deutsche Bundesbank and the winding down of business in line with strategy, for example in the retail and real estate business. There were also improvements in ratings, especially in the Financial Institutions, Real Estate and Corporates sub-portfolios, indicating a reduction in the negative effects of the coronavirus pandemic. For further details, refer to the risk report in this combined management report.

Portfolio hedge adjustment

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

Assets held for trading

There was a EUR 8.9 billion fall in assets held for trading to EUR 3.2 billion compared with the end of the previous year (FY 2020: EUR 12.1 billion). The factors behind this were the lower positive fair value from derivative financial instruments and BayernLB’s decision to significantly scale back fixed-income business in line with its policy to realign the capital market business. Under this policy, the Bank has been actively reducing portfolios through sales to customers and market partners.

Property, plant and equipment

There was a EUR 44 million decrease in property, plant and equipment to EUR 445 million (FY 2020: EUR 489 million) as a result of the sale of two of BayernLB's real estate properties. Under its strategic realignment, BayernLB decided in the reporting year to divest real estate that is not needed for its operations in order to come closer to achieving its vision for 2024.

Intangible assets

Intangible assets rose by EUR 26 million to reach EUR 170 million as at the end of the year (FY 2020: EUR 144 million). This was related to the strategically important investments by BayernLB and DKB in IT and processes.

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

As at 31 December 2021, the BayernLB Group held non-current assets or disposal groups classified as held for sale in the amount of EUR 65 million (FY 2020: EUR 26 million). This increase as at the end of 2021 was due to the allocation of credit exposures as instruments classified as available for sale as a result of the winding down of non-core business in the Corporates & Markets segment in line with strategy. The process in the previous year to close down the interest rate, currency and commodities management business for corporate customers of the savings banks and transfer the existing portfolio (subject to approval from customers and savings banks) to Landesbank Baden-Württemberg, Stuttgart, and the agreed winding down of the commodities derivatives business in the direct customer business was successfully concluded in 2021.

Other assets

The Group had other assets in the amount of EUR 3,775 million as at the end of the reporting year, EUR 1,662 million more than in the previous year (FY 2020: EUR 2,113 million). The main factor for the increase was the price for CO_2 certificates rising to EUR 89 per tonne (FY 2020: EUR 33 per tonne). This raised the carrying amount of emissions certificates by EUR 1,625 million to EUR 2,879 million (FY 2020: EUR 1,254 million).

Liabilities

EUR million	31 Dec 2021	31 Dec 2020	Change in %
Liabilities to banks	76,447	75,995	0.6
Liabilities to customers	119,292	109,779	8.7
Securitised liabilities	43,880	43,037	2.0
Liabilities held for trading	8,343	9,374	(11.0)
Negative fair values from derivative financial instruments (hedge accounting)	1,073	1,178	(8.9)
Provisions	1,768	2,895	(38.9)
Tax liabilities	98	122[1]	(19.5)
Liabilities from the disposal of land/discontinued operations	28	6	>100
Other liabilities	627	572[1]	9.5
Subordinated capital	2,689	1,685	59.6
Equity	12,307	11,583[1]	6.3
Total liabilities	**266,554**	**256,226**	**4.0**

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

Liabilities to banks

On the liabilities side, liabilities to banks stood at EUR 76.4 billion, which was slightly above the position as at the end of 2020. A key reason for this was DKB continuing to participate in the ECB's TLTRO III programme in 2021 in the amount of EUR 12.8 billion, while BayernLB paid back EUR 13.0 billion. In the previous year, DKB drew EUR 14.0 billion from the ECB's long-term tender, increasing this to EUR 26.8 billion in financial year 2021.

Liabilities to customers

Liabilities to customers increased by EUR 9.5 billion to EUR 119.3 billion (FY 2020: EUR 109.8 billion). This was related to an increase in deposits by domestic retail customers at DKB.

Securitised liabilities

There was a small rise in securitised liabilities to EUR 43.9 billion (FY 2020: EUR 43.0 EUR billion. This reflected an increase in sustainable ESG issues at BayernLB.

Liabilities held for trading

Liabilities held for trading amounted to EUR 8.3 billion, which was less than their value as at the end of 2020 (FY 2020: EUR 9.4 billion). The decline was the result of changes to negative fair values from derivative financial instruments, especially from interest rate-related derivatives transactions.

Provisions

To cover the pension obligations, the first transfer of funds in the amount of EUR 2,415 million was made to BayernLB Treuhand e. V., Munich in the previous year under a contractual trust arrangement (CTA). In the first half of 2021, additional liquid assets of EUR 740 million were provided to the CTA to ensure the Group's benefit obligations are met. Besides being additional earmarked assets, the CTA assets qualified as plans assets which can be offset against pension obligations. As at 31 December 2021, the present value of defined benefit obligations in the amount of EUR 4,315 million (FY 2020: EUR 4,688 million) was offset against the present value of the plan assets in the amount of EUR 3,435 million (FY 2020: EUR 2,730 million) at Group level. 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.

Compared with the figure as at the end of 2021, pension provisions after pension liabilities had been netted against plan assets fell from EUR 1,968 million to EUR 924 million.

Other provisions dropped by EUR 83 million to EUR 844 million (FY 2020: EUR 927 million). As before, most of this was in the form of restructuring provisions for future costs expected from the transformation and restructuring measures in the amount of EUR 530 million (FY 2020: EUR 586 million).

Liabilities of disposal groups

The liabilities of disposal groups relate to the Corporates & Markets segment, where non-strategy compliant products are being wound down.

Subordinated capital

The Group's subordinated capital stood at EUR 2,689 million as at 31 December 2021, an increase of about EUR 1 billion (FY 2020: EUR 1,685 million). This was due to the issue of a new subordinated loan to bolster BayernLB's and DKB's capital base.

Equity

EUR million	31 Dec 2021	31 Dec 2020	Change in %
Subscribed capital	3,412	3,412	0.0
Capital surplus	2,182	2,182	0.0
Retained earnings	6,548	5,726[1]	14.4
Revaluation surplus	78	165	(52.9)
Foreign currency translation reserve	2	5	(69.4)
Distributable profit	75	75	0.0
Non-controlling interests	11	18	(38.1)
Equity	**12,307**	**11,583**	**6.3**

1 *Previous year's figure adjusted; see note 2 in the notes to the consolidated financial statements.*

The Group's equity as at 31 December 2021 totalled EUR 12.3 billion and was therefore around EUR 0.7 billion more than the previous year's comparative figure of EUR 11.6 billion as at 31 December 2020. The main boost came from the gains from the remeasurement of defined benefit obligation pension commitments in the amount of EUR 337 million, which was booked to retained earnings. The revaluation surplus declined by EUR 87 million, mainly due to the measurement of bonds and notes at fair value through other comprehensive income. Thanks to its good business performance, the BayernLB Group closed financial year 2021 with distributable profits of EUR 75 million (FY 2020: EUR 75 million).

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

The banking supervisory capital under CRR/CRD IV as per the prepared consolidated financial statements as at 31 December 2021 comprised:

EUR million	1 Jan – 31 Dec 2021	1 Jan – 31 Dec 2020	Change in %
Common Equity Tier 1 capital (CET1 capital)	10,966	10,301	6.5
Own funds	13,657	11,993	13.9
Total RWAs	63,315	64,974	−2.6
Common Equity Tier 1 (core tier 1 ratio) in percent	17.3	15.9	1.4 pp
Total capital ratio (%)	21.6	18.5	3.1 pp

Due to ratings improvements, ongoing RWA management and a reduction in volumes in line with strategy, RWAs in the Corporates & Markets segment as at 31 December 2021 were lower at EUR 63.3 billion than in the previous year. In addition, Common Equity Tier 1 capital rose to EUR 11.0 billion so that the CET1 ratio increased to 17.3 percent.

The return on capital pursuant to section 26a para. 1 KWG[35] was 0.2 percent (FY 2020: 0.1 percent). Details on country by country reporting, which is also governed by section 26a para. 1 sentence 4 KWG, can be found after the Auditor's Report as an appendix to these annual financial statements.

35 *Ratio of consolidated net income/loss to consolidated total assets.*

The BayernLB Group’s financial position

Liquidity

The BayernLB Group ensured it had sufficient liquidity reserves at all times during financial year 2021 (including for a stress scenario). Further information on refinancing and the liquidity situation is provided in the risk report.

in %	31 Dec 2021	31 Dec 2020	Change in %
LCR	271.2	211.0[1]	55.0 pp
NSFR	136.6	–	–

1 Previous year’s figure adjusted; see note 2 in the notes to the consolidated financial statements.

The liquidity coverage ratio (LCR) rose in the reporting period to 271.2 percent (FY 2020: 211.0 percent, adjusted) and was therefore above the 100.0 percent threshold required by the regulator.

The net stable funding ratio (NSFR) in the BayernLB Group stood at 136.6 percent as at the reporting date and therefore far exceeded the 100.0-percent minimum ratio required by the regulator.

Participation in TLTRO III had no impact on the funding plan for structural liquidity. 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.

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 (stable)	A– (stable)
Long term, preferred senior unsecured	Aa3 (stable)	A
Long term, non-preferred senior unsecured	A2	A–
Short term, unsecured	P– 1	F1
Public Pfandbriefs	Aaa	–
Mortgage Pfandbriefs	Aaa	–

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

The results of operations were very good in 2021. The BayernLB Group’s net assets and financial position were stable in financial year 2021. The Group had comfortable levels of liquidity throughout the reporting period.

BayernLB’s annual financial statements under HGB

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

Statement by the Board of Management on BayernLB’s business performance in 2021

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

BayernLB posted a lower operating profit of EUR 142 million for the 2021 financial year (FY 2020: EUR 240 million).

This was due to good net interest and commission income, a fall in administrative expenses, lower risk provisions and an improved net income from the trading portfolio, and was boosted by the proceeds from the sale of buildings booked under other operating income. A negative contribution came from the dent to earnings from significant net losses on measurement.

The net profit came in at EUR 75 million (FY 2020: EUR 38 million), which was in line with expectations. As a result, there were distributable profits of EUR 75 million (FY 2020: EUR 75 million) to be distributed to the shareholders for financial year 2021.

The lending business continued to account for a major part of BayernLB’s net assets. As a result of persistently low interest rates, heavy pressure on margins, the continuing need to tackle the challenges of the coronavirus pandemic and the systematic implementation of restructuring and transformation measures at the same time, the business and credit volumes and therefore total assets were lower as at the end of financial year 2021.

EUR billion	31 Dec 2021	31 Dec 2020	Change in %
Total assets	141.9	151.9	(6.6)
Business volume[1]	174.9	186.3	(6.2)
Credit volume[2]	115.4	127.5	(9.5)

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

BayernLB (Bank)’s business performance is described below.

BayernLB’s results of operations

EUR billion	1 Jan – 31 Dec 2021	1 Jan - 31 Dec 2020	Change in %
Net interest income	961	1,032	(6.9)
Net commission income	201	213	(5.6)
Gross profit	**1,162**	**1,245**	**(6.7)**
Staff costs	(561)	(697)	(19.5)
Operating expenses	(420)	(408)	3.0
Administrative expenses	**(981)**	**(1,105)**	**11.2**
Net income or net expenses of the trading portfolio	119	19	>100
Other operating profit/loss	97	(15)	–
Risk provisions	418	97	>100
Gains or losses on measurement	(673)	(1)	>100
Operating profit/loss	**142**	**240**	**(40.8)**
Gains or losses from extraordinary items	(11)	(245)	(96.0)
Income taxes	(57)	43	>100
Net profit	**75**	**38**	**97.3**
Profit brought forward from previous year	–	150	–
Withdrawals from retained earnings	–	37	–
Allocations to retained earnings	–	(150)	–
Distributable profit	**75**	**75**	**–**

Rounding differences may occur in the tables.

Net interest income

Net interest income, the difference between interest income and interest expenses – including current income on equities and other non-fixed income securities, participations/equity interests, shares in affiliated companies and profit transfers – fell by EUR 71 million to EUR 961 million (FY 2020: EUR 1,032 million).

Despite the persistently challenging interest rate environment, net interest income from the credit and money market business and from securities rose by EUR 36 million to EUR 902 million (FY 2020: EUR 866 million). This effect was mitigated by the gains from the utilisation of the ECB tender in the TLTRO III programme. In 2020, BayernLB drew down EUR 13.0 billion from this refinancing structure, which it then paid back in full during the reporting year. By taking advantage of the reduced interest rates in the TLTRO III and reinvesting funds, the Bank produced net interest income of EUR 59 million (FY 2020: EUR 0 million).

The current income from equities and other non-fixed income securities, participations/equity interests and shares in affiliated companies increased to EUR 24 million (FY 2020: EUR 11 million), largely due to special dividends.

The earnings contributions from profit transfers from subsidiaries in the amount of EUR 35 million (FY 2020: EUR 155 million) were EUR 120 million lower than in the previous year. Owing to the revocation of the letter of comfort and the termination of the CPLTA between BayernLB and DKB in financial year 2021, DKB allocated its profits from its normal business operations for financial year 2021 to its reserve pursuant to section 340g of the German Commercial Code to strengthen its regulatory capital. No profits were therefore transferred to BayernLB.

Net commission income

The Bank's net commission income fell year on year by EUR 12 million to EUR 201 million (FY 2020: EUR 213 million). The credit business provided the biggest contribution to this line item in the amount of EUR 131 million (FY 2020: EUR 148 million), followed by the securities business at EUR 27 million (FY 2020: EUR 26 million). In the previous year, the main factor affecting net commission income in the credit business was increased demand for financing products from the government support programmes during the first phase of the coronavirus pandemic. Net commission income from securities transactions was on par with the previous year.

Administrative expenses

Administrative expenses improved compared with the previous year to EUR 981 million (FY 2020: EUR 1,105 million). This comprised staff costs of EUR 561 million (FY 2020: EUR 697 million) and operating expenses of EUR 420 million (FY 2020: EUR 408 million). Despite a drop in employee numbers, the EUR 136 million fall in staff costs was due more to a reduction in expenses for pensions and other employee benefits and support than lower expenses from wages and salaries. The former fell by a significant EUR 126 million to EUR 234 million (FY 2020: EUR 360 million). The previous year's figure was heavily affected by measurement effects in relation to pension liabilities and expenses from the resolution of legacy issues. The downsizing of BayernLB's workforce is proceeding according to plan, resulting in a reduction of 209 employees. However, due to the implementation timeline the measures are not clearly evident in the staff costs of the reporting year. The main factor in the EUR 12 million increase in general expenses was the higher contributions for the bank levy and deposit guarantee scheme. The reason for the increase in the mandatory contribution for the bank levy to EUR 47 million (FY 2020: EUR 44 million) was the increase in the target volume due to the increase in covered deposits in the eurozone. To achieve the higher target volume, the coefficient for determining the annual target payment was increased from 1.25 percent to 1.35 percent of the covered volume of deposits. The higher mandatory contribution to the deposit guarantee scheme of EUR 69 million (FY 2020: EUR 60 million) was due to the inclusion at BayernLB of the growth in deposits at the subsidiary DKB. The Bank's other general expenses were virtually unchanged on the previous year at EUR 303 million. However, it reported the first savings in cost areas such as buildings, communication/sales and consulting, as it continues along the journey to transform itself.

Net income or net expenses of the trading portfolio

In 2021, net income of the trading portfolio amounted to EUR 119 million, EUR 100 million higher than in the previous year (FY 2020: EUR 19 million) and therefore made a large contribution overall to increasing operating income, on a par with the fall in administrative expenses. The normalisation of the financial markets lifted BayernLB's income from trading in interest-rate products and from forex and equities trading. The main driver of the rise in 2021 was the EUR 114 million jump to EUR 69 million (FY 2020: EUR -46 million) in income from the interest-related business. The foreign notes and coins and precious metals business contributed an additional EUR 46 million to earnings (FY 2020: EUR 55 million). As at 31 December 2021, an allocation of EUR 13 million (FY 2020: allocation of 2 million) was made to the fund for general bank risks pursuant to section 340g HGB.

Other operating profit

After netting other operating expenses, income and other taxes, the Bank posted other operating profit of EUR 97 million in the reporting year (FY 2020: loss of EUR 15 million) after benefiting from the proceeds from the sales of buildings. As part of the change in its strategy, the Bank reconsidered its strategy for its buildings and opted to divest two properties not needed for business operations, producing a gain from the sale of around EUR 100 million.

Risk provisions and gains or losses on measurement

As at 31 December 2021, risk provisions and gains or losses on measurement comprised:

EUR billion	1 Jan – 31 Dec 2021	1 Jan - 31 Dec 2020	Change in %
Gains or losses on credit business	409	51	>100
Gains or losses on liquidity reserve securities	9	46	(80.9)
Risk provisions	**418**	**97**	**>100**
Gains or losses on the measurement of fixed asset securities and hedging derivatives	(2)	–	>100
Gains or losses on participations/equity interests	(671)	(1)	>100
Gains or losses on measurement	**(673)**	**(1)**	**>100**

Changes within the risk provisions line item produced a big gain after netting of EUR 418 million (FY 2020: EUR 97 million), largely due to high net releases in the credit business owing to the additions to section 340f HGB cover reserves made in previous years. In contrast, a small addition was needed in the loan origination business. The risk provisions in the credit business in the amount of EUR 409 million (FY 2020: EUR 51 million) comprised net releases in the credit business of EUR 351 million (FY 2020: EUR 132 million) and other income of EUR 58 million (FY 2020: EUR 184 million).

The other income of EUR 36 million (FY 2020: EUR 163 million) comprised recoveries on written down receivables. Most of this amount came from receipts from the resolution of HETA Asset Resolution AG, Vienna.

In addition, in light of the ongoing coronavirus pandemic BayernLB examined whether the provisions made for latent default risks and general banking risks were reasonable and adjusted the parameters used to calculate the risk provisions in the credit business. As a result of this adjustment, additional expenses of EUR 25 million were created (FY 2020: EUR 91 million).

Measurement gains on securities in the liquidity reserve stood at EUR 9 million (FY 2020: EUR 46 million) and comprised almost exclusively gains in the prices of bonds.

The net gain from risk provisions in the credit business of EUR 418 million was offset by losses on measurement of EUR 673 million (FY 2020: losses of EUR 1 million). This largely comprised a writedown in the book value of DKB in the amount of EUR 703 million. This correction was due to the fact the allocation of capital in the amount of EUR 1.2 billion was not reflected in an increase in the book value.

There was a loss of EUR 2 million on the measurement of fixed asset securities in the financial year.

Operating profit/loss

The operating profit before taxes amounted to EUR 142 million (FY 2020: EUR 240 million).

Gains or losses from extraordinary items

The Bank posted net extraordinary expenses of EUR 11 million for the 2021 financial year (FY 2020: expenses of EUR 245 million). Most of this was attributable to expenses for restructuring and transformation measures in connection with Fokus 2024. In the previous year, provisions for personnel-related restructuring in the amount of EUR 224 million were created for the planned major downsizing of the workforce at the Munich location and foreign branches and an additional EUR 17 million were made for extraordinary expenses in the IT sector. Besides measurement-related adjustments to provisions, the extraordinary expenses in the reporting year comprised transformation costs for activities to safeguard and achieve the vision for 2024. Due to their importance, they are separately reported, related to one-off, non-recurring issues and, because of their nature, cannot be assigned to operating activities. Most of the expenses were specialist and legal consulting fees.

Income taxes

Income tax losses of EUR 57 million (FY 2020: gains of EUR 43 million) were generated under this line item, which included the tax expenses for the current year of EUR 34 million (FY 2020: tax expenses of EUR 29 million) and tax expenses for previous years of EUR 23 million (FY 2020: tax income of EUR 72 million).

Distributable profits

As at 31 December 2021, the Bank had distributable profits of EUR 75 million (FY 2020: EUR 75 million).

BayernLB’s net assets

Assets

EUR billion	31 Dec 2021	31 Dec 2020	Change in %
Cash reserves	3,667	566	>100
Debt instruments issued by public entities and bills of exchange eligible for refinancing with central banks	441	–	–
Loans and advances to banks	32,437	44,311	(26.8)
Loans and advances to customers	72,532	72,824	(0.4)
Bonds, notes and other fixed-income securities	14,151	15,219	(7.0)
Equities and other non-fixed income securities	95	109	(12.8)
Trading portfolio	5,097	7,484	(31.9)
Equity interests	288	240	20.0
Shares in affiliated companies	2,953	2,457	20.2
Assets held in trust	5,721	5,531	3.4
Intangible assets	83	77	7.8
Property, plant and equipment	284	306	(7.2)
Other assets	3,776	2,125	77.7
Deferred income	352	438	(19.6)
Positive difference from asset offsetting	61	232	(73.7)
Total assets	**141,939**	**151,919**	**(6.6)**

Cash reserves

As at the end of the financial year 2021, cash reserves amounted to EUR 3,667 million, an increase of around EUR 3.1 billion on the previous year’s figure of EUR 566 million. The principal reason for the increase was the rise in overnight deposits held with the deposit facility at Deutsche Bundesbank.

Debt instruments issued by public entities

In the financial year, BayernLB resumed its purchases of US Treasury bills from the New York office, increasing its holdings to EUR 441 million.

Loans and advances to banks

As at 31 December 2021, loans and advances to banks contracted by EUR 11.9 billion to EUR 32.4 billion (FY 2020: EUR 44.3 billion), largely due to the repayment of the funds from the ECB’s TLTRO refinancing programme (TLTRO III).

Loans and advances to customers

The Bank's book of loans and advances to customers was slightly smaller than in the previous year at EUR 72.5 billion (FY 2020: EUR 72.8 billion).

Bonds, notes and other fixed-income securities

Bonds and other fixed-income securities dropped by EUR 1.0 billion to EUR 14.2 billion (FY 2020: EUR 15.2 billion), largely due to the smaller holdings of bonds and fixed-income securities in the investment portfolio.

Equities and other non-fixed income securities

The holdings of equities and other non-fixed income securities were almost unchanged at EUR 95 million (FY 2020: EUR 109 million).

Trading portfolio (assets)

In financial year 2021, BayernLB continued to forge ahead with the winding down of non-strategic products as part the reorganisation of the capital markets business agreed in 2019. As at the reporting date, the volume of the trading portfolio (assets) was around EUR 2.4 billion lower at EUR 5,097 million (FY 2020: EUR 7,484 million). This was due to the active reduction in receivables held for trading (EUR -0.8 billion) owing to active sales of Schuldschein note loans and a fall in bonds and other fixed-income securities (EUR -0.5 billion) in connection with the categorisation of certain products as non-core. In addition, the positive market values of derivative financial instruments dropped significantly by EUR 1.0 billion to EUR 2.5 billion (FY 2020: EUR 3.6 billion). This was due mostly to a fall in the positive market value of interest rate derivatives due to the positive interest rate trend in the reporting year.

Participations/equity interests and shares in affiliated companies

The value of the participations/equity interests held by the Bank increased to EUR 288 million (FY 2020: EUR 240 million), due to a retrospective change in book value in connection with a hedge within a valuation unit (book-through method).

The shares in affiliated companies rose by around EUR 500 million, from EUR 2,457 million to EUR 2,953 million. This change arose due to the cash injection of EUR 1.2 billion into DKB's capital reserve and a writedown to its book value of around EUR 0.7 billion. The sale of the BCS stake (50.1 percent) to DKB had only a minimal effect on the shares in affiliated companies as at the end of the year.

Assets held in trust

Assets held in trust rose by EUR 190 million to EUR 5,721 million in the financial year (FY 2020: EUR 5,531 million). This was the result of the ongoing high utilisation of government subsidies from the Free State of Bavaria and the Kreditanstalt für Wiederaufbau, Frankfurt am Main (KfW). As at 31 December 2021, of the assets held in trust EUR 5.3 billion related to BayernLabo and EUR 0.4 billion to BayernLB.

Intangible assets and tangible assets

Intangible assets went up compared with the previous year by EUR 6 million to EUR 83 million (FY 2020: EUR 77 million), partly as a result of the strategically important investments to achieve the vision for IT bank management.

The Bank's tangible assets fell year on year by EUR 22 million to EUR 284 million as at 31 December 2021 (FY 2020: EUR 306 million). This was the outcome from the sale of two buildings at the Munich location not needed for business operations.

Other assets

Compared with the previous year, other assets rose by EUR 1,651 million to EUR 3,776 million (FY 2020: EUR 2,125 million). The main factor behind this was the jump in the price for CO_2 certificates to EUR 89 per tonne (FY 2020: EUR 33 per tonne), which raised the book value of emissions certificates by EUR 1,624 million to EUR 2,879 million (FY 2020: EUR 1,254 million).

Positive difference from asset offsetting

As at 31 December 2021, BayernLB reported a positive difference from asset offsetting of EUR 61 million (FY 2020: EUR 232 million). These surplus assets arose from the offsetting of the fair value of plan assets held by BayernLB Treuhand e.V., Munich (CTA) against the earmarked pension obligations. EUR 41 million of the surplus assets related to BayernLabo and EUR 20 million to BayernLB.

Liabilities

EUR billion	31 Dec 2021	31 Dec 2020	Change in %
Liabilities to banks	39,784	54,185	(26.6)
Liabilities to customers	34,876	36,715	(5.0)
Securitised liabilities	44,003	38,223	15.1
Trading portfolio	3,084	3,974	(22.4)
Liabilities held in trust	5,721	5,531	3.4
Other liabilities	1397	539	>100
Deferred income	320	365	(12.3)
Provisions	1,074	1,862	(42.3)
Subordinated liabilities	2,638	1,526	72.9
Fund for general banking risks	1,127	1,086	3.8
Equity	7,913	7,913	–
Total liabilities	**141,939**	**151,919**	**(6.6)**

Liabilities to banks

Liabilities to banks contracted by EUR 14.4 billion to EUR 39.8 billion (FY 2020: EUR 54.2 billion), largely as a result of the full repayment of the EUR 13.0 billion from the ECB’s long-term tender (TLTRO III), which was drawn down in the previous year.

Liabilities to customers

Liabilities to customers decreased by EUR 1.8 billion to EUR 34.9 billion (FY 2020: EUR 36.7 billion). While amounts due to domestic customers remained stable at EUR 29.3 billion, those to foreign customers fell from EUR 7.4 billion to EUR 5.6 billion, most of which related to the New York branch’s business.

Securitised liabilities

There was a EUR 5.8 billion increase in securitised liabilities to EUR 44.0 billion (FY 2020: EUR 38.2 billion) The Bank’s holdings of issued bond and notes rose by EUR 2.6 billion to EUR 37.2 billion (FY 2020: EUR 34.6 billion). Mortgage Pfandbriefs made up the biggest proportion, rising by EUR 2.1 billion to EUR 5.6 billion (FY 2020: EUR 3.5 billion). The other securitised liabilities increased by EUR 3.2 billion to EUR 6.8 billion (FY 2020: EUR 3.6 billion). This was due to an expansion in the issuance programme and rising demand for sustainable refinancing products. Holdings of short-term money market instruments stood at EUR 6.0 billion at as at the year-end (FY 2020: EUR 3.5 billion).

Trading portfolio (liabilities)

The value of the trading portfolio (liabilities) stood at EUR 3,804 million, which was down on the previous year's figure of EUR 3,974 million. Its key components were negative fair values of derivatives held for trading, valued at EUR 2,166 million (FY 2020: EUR 2,948 million), and liabilities held for trading, valued at EUR 918 million (FY 2020: EUR 1,026 million).

Liabilities held in trust

Liabilities held in trust rose in line with the trust assets by EUR 190 million to EUR 5,721 million (FY 2020: EUR 5,531 million).

Provisions

As at the reporting date, the Bank had provisions of EUR 1,074 million (FY 2020: EUR 1,862 million). Of these, EUR 215 million (FY 2020: EUR 941 million) were provisions for pensions, EUR 93 million (FY 2020: EUR 89 million) for tax provisions and EUR 766 million (FY 2020: EUR 832 million) for other provisions.

BayernLB operates with BayernLB Treuhand e. V., Munich an external contractual trust arrangement (CTA) which is used to fully fund 95 percent of the pension and benefit obligations. In some instances, BayernLB has concluded reinsurance to cover pension commitments. As at 31 December, the offsettable plan assets amounted to EUR 3,155 million (FY 2020: EUR 2,472 million), almost all of which related to the CTA. Liquid assets of EUR 2,415 million were provided to the CTA for the first time to cover the pension obligations. In financial year 2021, additional liquid assets of EUR 740 million were provided to ensure benefit obligations are met. After offsetting the earmarked pension and benefit obligations totalling EUR 3,309 million (FY 2020: EUR 3,175 million) against the fair value of the plan assets, the recognised provisions for pension fell by EUR 941 million to EUR 215 million. The surplus assets arising from the offsetting of EUR 61 million (FY 2020: EUR 232 million) were booked to the positive difference from asset offsetting line item.

Other provisions fell by EUR 66 million year on year to EUR 766 million (FY 2020: EUR 832 million). The provisions included provisions for expected costs from the transformation and restructuring measures in the amount of EUR 492 million (FY 2020: EUR 533 million).

Subordinated liabilities

As at 31 December 2021, the Bank reported significantly higher subordinated liabilities of EUR 2,638 million (FY 2020: EUR 1,526 million). The increase of around EUR 1.1 billion was mainly due to two subordinated bonds, each with a nominal value of EUR 500 million, which were issued as part of the debt issuance programme in the reporting year.

Fund for general banking risks

There was a small increase in the fund for general banking risks to EUR 1,127 million (FY 2020: EUR 1,086 million) due to an addition of EUR 41 million (FY 2020: EUR 36 million). A special item pursuant to section 340e para. 4 HGB in the amount of EUR 72 million (FY 2020: EUR 59 million) was reported under the fund for general banking risks.

Equity

As at 31 December 2021, the Bank's equity as reported on the balance sheet comprised:

EUR billion	31 Dec 2021	31 Dec 2020	Change in %
Subscribed capital	3,413	3,413	–
Capital surplus	2,182	2,182	–
Retained earnings	2,243	2,243	–
Distributable profit	75	75	–
Equity	**7,913**	**7,913**	**–**

Statutory nominal capital remained unchanged at EUR 2,800 million (FY 2020: EUR 2,800 million). There was no year-on-year change in the capital surplus, which stood at EUR 2,182 million (FY 2020: EUR 2,182 million). The distributable profits of financial year 2020 were distributed to the shareholders in the amount of EUR 75 million in the reporting year. Subject to the approval of the Annual General Meeting, the distributable profits of EUR 75 million of financial year 2021 will be paid to BayernLB's shareholders.

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

The banking supervisory capital under CRR/CRD IV as per the prepared consolidated financial statements as at 31 December 2021 comprised:

EUR billion	31 Dec 2021	31 Dec 2020	Change in %
Total RWAs	43.0	44.4	(3.0)
Own funds	11.2	10.0	11.5
Core capital	8.6	8.5	1.6
Common Equity Tier 1 capital (CET1 capital)	8.6	8.5	1.6
Total capital ratio (%)	25.9	22.6	3.3 pp
Common Equity Tier 1 (core tier 1 ratio) in percent	20.0	19.0	1.0 pp

As at 31 December 2021, the return on capital employed as defined in section 26a para. 1 sentence 4 of the German Banking Act (KWG)[36] was 0.0 percent (FY 2020: 0.0 percent).

36 Ratio of net profit for the year and total assets

BayernLB's financial position

During financial year 2021, it was ensured that liquidity reserves at BayernLB were always adequate, even in stress situations. For further details, refer to the risk report in the combined management report.

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

BayernLB's results of operations were satisfactory in 2021. BayernLB's net assets and financial position were solid in financial year 2021. The Bank's liquidity was good throughout the reporting period.

Risk report

Principles

This risk report sets out the risk situation of the BayernLB Group and BayernLB as at 31 December 2021. The following explanations refer primarily to risk management at the BayernLB Group. The BayernLB key figures at individual bank level are shown in addition to those at Group level. A separate explanation is provided where processes and procedures differ.

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

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

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

Regulatory developments

BayernLB Group has been addressing the topic of sustainability for many years. Sustainability is a priority in DKB's business model in particular, and the topic is also being accorded ever greater importance by BayernLB in its lending and treasury measures. Comprehensive additional measures have already been adopted to meet the ECB's expectations, as published in its Guide on climate and environmental risks. The internal project initiated for this purpose at the BayernLB Group is focused on the implementation of the ECB's expectations in accordance with the Guide, the requirements of the EU Taxonomy Regulation and the preparations for the ECB's 2022 Climate Stress Test. The project concentrated in particular on organisation and strategy and additionally adapted many aspects of governance. Of particular note in this regard are the sustainability and risk strategy, the taking into account of ESG risk drivers in the risk inventory and stress testing, the inclusion of funding (ESG impact) measured through internal ESG assessment tools and borrowers (ESG risk) in the credit approval process, as well as the consideration of the measured credit portfolio in the sector portfolio reports.

Key developments in 2021

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

The risk guidelines and proactive risk management kept the risk profile of the BayernLB Group largely stable in the 2021 financial year, despite business growth and the continuing coronavirus pandemic.

Gross credit volume rose by EUR 15.4 billion to EUR 328.8 billion.

The increase was largely the result of continued participation in the ECB’s TLTRO III programme. In line with strategy, new business came in particular from the Commercial Real Estate and Retail sub-portfolios.

The portfolio quality remained high, even when the negative impact of the coronavirus pandemic was taken into account.

Risk-bearing capacity was maintained throughout the financial year 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

Management structure

The organisation of the boards below the Board of Management reflects the European regulatory structure led by the ECB, involving the Single Supervisory Mechanism (SSM) and Supervisory Review and Evaluation Process (SREP), with the objective of making corporate management more consistent and transparent within the BayernLB Group. As part of the refinement of the Fokus 2024 transformation programme, the organisation of the committees and boards was again slightly streamlined in 2021 to fit the requirements of the future realignment. The previous structure of the boards around the CFO/COO Board and Regulatory Board was consolidated by transferring tasks to the responsible line units.

Supervisory Board and committees

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

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

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

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

Board of Management

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

Senior management (boards)

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

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

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

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

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

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

Organisation

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

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

Risk Office

BayernLB's Risk Office (RO) comprises the Group Risk Control, RO Credit Analysis, Credit Consulting and Research divisions.

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

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

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

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

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

Financial Office

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

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

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

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

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

Operating Office

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

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

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

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

Corporate Center

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

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

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

Internal control procedure in risk management

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

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

Risk-oriented management

Group Risk Strategy

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

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

The BayernLB and BayernLB Group risk strategy for 2021 encompasses the following main objectives:

- Ensure on a sustainable basis that the amount and quality of risk-bearing capacity is appropriate from both a regulatory and economic perspective (capital adequacy)
- Ensure solvency at all times
- Ensure the BayernLB Group only takes on risks it is able to assess and manage
- Ensure quality takes priority over quantity when it comes to portfolio growth
- Maintain a risk culture that promotes the identification of and a conscious approach to risks and ensures that decision-making processes produce results which are also balanced from a risk perspective
- Sales and Risk units are jointly responsible for earnings after risk provisions
- In managing the material and significant risks, assess the ESG risk-drivers continuously and in an increasingly granular fashion. Analyse and manage climate and environmental risks within this area especially closely
- The BayernLB Group sets itself high fundamental ethical standards in its business activities and actively aligns its business activities to ESG criteria and sustainability (by adhering to the sustainability strategy and guidelines)
- Ensure the employee incentive schemes (remuneration system) are consistent with the Business and Risk Strategy

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

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

Capital management

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

Integrated risk and earnings reporting

Trends in performance, capital, liquidity and risk are combined into a monthly Group management report presented to the Board of Management. As a component of the integrated reporting, the Group management report provides an initial impression of the current situation of the BayernLB Group and the Group units with key figures and ratios. Additional detailed information focused on the four key areas is then presented and commented on (in particular on the Group risk status, which is updated shortly after the end of each month, and the detailed quarterly Group risk report). The Board of Management meetings on the Group management report also include regular reports on specific, current focal topics.

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

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

Regulatory capital adequacy (solvency)

To ensure BayernLB has an adequate amount of regulatory capital, the following objectives, methods and processes have been defined: the starting point for the allocation of regulatory capital is the BayernLB Group's own funds planning. Own funds are defined as Common Equity Tier 1 capital (CET1), Additional Tier 1 capital and Tier 2 capital. Common Equity Tier 1 capital comprises subscribed capital plus reserves, the capital contribution of BayernLabo and various supervisory adjustments and deductions. BayernLB does not currently have additional Tier 1 capital. Tier 2 capital comprises mostly long-term subordinated liabilities.

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

Regulatory capital is distributed in the planning process to each planning unit through RWAs. The planning units (Group units) are the defined business areas and divisions of BayernLB, as well as BayernLabo and DKB.

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

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

With a CET1 ratio of 17.3 percent, the BayernLB Group has a very solid capital base.

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

Economic capital adequacy (risk-bearing capacity)

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

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

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

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

Stress testing

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

The BayernLB Group's stress-testing programme includes both severe economic downturn (global economic crisis) and other market-wide and idiosyncratic stress tests. Even under the assumption of an extended global economic crisis triggered by the current coronavirus pandemic, there would be sufficient risk-bearing capacity, despite a considerable increase in the risk capital requirements.

The stress tests are performed consistently for both the normative and the economic perspective. Given the increasing relevance of ESG risks, climate stress tests are also performed on physical and transitory risks and incorporated into the stress-testing programme in stages.

In addition to historical scenarios, the impact of adverse changes in risk factors both on specific risk types and across risk types is also analysed using hypothetical scenarios. The latter in particular have a major role in the analysis of ad hoc scenarios. They also take into account potential threat scenarios for the BayernLB Group that are triggered by external situations (e.g. a cyber attack).

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

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

Current situation

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

Risk capital requirement at the BayernLB Group

EUR million	31 Dec 2021	31 Dec 2020
Credit risk	1,302	1,331
Market risk	1,396	1,798
Pension basis risk	249	290
Operational risk	531	505
Investment risk	92	124
Business and strategic risk (includes reputational risk)	110	272
Liquidity cost risk	24	7
Total	**3,704**	**4,328**

Risk capital requirement at BayernLB

EUR million	31 Dec 2021	31 Dec 2020
Credit risk	882	925
Market risk	845	1,190
Pension basis risk	246	288
Operational risk	338	333
Investment risk	81	114
Business and strategic risk (includes reputational risk)	306	423
Liquidity cost risk	24	7
From loans provided within the BayernLB Group	485	397
Total	**3,207**	**3,677**

The BayernLB Group had adequate risk-bearing capacity at all times, as the provision of economic capital was solid. The sharp year-on-year decline in the economic risk capital requirement in market risk was largely due to the decline in market volatility in the second half of the year. The BayernLB Group had economic capital of EUR 11.1 billion (FY 2020: EUR 10.3 billion), while the figure for BayernLB was EUR 8.8 billion (FY 2020: EUR 7.6 billion).

Risk appetite remained at EUR 7.8 billion (FY 2020: EUR 7.8 billion) at the BayernLB Group and at EUR 6.3 billion (FY 2020: EUR 6.3 billion) at BayernLB Bank.

The risk capital requirement for investment risk at the BayernLB Group fell to EUR 92 million. This was largely attributable to revaluations of carrying amounts and some improvements in ratings.

The risk capital requirement for business and strategic risk at the BayernLB Group fell to EUR 110 million, as due account was taken of the positive earnings trend.

The early repayment of BayernLB's TLTRO led to a minor increase in the risk capital requirement of the liquidity cost risk as at 31 December 2021.

Recovery plan

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

The recovery plan was amended in 2021 to take account of changes in the system of indicators, the focus on an idiosyncratic and a global scenario with regard to coronavirus and the refinement of the possible courses of action. The thresholds for the one and two-stage indicators in the recovery plan, which are set mainly at Group level and are based on the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz (SAG)) and Minimum Requirements for the Design of Recovery Plans (MaSan), all returned to green status during the course of 2021 following their temporary triggering in 2020 as a result of the pandemic. Against this background, no recommendations for action needed to be sent to the Board of Management.

Resolution plan

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

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

Credit risk

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

Definition

BayernLB defines credit risk as the risk of losses (in value) from all transactions giving rise to an actual, possible or contingent claim by the Bank against a borrower, counterparty, obligor or issuer, whenever these losses (in value) result from a default or change in the borrower's credit rating (migration risks) and/or from a change in the value of collateral provided.

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

Organisation

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

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

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

Risk Strategy

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

Risk measurement

Risk classification procedure

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

Due to new supervisory requirements, it was decided in 2020 that in future the parameters probability of default (PD), loss given default (LGD) and credit conversion factor (CCF) will be estimated without a margin of conservatism (best estimate) and that the margin of conservatism will be disclosed separately. This was first implemented in 2020 for the parameters LGD and CCF, as the supervisory review and approval for the parameter PD is currently awaited due to BayernLB's IRBA status. The implementation of the parameter PD could not be carried out in 2021 due to the outstanding checks and authorisations but is likely to take place in 2022.

Exposure at default

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

Collateral valuation and loss ratios

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

Expected loss

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

Expected losses are also relevant for the calculation of standard risk costs. Expected losses are also incorporated into the calculation of portfolio risk provisions.

Unexpected loss

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

Risk monitoring

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

Early warning

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

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

Credit risk limits for borrowers and borrower units

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

Sector and country limits

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

Risk capital requirements

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

Collateral

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

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

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

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

Intensive support, restructuring & workout, and forbearance

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

By initiating suitable measures at an early stage as part of an intensive support or restructuring & workout, BayernLB aims to prevent or minimise potential losses from occurring.

At BayernLB, the Credit Consulting Division is responsible for restructuring & workout, and therefore acts as an independent workout unit (WU) as defined in the regulatory requirements. At DKB this function is performed by the institution's own Credit Consulting Division.

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

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

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

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

Risk provisions

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

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

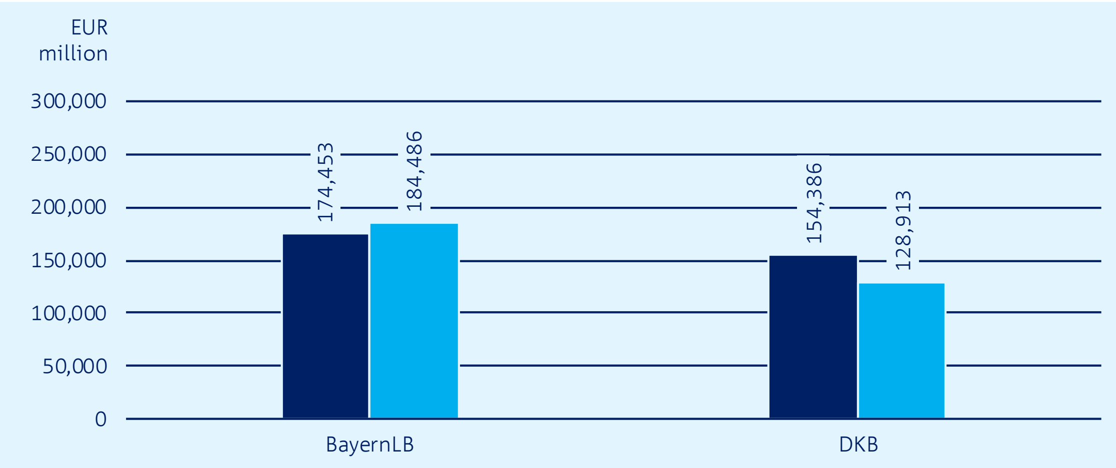
Current situation

The following presentation of credit risk is based on the figures used for internal reporting to the Board of Management and the Risk Committee of the Supervisory Board ("management approach"). The figures are, in turn, 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.

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

The figures for the management approach include BayernLB and DKB.

Gross credit volume by Group unit



■ 31 Dec 2021 Total: EUR 328,838 million
■ 31 Dec 2020 Total: EUR 313,399 million

The gross credit volume for credit transactions comprises the gross lending volume – drawdowns plus unutilised commitments – and undrawn overdraft facilities. This is calculated from market values for trading transactions and from potential future exposure for derivatives transactions, with a confidence level of 95 percent.[37]

37 *For details of the changes in the calculation of the gross credit volume for derivatives transactions, refer to the comments in note 2.*

Compared with 31 December 2020, the BayernLB Group’s gross credit volume rose by EUR 15.4 billion or 4.9 percent to EUR 328.8 billion.

The Countries/Public-Sector/Non-Profit Organisations sub-portfolio posted the largest increase (EUR 8.6 billion). This increase was largely driven by DKB and is the result of increased liquidity investments at the Deutsche Bundesbank. BayernLB’s liquidity investments at the Deutsche Bundesbank had been significantly reduced by the reporting date. The total gross credit volume held with the Deutsche Bundesbank increased by EUR 7.6 billion.

Excluding the increased liquidity investments at the Deutsche Bundesbank, the gross credit volume at the BayernLB Group rose by EUR 7.9 billion. In keeping with the strategy, the Commercial Real Estate and Retail/Other sub-portfolios played a significant part in the growth in business. The Corporates sub-portfolio in particular saw a decline in gross credit volume. The strategic restructuring made considerable progress in this sub-portfolio. The target sector of energy was further expanded and the gross credit volume for transactions that no longer fall under BayernLB’s strategic focus was reduced.

The effects of the coronavirus pandemic observed in 2020 in the form of declines in creditworthiness in some areas of the Corporates sub-portfolio largely continued to be felt during the reporting period. Sectors highly impacted by restrictions brought in during pandemic, e.g. tourism and aviation, experienced particularly steep declines. The economic outlook also continued to be tempered by delays in deliveries and procurement problems. There was, however, something of a reduction in the negative effects in certain areas during the reporting period. The credit ratings in the Financial Institutions and Corporates sub-portfolios began stabilising or improving from the end of the first half of the year onwards. This trend was continued in the second half of the reporting period. In parallel, the high demand for government subsidy programmes launched to deal with the effects of the coronavirus pandemic tailed off significantly during the second half of the year. There is still a considerable degree of uncertainty with regard to future creditworthiness and the portfolio quality due to the risks associated with the further progression of the pandemic.

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

	BayernLB Group			BayernLB		DKB	
EUR million	31 Dec 2021	31 Dec 2020	Change (in %)	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Countries/Public Sector/ Non-Profit Organisations	100,245	91,677	9.3%	38,345	47,867	61,901	43,810
Corporates	72,941	74,659	(2.3)%	49,975	53,791	22,966	20,868
Commercial Real Estate	63,459	59,186	7.2%	30,874	28,346	32,585	30,839
Financial Institutions	53,798	52,824	1.8%	51,841	50,957	1,957	1,867
Retail/Other	38,395	35,053	9.5%	3,419	3,525	34,976	31,529
of which Retail	38,326	34,919	9.8%	3,349	3,390	34,976	31,529
Total	**328,838**	**313,399**	**4.9%**	**174,453**	**184,486**	**154,386**	**128,913**

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

	BayernLB Group			BayernLB		DKB	
EUR million	31 Dec 2021	31 Dec 2020	Change (in %)	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Countries/Public Sector/ Non-Profit Organisations	97,593	89,002	9.7%	36,219	45,677	61,374	43,325
Corporates	60,374	60,656	(0.5)%	40,920	44,417	19,454	16,239
Commercial Real Estate	17,077	15,345	11.3%	8,599	7,847	8,478	7,498
Financial Institutions	51,213	50,513	1.4%	49,359	48,758	1,854	1,754
Retail/Other	26,529	23,452	13.1%	256	306	26,273	23,147
of which Retail	26,460	23,356	13.3%	187	209	26,273	23,147
Total	**252,786**	**238,968**	**5.8%**	**135,354**	**147,005**	**117,432**	**91,962**

Net credit volume is calculated as gross exposure less the value of collateral. Net credit volume also increased significantly by EUR 13.8 billion, principally due to the considerable increase in unsecured liquidity investments at the Deutsche Bundesbank and the expansion of business in the Retail/Other and Commercial Real Estate sub-portfolios. The Group's collateral volume grew in parallel by EUR 1.6 billion. This change was largely the result of a higher volume of charges over properties (EUR 2.7 billion) and debt undertakings (EUR 0.6 billion), accompanied by a fall in the volume of transfers of title for collateral purposes (EUR 1.9 billion). The increase in charges over properties was the result of the growth in business in the (traditionally highly collateralised) Commercial Real Estate sub-portfolio. The increase in debt undertakings stemmed primarily from a higher volume of municipal default guarantees relating to the financing of municipal services. The decline in transfers of title for collateral purposes was largely the result of a Group-wide harmonisation of collateral reporting and had no economic impact on the associated credit risk.

The collateral ratio at the BayernLB Group declined from 23.7 to 23.1 percent, primarily because of the increase in unsecured exposure with the Deutsche Bundesbank.

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

Breakdown by rating

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

Gross credit volume by rating category

31 Dec 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**

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

Gross credit volume at the BayernLB Group in the master rating (MR) categories 0–7 rose by EUR 16.5 billion in the reporting period. This increase was primarily attributable to the following: The majority of the increase was accounted for by the Countries/Public-Sector/Non-Profit Organisations sub-portfolio (EUR 8.4 billion), where the increase in the gross credit volume held with the Deutsche Bundesbank was particularly significant (EUR 7.6 billion). In addition, the gross credit volume also rose in the Retail/Other (EUR 2.9 billion), Commercial Real Estate (EUR 2.5 billion), Financial Institutions (EUR 2.1 billion) and Corporates (EUR 0.6 billion) sub-portfolios. The increase in volume in these rating categories was largely down to new business. There were also improvements in creditworthiness as a result of migrations from rating categories with lower credit ratings, particularly in the Financial Institutions, Real Estate and Corporates sub-portfolios. This demonstrates a reduction in the negative effects of the coronavirus pandemic, particularly in the second half of the reporting period.

The credit volume also increased in the rating category MR 8-11. The increase amounted to EUR 1.1 billion and was largely the result of four movements. In the Commercial Real Estate and Retail/Other sub-portfolios, gross credit volume increased by EUR 1.6 billion and EUR 0.9 billion respectively. The principal reason for the higher credit volume in the two sub-portfolios was the business growth in these rating categories. The aforementioned migrations to the rating categories MR 0-7 in the Commercial Real Estate sub-portfolio tempered the increase in gross credit volume to a lesser degree. Gross credit volume in rating categories MR 8-11 fell by EUR 1.0 billion and EUR 0.6 billion respectively in the Financial Institutions and Corporates sub-portfolios. This was largely the result of migrations due to improvements in creditworthiness in the rating categories MR 0-7.

In total, the investment grade business volume (MR 0-11) rose by EUR 17.5 billion. Accordingly, the investment grade share of the Group portfolio also improved from 87.9 percent to 89.1 percent. Excluding the increased liquidity investments at the Deutsche Bundesbank, the investment grade share improved significantly to 88.8 percent.

Gross credit volume in rating categories MR 12-14 and MR 15-18 fell by a total of EUR 0.6 billion and EUR 1.4 billion respectively over the reporting period. The principal reason for these declines was the reduction in business in the Corporates sub-portfolio in line with strategy. The percentage in this rating category fell from 8.5 percent to 7.9 percent (MR 12-14) and from 2.7 percent to 2.2 percent (MR 15-18).

Business volume in the rating categories MR 19-21 declined by EUR 0.3 billion. A significant proportion of this decline resulted from deteriorations in creditworthiness with corresponding migrations to the default categories. The percentage in these rating categories reduced accordingly, from 0.3 percent to 0.2 percent.

Gross credit volume in the default categories MR 22-24 rose by EUR 0.3 billion. Most of this increase occurred in the Corporates sub-portfolio. The BayernLB Group's non-performing loan ratio (NPL ratio) remained unchanged at 0.6 percent during the reporting period. While BayernLB saw a slight increase from 0.6 percent to 0.9 percent, DKB posted a fall from 0.5 percent to 0.3 percent. Excluding the increase in the business volume with the Deutsche Bundesbank, the BayernLB Group also had an NPL ratio of 0.6 percent.

Adequate risk provisions were set aside to cover loans moved into the default category. 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 is particularly evident in the markedly higher investment grade share and the stable NPL ratio. The impact of the coronavirus pandemic on the gross credit volume in the default categories remained manageable. In addition to a significantly higher gross credit volume with the Deutsche Bundesbank in the Countries/Public-Sector/Non-Profit Institutions sub-portfolio, the business growth in the Commercial Real Estate and Retail/Other sub-portfolios in particular had a positive impact on the investment grade share. Furthermore, the Group portfolio saw improvements in creditworthiness in the reporting period. This is particularly evident in the Corporates, Financial Institutions and Commercial Real Estate sub-portfolios, where glimmers of a recovery from the negative impact of the coronavirus pandemic can be seen, particularly in the second half of the period under review.

Renegotiated credits

The definition of renegotiated credits (forbearance pursuant to Art. 47b CRR) remained unchanged since the previous financial year. Countries around the world undertook a variety of measures to reduce the macroeconomic consequences of the coronavirus pandemic. Consumers in Germany were able to exercise the option of a legislative moratorium until 30 June 2020 (see Article 240 section 3 EGBGB). The supervisory authorities also permitted institutions to agree private moratoria among themselves, provided these comply with the EBA Guideline (EBA/GL/2020/02 in conjunction with EBA/GL/2020/08 and EBA/GL/2020/15) criteria.

Measures approved as part of a moratorium cannot be regarded as forbearance pursuant to Art. 47b CRR. At the BayernLB Group, only the legislative moratorium for consumers was applied until 30 June 2020. All other measures associated with the coronavirus pandemic are decided upon by considering each borrower on an individual basis and are subject to the regular requirements on forbearance testing.

Current situation

Loans and advances subject to coronavirus-related (forbearance) measures, government and private moratoria and public guarantees associated with the coronavirus pandemic as at 31 December 2021

EUR million	31 Dec 2021	31 Dec 2020
Loans subject to an EBA-compliant moratorium[1]	91.6	120.7
Loans subject to coronavirus-related forbearance measures[2]	739.6	511.3
New loans subject to coronavirus-related public guarantees[3]	478.1	392.0
Total	**1,309.3**	**1,023.9**

1 The volume shown includes loans and advances to customers and refers solely to already 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 was confined strictly to DKB's retail portfolio. The loans subject to coronavirus-related (forbearance) measures aggregate all individually agreed measures as a result of the coronavirus crisis.

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

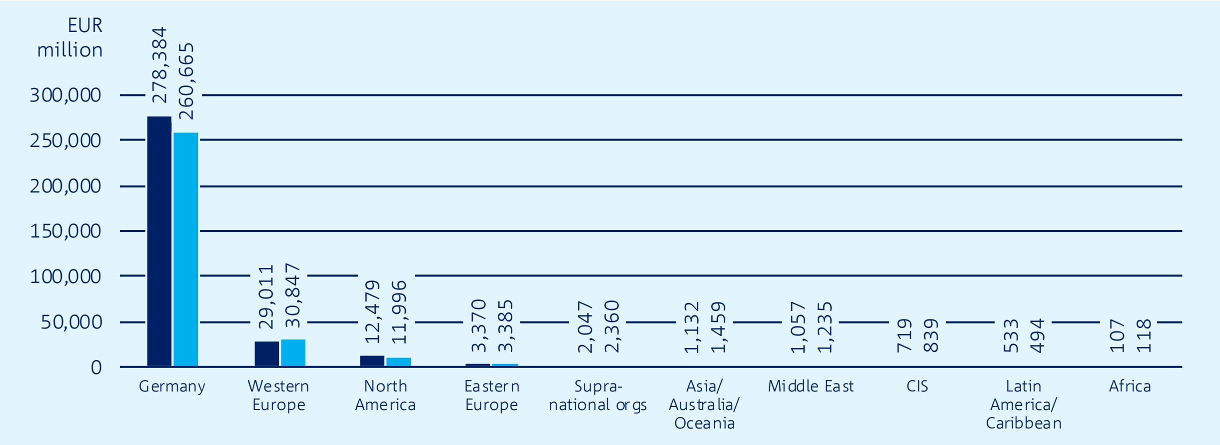
Forbearance exposures

EUR million	Renegotiated credits/deferrals		Impairments		Collateral/financial guarantees received	
	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020	31 Dec 2021	31 Dec 2020
Loans and advances to banks	5.1	5.1	(4.8)	(5.1)	–	–
Loans and advances to customers	1,299.7	1,337.4	(346.7)	(287.6)	290.8	352.0
Financial investments	–	–	–	–	–	–
Credit commitments	432.8	374.9	(19.2)	(18.0)	42.9	29.2
BayernLB Group	**1,737.6**	**1,717.4**	**(370.7)**	**(310.7)**	**333.7**	**381.1**

Breakdown by region

The following table shows gross credit volume by region.

Gross credit volume by region



■ 31 Dec 2021 Total: EUR 328,838 million
■ 31 Dec 2020 Total: EUR 313,399 million

In line with the Business Strategy and the Risk Strategy, Germany accounted for a dominant share of the BayernLB Group's lending at 84.7 percent (FY 2020: 83.2 percent). BayernLB is responsible for the bulk of foreign business. A very small proportion of DKB's business is conducted abroad.

The Group's gross credit volume in Germany increased significantly to EUR 278.4 billion (FY 2020: EUR 260.7 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 8.8 billion), where the increase in the gross credit volume held with the Deutsche Bundesbank was particularly significant. Business volumes rose by EUR 3.3 billion in the Retail/Other sub-portfolio, by EUR 2.6 billion in the Commercial Real Estate sub-portfolio, by EUR 2.5 billion in the Financial Institutions sub-portfolio and by EUR 0.4 billion in the Corporates sub-portfolio.

Regionally, the most significant changes in gross credit volume were in Western Europe (excluding Germany) and North America. This fell by EUR 1.8 billion in Western Europe, while the business volume rose by EUR 0.5 billion in North America.

In Russia, Ukraine and Belarus, the gross credit volume was reduced from EUR 0.7 billion to EUR 0.6 billion during the reporting period. 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 0.2 billion as at the year-end.

Gross and net exposure in the CIS states (including Ukraine)

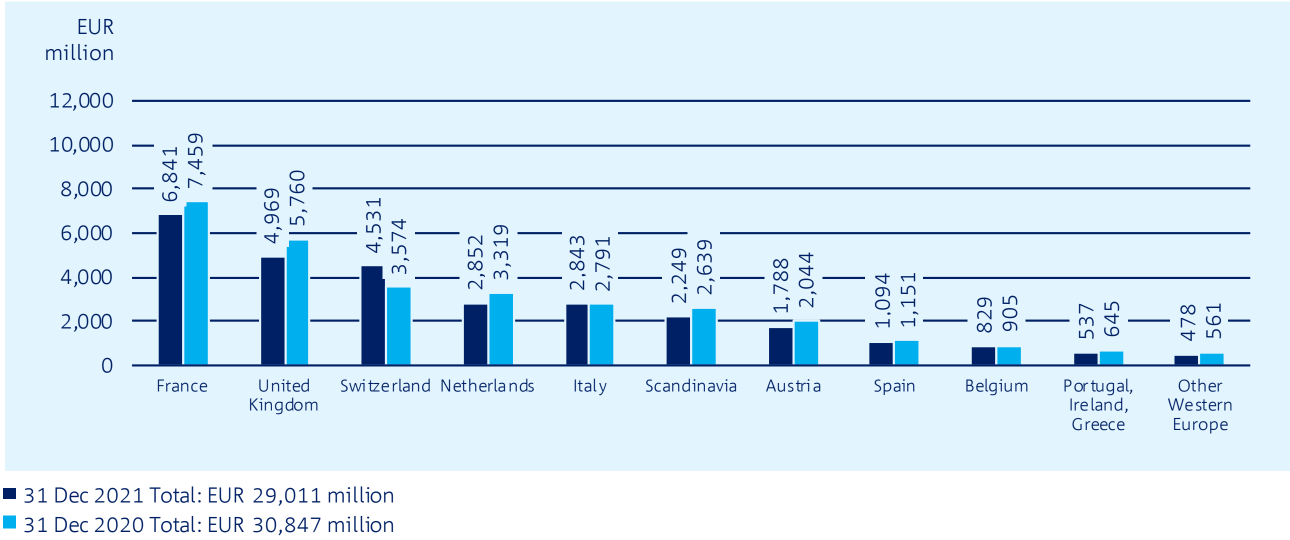
EUR million	Gross		Net	
	31 Dec 2021	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
Russia	482.8	613.1	139.6	158.3
Azerbaijan	89.5	102.1	5.7	9.5
Ukraine	91.3	55.5	10.4	4.9
Belarus	20.7	23.8	14.5	14.3
Uzbekistan	17.9	19.9	1.5	1.7
Turkmenistan	11.5	14.8	0.5	0.7
Kazakhstan	5.4	9.4	5.4	9.4
BayernLB Group	**718.9**	**838.6**	**177.7**	**198.7**

All other regions reported only minor changes and mostly declining business volumes.

Generally speaking, country risks and risk/return ratios in lending abroad continued to be very closely managed and monitored, given the effects of the coronavirus pandemic and economic and political uncertainties in various countries.

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)

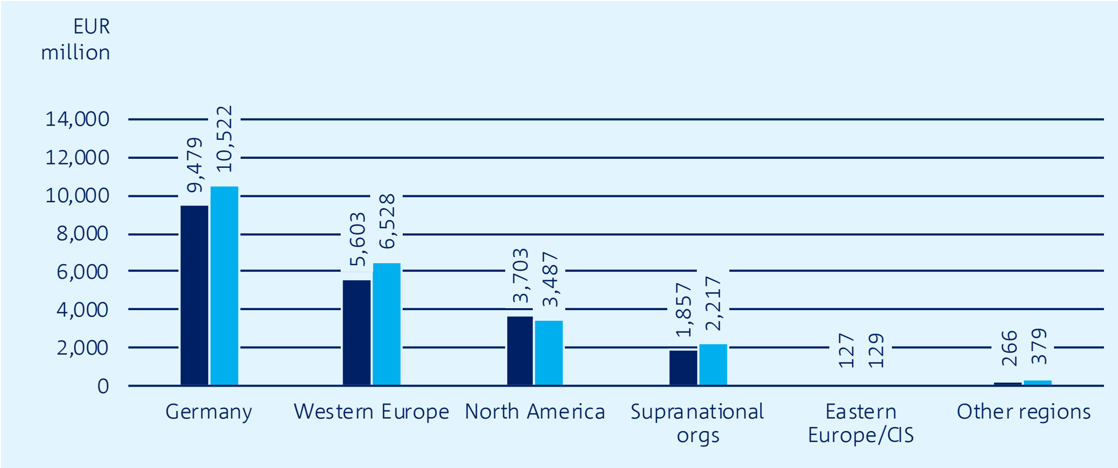


Gross credit volume in Western Europe (excluding Germany) fell by around EUR 1.8 billion to EUR 29.0 billion (FY 2020: EUR 30.8 billion). Switzerland saw a significant increase in business volume (EUR 1.0 billion), with gross credit volume up in the banks and insurers sectors. Gross credit volume declined primarily in the UK (EUR 0.8 billion), France (EUR 0.6 billion), the Netherlands (EUR 0.5 billion) and Austria (EUR 0.3 billion). A large proportion of the decline in these countries stemmed from the Financial Institutions, Countries/Public-Sector/Non-Profit Institutions and Corporates sub-portfolios.

Issuer risk

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

Gross issuer risk by region



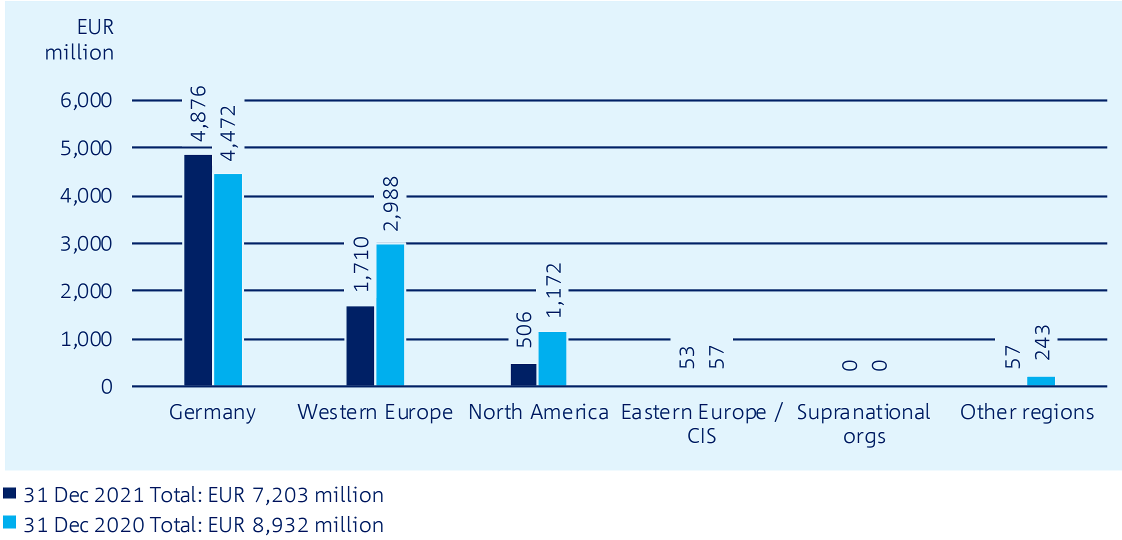
■ 31 Dec 2021 Total: EUR 21,036 million
■ 31 Dec 2020 Total: EUR 23,261 million

Gross issuer volume fell by around EUR 2.2 billion to EUR 21.0 billion in the reporting period (FY 2020: EUR 23.3 billion). Germany (EUR 1.0 billion), Western Europe (EUR 0.9 billion) and supranational organisations (EUR 0.4 billion) accounted for the bulk of the fall in gross issuer risks. The majority of the decline in Western Europe was attributable to France (EUR 0.3 billion), Sweden (EUR 0.2 billion), the Netherlands (EUR 0.2 billion) and Luxembourg (EUR 0.1 billion).

Replacement risk

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

Gross replacement risk by region

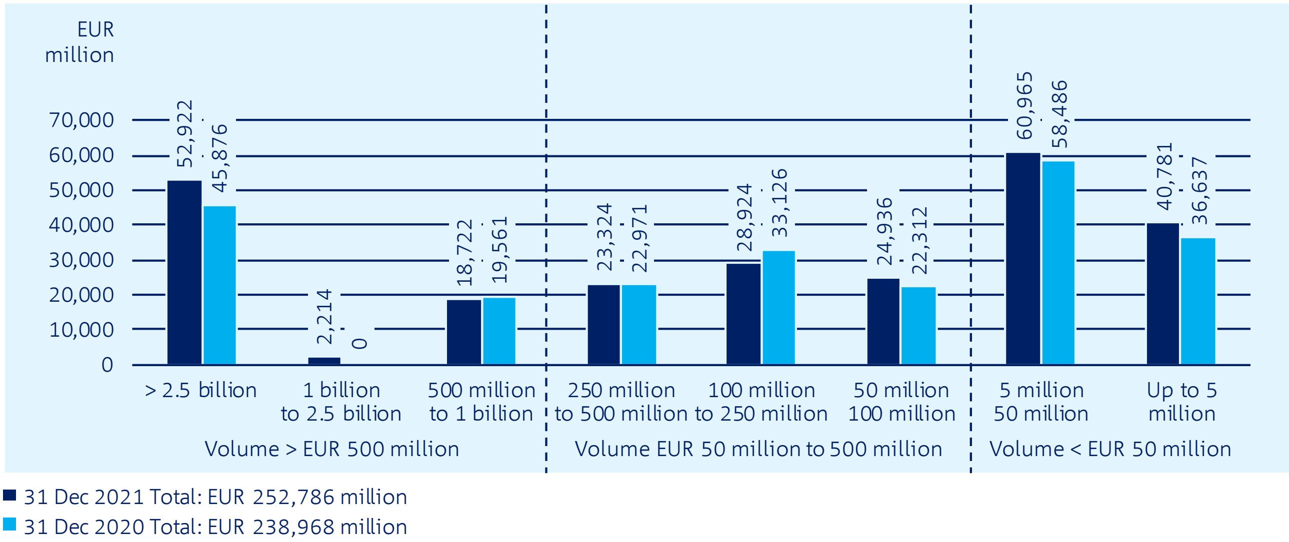


Gross replacement risk fell by EUR 1.7 billion to EUR 7.2 billion during the reporting period (FY 2020: EUR 8.9 billion). This decrease essentially boiled down to two opposing trends: while gross replacement risk in Germany rose by EUR 0.4 billion, the volume fell in Western Europe (by EUR 1.3 billion) and North America (by EUR 0.7 billion). The decline in Western Europe was largely attributable to the UK and France, while in North America it was due to the US. In Western Europe and North America the declines in gross replacement risk are largely accounted for by the Financial Institutions sub-portfolio.

Breakdown by size category

The following table shows net credit volume by size.

Net credit volume by size



Net credit volume with customers in the more than EUR 2.5 billion category was up significantly by EUR 7.0 billion to EUR 52.9 billion (FY 2020: EUR 45.9 billion). The increase was accounted for by DKB's increased 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 EUR 1.4 billion to EUR 20.9 billion (FY 2020: EUR 19.6 billion). The increase in these size categories stemmed from a higher gross credit volume in the Corporates (EUR 1.4 billion) and Financial Institutions (EUR 1.0 billion) sub-portfolios and a decline in volume in the Countries/Public-Sector/Non-Profit Institutions sub-portfolio (EUR 1.1 billion). These categories predominantly include savings banks, German and international banks and insurers, large DAX companies and government entities. The range of individual ratings is in the very good investment grade category (MR 0 to 7). The net credit volume in these size categories over the reporting period was entirely down to BayernLB customers.

The size category of net credit volumes from EUR 250 million to EUR 500 million posted a rise of EUR 0.4 billion to EUR 23.3 billion. The key driver of this increase was the Corporates sub-portfolio, where individual exposures with customers from the energy and mobility sectors were expanded.

The high granularity of the portfolio was largely maintained. Net credit volume in the up to EUR 250 million categories rose to EUR 155.6 billion as at the reporting date (2020: EUR 150.6 billion). The percentage in these categories declined slightly to 61.6 percent (FY 2020: 63.0 percent). Both institutions 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 rose significantly by EUR 8.6 billion or 9.3 percent to EUR 100.2 billion (FY 2020: EUR 91.7 billion). Volumes at BayernLB were down by EUR 9.5 billion to EUR 38.3 billion, while DKB saw a rise of EUR 18.1 billion to EUR 61.9 billion.

The change in the gross credit volume at BayernLB was largely the result of four movements. The business volume with the Deutsche Bundesbank fell by EUR 8.1 billion to EUR 6.4 billion. Transactions with German state governments (EUR 1.5 billion) and foreign central bank positions (EUR 0.4 billion) were also down. In contrast, the volume of financing attributable to German municipalities and domestic public-sector special-purpose associations was expanded (EUR 0.5 billion).

The increase in gross credit volume at DKB was largely the result of the rise in the position at the Deutsche Bundesbank of EUR 15.7 billion to EUR 38.4 billion. In addition, DKB managed to increase its business volume with the German public sector by around EUR 2.8 billion, while funding to domestic non-profit organisations declined slightly (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 very high investment grade share in the Countries/Public-Sector/Non-Profit Organisations sub-portfolio improved slightly to 98.7 percent (FY 2020: 98.6 percent).

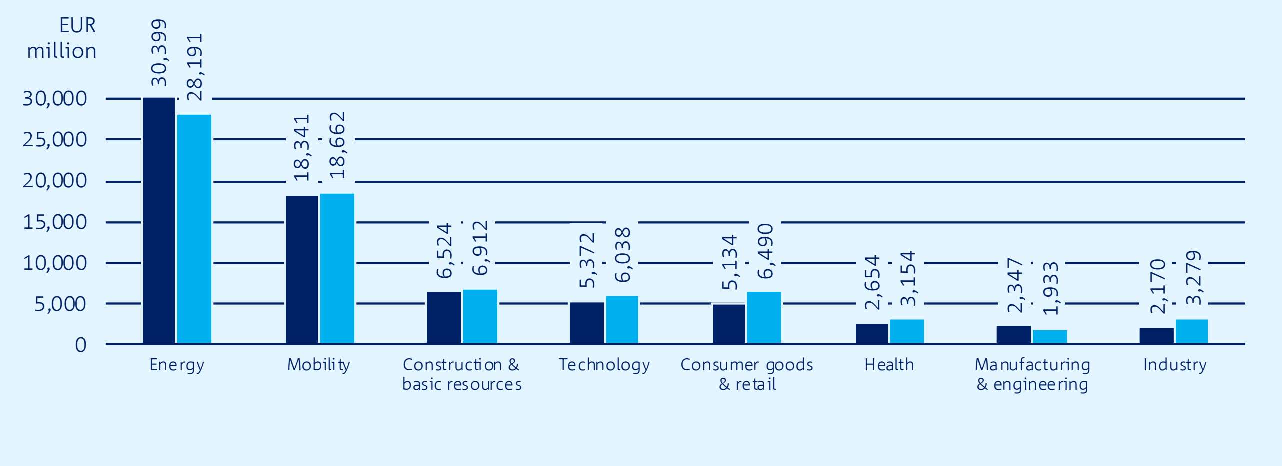
Corporates sub-portfolio

The Corporates sub-portfolio continued to be confronted by significant challenges in the 2021 financial year. Alongside the very high and relentless pressure on margins, the impact of the coronavirus pandemic was of particular importance. The sub-portfolio also underwent a strategic realignment in 2020, when the target sectors were redefined. The implementation of the new target sectors took place in the first half of 2021.[38] Despite these economic conditions and by maintaining a strong focus on the strategic target sectors, the business volume in the sub-portfolio remained at a high level of EUR 72.9 billion (FY 2020: EUR 74.7 billion).

38 For details of the changes to the management of the Corporates sub-portfolio and the associated adjustment as per IAS 8.22, refer to the comments in note 2.

Particularly worthy of note in this regard is the considerable expansion of business in the strategically important energy target sector. In parallel and in line with strategy, further progress was made with the restructuring of the portfolio by reducing the gross credit volume in sectors that no longer fall under the Bank's strategic focus.

Sector breakdown within the Corporates sub-portfolio



■ 31 Dec 2021 Total: EUR 72,941 million
■ 31 Dec 2020 Total: EUR 74,659 million

The following five 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 sector strategically, rose by EUR 2.2 billion or 7.8 percent to EUR 30.4 billion. At EUR 1.8 billion, most of the increase was accounted for by the financing of renewable energy and, in particular, project financing based on the German Renewable Energy Act. The volume with grid operators and energy providers also increased by EUR 0.4 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 58.6 percent. As loans for renewables are largely granted by DKB, the latter continues to account for an above-average share of the energy sector at 60.7 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 major 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 87.6 percent, the majority of the financing volume in the energy sector is in Western Europe, with Germany accounting for 75.4 percent.

The consumer goods and trade sector saw a strategy-driven cut in gross credit volume, with business volume down by EUR 1.4 billion to EUR 5.1 billion. The largest fall was in credit volume with regard to transactions that no longer form part of BayernLB's strategic focus or that do not meet the profitability requirements. As a result, gross credit volume fell in particular in the areas of food retailing, domestic appliance manufacturing and food processing.

The Other Industries sector bundles financing that is no longer included at the BayernLB Group's strategic focus. The gross credit volume in this sector fell accordingly by EUR 1.1 billion to EUR 2.2 billion. The reduction came principally from manufacturers of primary chemical products and producers of defence equipment.

Business volume in the technology sector fell by EUR 0.7 billion to EUR 5.4 billion. The reduction was mainly accounted for by low-return financing to telecommunications operators and electronic information services providers, and the financing of technology-related receivables portfolios.

In line with strategy, the health sector also saw a decline in gross credit volume of EUR 0.5 billion to EUR 2.7 billion. This was primarily achieved by reducing the gross credit volume lent to pharmaceutical manufacturers.

The German home market, which is key for the BayernLB Group, continues to drive the Corporates sub-portfolio, with a high share of 74.4 percent (FY 2020: 72.0 percent).

Despite the continuing coronavirus pandemic, the investment grade share in the sub-portfolio increased again to 74.4 percent (FY 2020: 72.8 percent). The credit ratings in the portfolio that were downgraded in 2020 as a result of the coronavirus pandemic began to stabilise or improve to some extent during the second half of the reporting period. We currently believe creditworthiness will remain stable, although it will continue to be strongly dependent on how the coronavirus pandemic unfolds.

The high granularity of the sub-portfolio improved. The proportion of customers with a gross credit volume of less than EUR 50 million amounted to 50.2 percent (FY 2020: 49.2 percent).

Commercial Real Estate sub-portfolio

In line with strategy, the Commercial Real Estate sub-portfolio recorded a considerable increase in gross credit volume of around EUR 4.3 billion or 7.2 percent. Business volume as at the reference date amounted to EUR 63.5 billion (FY 2020: EUR 59.2 billion). EUR 2.5 billion of this increase in gross credit volume related to BayernLB and EUR 1.7 billion to DKB. The gross credit volume was split as follows: EUR 30.9 billion stemmed from BayernLB and EUR 32.6 billion from DKB. EUR 21.2 billion of the gross credit volume at BayernLB was accounted for by the commercial sector, while EUR 9.6 billion was attributable to the residential sector. At DKB, the residential sector achieved a business volume of EUR 29.3 billion, while the commercial sector recorded a volume of EUR 3.3 billion.

The increase in business volume at BayernLB was principally in real estate rental and leasing for residential and commercial property (EUR 1.9 billion) and real estate property developers who focus on residential and commercial real estate investments (EUR 0.4 billion).

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

The business growth was mainly in the German domestic market with a EUR 2.6 billion rise in business volume. In addition, there were noteworthy increases in the US (EUR 0.7 billion), France (EUR 0.3 billion) and Italy (EUR 0.2 billion).

The already high quality in the Commercial Real Estate sub-portfolio remained largely stable, with the investment grade share rising to 87.4 percent (FY 2020: 86.8 percent). The proportion accounted for by Germany remained high at 85.9 percent (FY 2020: 87.7 percent). The high portfolio quality with regard to granularity and collateral was maintained: as at the reporting date, the proportion of customers with a gross credit volume of less than EUR 50 million was 50.6 percent (FY 2020: 52.9 percent). The collateralisation volume increased by around EUR 2.5 billion to EUR 46.4 billion, while the collateralisation ratio remained largely stable at 73.1 percent (FY 2020: 74.1 percent).

The economic recovery in 2021 had a positive impact on real estate transactions in Germany, with further increases in transactions compared with 2020. BayernLB Group's portfolio quality remained largely stable in 2021, 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 1.0 billion to EUR 53.8 billion (FY 2020: EUR 52.8 billion), which represents a rise of 1.8 percent.

Gross credit volume in the sub-portfolio at the BayernLB Group breaks down as follows: EUR 51.8 billion related to BayernLB and around EUR 2.0 billion to DKB.

Gross credit volume in the savings banks sector, the largest sector by volume, increased by EUR 2.3 billion to EUR 28.4 billion. The rise was largely the result of the very high demand for Federal subsidies for efficient buildings (Bundesförderung für effiziente Gebäude – BEG) and, particularly in the first half of the year, high demand for government subsidy programmes associated with the coronavirus pandemic. Demand for coronavirus subsidy programmes tailed off significantly in the second half of the year. These programmes were implemented via the participating savings banks.

The banks sector posted a fall in business, with gross credit volume down by EUR 1.4 billion to EUR 19.8 billion. The reduction was largely the result of subsequent movements. The gross credit volume in global credit banks and investment banks fell by EUR 1.2 billion and EUR 0.3 billion respectively. These changes were largely down to fluctuations in transaction values between reporting dates, with such transactions taking the form of investments to maintain liquidity and hedging activities. In addition, business with leasing companies declined slightly, with a reduction of EUR 0.4 billion in business volume. Gross credit volume with investment fund companies rose by EUR 0.5 billion.

Business volume in the insurance sector rose slightly by around EUR 0.1 billion and amounted to EUR 5.6 billion as at the reporting date. The lion's share of the expansion came from reinsurance.

The quality of the sub-portfolio, which was already at a very high level, improved slightly. The investment grade share rose to 99.2 percent (FY 2020: 99.0 percent), while the proportion accounted for by Germany rose to 72.2 percent (FY 2020: 68.7 percent).

Retail/Other sub-portfolio

In the Retail/Other sub-portfolio, gross credit volume increased by EUR 3.3 billion or 9.5 percent to EUR 38.4 billion.

Business volume at BayernLB fell slightly (EUR 0.1 billion), which was largely down to BayernLB core Bank (excluding BayernLabo). The retail business has not formed part of BayernLB core Bank's business for some years and is therefore being wound down as planned. BayernLabo's gross credit volume was almost unchanged at EUR 3.2 billion. Within the BayernLB Group, the retail business is successfully operated by the Group subsidiary DKB.

Gross credit volume at DKB rose significantly by EUR 3.4 billion to EUR 35.0 billion. The expansion strategy in the retail business was therefore successfully implemented once again in 2021. This growth was mainly due to lending (EUR 2.8 billion), current account overdraft facilities (EUR 0.3 billion) and credit card receivables (EUR 0.3 billion). The increase in lending was accounted for in large part by real estate financing (EUR 2.4 billion).

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

Summary

The overall market environment in the reporting year continued to be marked by ongoing challenges. Alongside the very high pressure on margins, the unrelenting impact of the coronavirus pandemic was of particular significance.

Despite this exceptionally difficult market environment, the BayernLB Group succeeded in further expanding the business volume and was able to maintain the quality of the portfolio at a high level. Particularly worthy of note in this regard is the growth in the strategically important Commercial Real Estate and Retail/Other sub-portfolios. In addition, considerable progress was made with the strategic restructuring of the Corporates sub-portfolio. Here too, the very good portfolio quality must also be emphasised. The investment grade share increased significantly, even excluding the increase in business volume with the central bank. In parallel, gross credit volume in the default categories was again maintained at a very low level. The effects of the coronavirus pandemic on creditworthiness remained very much evident, although its negative effects reduced slightly since the end of the first half of the year. This could be seen in the somewhat improved creditworthiness in the Financial Institutions and Corporates sub-portfolios. The easing of these effects continued in the second half of the reporting period. There remains a considerable degree of uncertainty about the further progression of the pandemic with regard to delays to deliveries and procurement problems, and also about current geopolitical developments, which means that creditworthiness and portfolio quality continue to be subject to increased risk.

Investment risk

Definition

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

Investment risk in the narrower sense results from the following business activities: Potential financial losses could arise from the equity interests acquired. These result, for example, from the provision of equity or equity-like financing (e.g. silent partner contributions), suspension of dividends, partial writedowns, losses on disposals or reductions in hidden reserves, liability risks and/or profit and loss transfer agreements, e.g. assumption of losses (under letters of comfort or company agreements) and contribution commitments.

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

Risk Strategy

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

BayernLB has classified its investment portfolio into interests relevant to the business model, interests under public mandate and interests not relevant to the business model (with/without exit status). DKB, BayernInvest and Real I.S. are the equity interests that form an integral part of the Group business model. The BayernLB Group would like to dispose of the equity interests that have been assigned exit status.

Organisation

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

Measuring, managing and monitoring risk

A classification procedure for identifying and measuring risk with clear guidelines on the early detection of risks has been implemented for all direct equity interests held by BayernLB. Key factors in this regard are risk-based early warning indicators and the assessment of the maximum potential loss. Where BayernLB also provides debt capital, it examines any additional risks, particularly those arising from its status as a lender.

Measures and requirements to identify, manage and monitor risks associated with equity interests in the broader sense are defined and implemented according to the respective risk type.

Risk capital requirements for investment risk are measured in ICAAP using the PD/LGD method in accordance with CRR/CRD IV. For CRR/CRD IV reporting, investment risks are measured using the simple risk weighting method.

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

Similar processes apply to DKB. These are closely integrated into the entire Group strategy, planning, management and monitoring process.

Current situation

The coronavirus pandemic only had a direct impact on the equity interests in BayernLB's portfolio in two cases. Hotels were once again required by the authorities to close for periods during the course of 2021. These measures affected Berchtesgaden International Resort Betriebs GmbH, which is operated by Hotel Kempinski on Obersalzberg. This order also had a direct impact on Bayern Bankett Gastronomie GmbH with its Hotel Bayern Vital in Bad Reichenhall and on the (partial) closures of some catering establishments. The economic impact of the lockdowns was considerably ameliorated by government compensation measures (including short-time working payments and stabilisation measures for hotels). Bayern Bankett Gastronomie GmbH, Munich is expected to fall short of its target for 2021, while Berchtesgaden International Resort Betriebs GmbH, Munich exceeded its target, despite the coronavirus crisis. It is not possible at this point to predict the degree to which the coronavirus pandemic will indirectly affect the business model and performance of other equity interests, e.g. due to long-term changes in the market environment or customer behaviour.

BCS was sold to DKB on 1 October 2021.

As at 31 December 2021, the economic risk capital requirement had decreased to EUR 91.74 million (FY 2020: EUR 124 million) at the BayernLB Group and EUR 80.57 million (FY 2020: EUR 114 million) at BayernLB.   Both at Group and individual institution level, the changes are primarily the result of writedowns on the carrying values and some ratings improvements.

Summary

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

Business and strategic risk

Definition

Business and strategic risk (or simply “business risk”) is defined as the risk of an unexpected change in the economic, political, social, ecological, legal, technical or regulatory environment that has not already been taken account of, either explicitly or implicitly, by other risk types covered by the risk-bearing capacity calculation.

Organisation

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

Risk Strategy

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

Measuring and monitoring risk

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

Current situation

The risk capital requirement for the BayernLB Group reduced to EUR 110 million (FY 2020: EUR 272 million). As at 31 December 2021, the economic risk capital requirement at BayernLB had fallen to EUR 306 million (FY 2020: EUR 423 million).

This reduction was to a large degree down to the positive earnings trend, which made it possible to offset unexpected negative deviations from the plan to a greater degree. The positive development of the target earnings is due in part to the easing of the coronavirus pandemic and its consequences.

Summary

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

Market risk

Definition

Market risk is the risk of financial losses due to changes in prices on money, currency, capital and commodity markets. The potential losses arise through the financial transactions conducted in the course of the Bank's business activities (in both the trading and banking books) whose performance changes according to changes in market risk factors/market prices. The BayernLB Group accordingly breaks down its market risks into (general and specific) interest rate risks, currency risks, equity price risks, commodity risks and volatility risks. The market risk factors also include the valuation interest rate for pension obligations.

Organisation

Group institutions are responsible for the operational monitoring of their market risks; this is performed internally by their own risk-monitoring units. The market risks at BayernLB and DKB are included in a daily Group-wide risk report. Group Risk Control is responsible for setting Group-wide methodological standards and for the overall, Group-wide monitoring of market risk.

Risk Strategy

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

The amount of economic capital provided as backing for market risks is broken down by risk unit and individual market risk type and implemented in the form of value-at-risk (VaR) limits. Market risks are entered into in accordance with the current Business and Risk Strategy primarily for the purposes of liquidity and asset-liability management. In addition, market risks are incurred as a result of transactions on behalf of customers and related hedging transactions, as well as of non-core business transactions. The gradual building up of plan assets via a contractual trust arrangement (CTA) reduces the impact of interest rate risks arising from BayernLB's pension obligations. In addition to plan assets for pension and death benefit obligations, in 2021 the Bank also began to build up assets in the CTA to cover supplemental health care payments.
Climate and environmental risks can arise in market risks, especially indirectly through second-round effects (e.g. if the credit spreads of certain types of issuers widen). The risk of primary effects arising is considered to be limited due to the composition of the portfolio. The product range may, however, need to be restricted in order to meet sustainability criteria. Financing and capital market transactions within the BayernLB Group are always executed in compliance with the sustainability strategy and with environmental, social and ethical criteria.

Risk measurement

For operational monitoring and management, the calculation of market risk normally uses a VaR procedure based on a one-day holding period and a confidence level of 99 percent. BayernLB and DKB both use the historical simulation approach. Customer deposits at DKB are modelled using the dynamic replication method. In February 2021, the retail customer modelling was adjusted and the majority of current accounts were modelled to be significantly more sensitive to interest rate changes than they had been in the past.

Both contractual and legal termination rights on loan transactions are represented as options and incorporated into the risk calculation. When estimating the interest rate risk from external credit margins, BayernLB takes a VaR risk premium into account. The interest rate risk in external credit margins is shown in the daily VaR at DKB. Market risks that cannot be covered by the VaR limit calculation are taken into account in the risk capital requirements through the use of alternative risk assessment methods (e.g. stress test estimates). Market risk measurement methods are continuously checked for the quality of their forecasting. In the backtesting process, the risk forecasts are compared with actual outcomes (gains or losses). As at 31 December 2021, the forecasting quality of the market risk measurement methods used at the BayernLB Group, in accordance with the Basel traffic light approach, was classified as good.

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

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

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

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

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

Risk monitoring

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

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

Interest rate risk in the banking book forms part of the risk calculation and monitoring processes in the risk-controlling units. In particular, in the case of interest rate risk in the banking book the fall in the present value in respect of the pre-defined interest rate scenarios is monitored monthly at institution level and across the Group, and referenced against the corresponding supervisory thresholds or warning thresholds (threshold for the +/-200 basis point scenario: 20 percent of own funds; warning threshold for the additional interest rate scenarios (parallel scenarios, pivot scenarios or a short-term interest rate increase/decrease): 15 percent of Tier 1 capital). As at 31 December 2021, the calculated change in present value at both BayernLB and the BayernLB Group was well below the thresholds and/or warning thresholds. By way of illustration, the losses of net present value in the +/-200 basis points scenario amounted to 2.4 percent of capital at BayernLB and 1.4 percent across the BayernLB Group.

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

Current situation

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

Compared with the figure for 31 December 2020, total VaR declined at Group level by around EUR 19 million, with this decline in risk first becoming apparent in the second half of the year.

Market risk increased in the first half of 2021, as own issues and payer swaps at BayernLB drove up the interest rate liabilities resulting from pension obligations. This had the effect of increasing risk, but was partially offset at Group level by the decline in risk at DKB due to reduced market volatility.

The decline in market volatility in the second half of 2021 led to a sharp reduction in risk at BayernLB. This is particularly evident in the substantial reduction in the reported specific interest-rate risks, as the high credit spread fluctuations arising from the initial phase of the coronavirus pandemic in spring 2020 gradually ceased to be taken into account in the VaR history. At Group level, DKB's risk-increasing new lending business partly offset the reduction in risk at BayernLB.

The year-on-year reduction in market volatility led to a decline in equity risk, although CTA investments in the equity fund positions were expanded as planned.

The winding down of non-strategic securities/Schuldschein note loans in the trading book in spring 2021 led to a further decline in risk.

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

EUR million	31 Dec 2021	31 Dec 2020	31 Dec 2021 Of which banking book	31 Dec 2021 Of which trading-book	1 Jan 2021 to 31 Dec 2021 Average	1 Jan 2021 to 31 Dec 2021 Maxi-mum	1 Jan 2021 to 31 Dec 2021 Mini-mum
General interest rate VaR	63.1	63.8	61.7	1.7	61.7	72.2	49.7
Specific interest rate VaR (credit spreads)	12.4	46.8	12.6	1.0	33.7	50.2	11.9
Currency VaR	1.9	2.9	1.7	0.2	2.0	3.1	1.0
Equities VaR	11.7	16.5	11.7	0.0	14.2	19.9	9.3
Commodities VaR	2.5	1.4	–	2.5	1.8	2.5	1.2
Volatility VaR	1.6	1.5	1.6	0.2	1.7	3.5	0.6
Total VaR[1]	**65.0**	**84.1**	**63.5**	**3.0**	**73.6**	**95.8**	**55.5**

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

EUR million	31 Dec 2021	31 Dec 2020	31 Dec 2021 Of which banking book	31 Dec 2021 Of which trading-book	1 Jan 2021 to 31 Dec 2021 Average	1 Jan 2021 to 31 Dec 2021 Maxi-mum	1 Jan 2021 to 31 Dec 2021 Mini-mum
General interest rate VaR	37.4	38.5	36.0	1.7	39.6	49.0	27.1
Specific interest rate VaR (credit spreads)	12.0	45.4	12.2	1.0	32.4	48.9	11.7
Currency VaR	1.4	1.8	1.2	0.2	1.2	2.6	0.4
Equities VaR	7.4	8.3	7.4	0.0	9.0	15.5	5.4
Commodities VaR	2.5	1.4	–	2.5	1.8	2.5	1.2
Volatility VaR	1.6	1.5	1.6	0.2	1.7	3.5	0.6
Total VaR[1]	**38.8**	**55.2**	**37.3**	**3.0**	**50.7**	**72.5**	**32.5**

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

Summary

There were no significant changes or irregularities in risk management and monitoring of market risks in 2021. The decline in risk in the total VaR was primarily down to reduced market volatility.

Pension basis risk

Definition

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

Organisation

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

Risk Strategy

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

Risk measurement

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

Risk monitoring

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

Current situation

The coronavirus pandemic has yet to demonstrate any risk-elevating impact on the underlying trend volatility and therefore on the risk capital requirement. The increase in discount rates since the last year-end reduced the impact of trends on net present value.

The risk capital requirements for pension basis risk as at 31 December 2020 amounted to around EUR 290 million at the BayernLB Group and around EUR 288 million at BayernLB. As at 31 December 2021, the risk capital requirement declined to EUR 249 million at the BayernLB Group and EUR 246 million at BayernLB.

Summary

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

Liquidity risk

Definition

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

Organisation

As at 31 December 2021, responsibility for strategic and operational liquidity management at the BayernLB Group was vested in the Group Treasury Central Area. Liquidity management ensures adequate liquidity reserves at all times and the management of ad hoc liquidity on the market. Group-wide risk controlling of liquidity risks is conducted by Group Risk Control. This Division also prepares liquidity overviews, such as liquidity gap analyses and limiting ratios as the basis for the controlling and monitoring liquidity risks. The Board of Management decides on the necessary liquidity management and funding measures and defines these in relevant strategies The Board of Management has delegated tasks and competencies relating to the performance of the liquidity risk management to Group Treasury and Group Risk Control.

Risk Strategy

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

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

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

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

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

Risk measurement

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

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

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

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

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

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

At BayernLB level, a net cash flow figure for the next 180 days is calculated daily for the public Pfandbrief register and the mortgage register. In accordance with section 27 of the Pfandbrief Act (Pfandbriefgesetz), the results and other indicators with respect to the register of cover are reported internally every quarter to the Board of Management. The balance of cumulative cash flows and available liquidity indicated there was surplus liquidity throughout 2021.

Risk management

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

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

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

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

The Bank also met the minimum supervisory liquidity coverage ratio (LCR) at all times in the reporting year through its integrated management of ad hoc liquidity. LCR amounted to 271.2 percent at Group level as at 31 December 2021 (FY 2020: 211.0 percent, adjusted[39]) and 155.0 percent at BayernLB (FY 2020: 147.0 percent[39]). The LCR is calculated by comparing the inventory of high-quality liquid assets to the net cash outflows over the next 30 days. The minimum ratio required by the regulator is 100.0 percent.

Pursuant to CRR II, the net stable funding ratio (NSFR) was published for the first time in 2021. The figure for the BayernLB Group was 136.6 percent as at 31 December 2021, far exceeding the 100.0 percent minimum ratio required by the regulator.

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.

39 Adjusted as per IAS 8.42 (see note 2)

Risk monitoring

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

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

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

In 2021, limiting liquidity risks once again ensured that the BayernLB Group was solvent and able to fund itself at all times and made a valuable contribution to optimising the management of short-term and structural liquidity.

BayernLB's intraday liquidity risks were appropriately managed, monitored and reported in 2021. Its intraday liquidity risk management takes intraday cash flows in US dollars, the only material foreign currency for BayernLB in this area, into account along with euro cash flows.

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

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

Current situation

The liquidity situation as at 31 December 2021 is shown based on the maturity structures in accordance with IFRS 7.39 and IFRS 16.58 on the one hand and an economic approach on the other.

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

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

31 Dec 2021 EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
Financial liabilities	99,518	109,438	125,165	187,539
Liabilities from derivatives	(946)	(1,844)	(3,034)	(2,714)
Total	**98,572**	**107,594**	**122,131**	**184,824**

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

1 The contractual cash flows reported are not discounted and include interest payments. Thus they may differ from the carrying amounts on the balance sheet.

The BayernLB Group's open irrevocable commitments were virtually unchanged at EUR 29.2 billion (FY 2020: EUR 28.9 billion[40]). The volume of contingent liabilities from guarantees and indemnity agreements increased slightly to EUR 11.7 billion (FY 2020: EUR 11.4 billion[40]). However, in contrast to the economic liquidity situation shown below call probabilities have not been factored into these volumes.

The maturities of lease liabilities in accordance with IFRS 16.58 were structured as follows as at 31 December 2021:

Contractual maturities of financial lease liabilities

31 Dec 2021 EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
Lease liabilities	**19.5**	**3.6**	**17.7**	**68.7**

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

40 Adjusted as per IAS 8.42 (see note 2)

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

The BayernLB Group management scenario showed the following results as at 31 December 2021 compared with 31 December 2020:

Economic liquidity situation at the BayernLB Group and at BayernLB

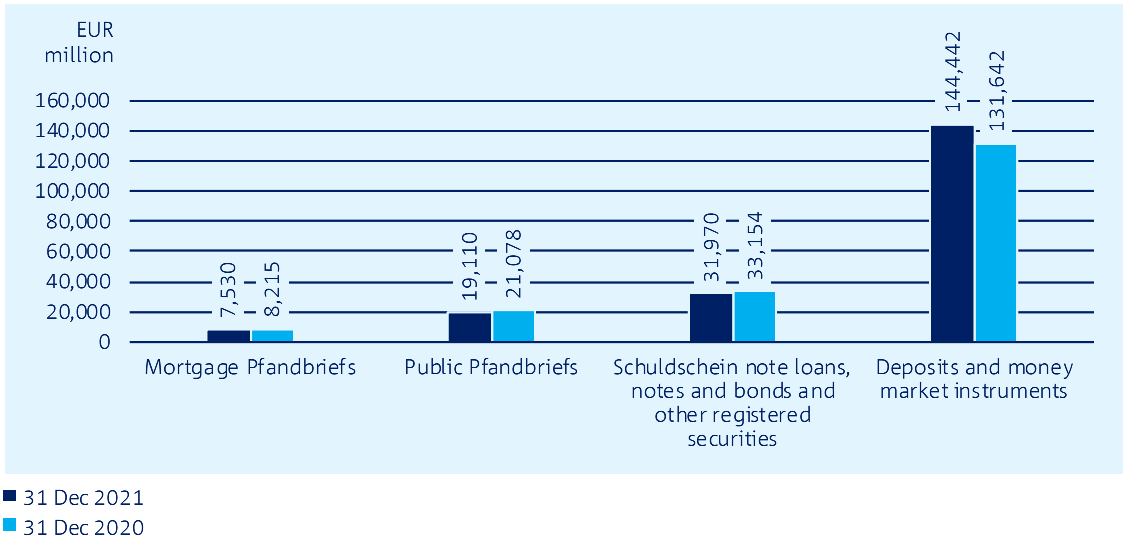
31 Dec 2021 Cumulative figures in EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
BayernLB Group				
Liquidity counterbalancing capacity	69,504	66,920	58,571	65,030
Liquidity gap	18,177	25,899	27,678	37,072
Total liquidity surplus	**51,327**	**41,021**	**30,894**	**27,957**
BayernLB				
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**

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

The liquidity position of the BayernLB Group and BayernLB was comfortable at all times during the period under review. Despite the ongoing coronavirus crisis, there were no significant outflows of liquidity. The significantly further improved liquidity situation at BayernLB as at 31 December 2021 was in part due to large balances held with central banks stemming from customer deposits and to regular issuance activity in all funding categories (including sustainable bonds), inter alia from the first-time issuance of green commercial paper. Furthermore, in 2021 the Group subsidiary DKB bolstered its already strong position in the market through a surge in customer deposits and lending activities.

The funding structure of the BayernLB Group for 2021 compared with the previous year was as follows:

Funding structure



The primary market for issues was generally positive and receptive.

The very limited supply of covered bonds (due to the liquidity available from the TLTROs) ensured that they were well received. The market for covered bonds weakened slightly from mid May due to numerous issues in the SSA[41] sector, which led to widening spreads in the secondary market and minor repricing with higher new issue premiums. The primary market stabilised again after the summer break.

Both equity products (additional Tier 1 and Tier 2) and unsecured issues (senior non-preferred and preferred) were well received by the market. There was, however, a degree of volatility, particularly in the last quarter due in part to a new coronavirus variant and also to fears of inflation.

In addition to equity, BayernLB's structural funding derives mainly from capital market issues, deposits, 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. As a result, the change in the year-on-year drawings under TLTRO III was as follows:

41 *Sovereigns, supranationals and agencies*

TLTRO III drawings at the BayernLB Group

EUR billion	31 Dec 2021	31 Dec 2020
BayernLB	–	13.0
DKB	26.8	14.0
BayernLB Group	**26.8**	**27.0**

The BayernLB Group's covered and uncovered issue securities positions were reduced slightly. The (gross[42]) funding volume of structural, unsecured liquidity realised at BayernLB amounted to EUR 3.3 billion in 2021 (of which EUR 3.1 billion was in non-preferred format). EUR 1.7 billion (gross[42]) was placed in secured issues. BayernLB issued two Pfandbriefs and a non-preferred issue in benchmark format. A bond with a volume of GBP 300 million in secured format was also issued. In connection with the adjustment of Moody's rating methodology, two Tier 2 benchmark issues were also placed. Deposits fell slightly due to the partial repayment of the TLTRO. ESG bonds again accounted for an increased proportion of funding. The volume of outstanding ESG funding in the form of issues, Tier 2 bonds and commercial paper amounted to EUR 5.2 billion at the end of 2021. Access to all funding sources was unlimited, despite the continuing coronavirus crisis.

As the municipal and development bank of the Free State of Bavaria BayernLabo's liabilities are covered by a 100 percent state guarantee. In line with its mandate, BayernLabo is publicly funded via the KfW and the Landwirtschaftliche Rentenbank. The capital market offers further refinancing sources. BayernLabo meets ad hoc liquidity requirements by drawing time deposits at BayernLB. BayernLabo placed new issues worth around EUR 390 million net in 2021.

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 included capital market issues. DKB's funding requirements continued to be met by strong growth in deposits in 2021.

BayernLB's issuer rating, which is good compared with European benchmarks, was Aa3 (Moody's) and A- (Fitch). Both rating agencies rated the outlook as stable.

Economic and regulatory ratios and management limits, such as the internal limits, LCR and NSFR, were comfortably complied with throughout the reporting period.

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

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

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

Summary

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

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

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

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

EUR million	31 Dec 2021	31 Dec 2020
Liabilities to banks	3,824	3,943
of which Schuldschein note loans	2,241	2,415
of which other registered securities	1,583	1,528
Liabilities to customers	6,389	6,729
of which Schuldschein note loans	833	838
of which other registered securities	5,556	5,892
Securitised liabilities	18,642	19,172
Liabilities held for trading	410	413
Total	**29,266**	**30,257**

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

EUR million	31 Dec 2021	31 Dec 2020
Liabilities to banks	2,162	1,643
of which Schuldschein note loans	60	46
of which other registered securities	2,102	1,596
Liabilities to customers	612	746
of which Schuldschein note loans	28	133
of which other registered securities	584	614
Securitised liabilities	2,382	2,467
Liabilities held for trading	477	594
Total	**5,634**	**5,449**

Operational risk

Definition

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

In 2021, the following non-financial risks were identified as significant operational risks during the risk inventory carried out pursuant to MaRisk: general legal risk, compliance risk and tax law risk; fraud risk; information security risk (including cyber risk); project risk, outsourcing risk, model risk and other operational risks.

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

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

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

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

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

Project risk is the risk of additional costs being incurred under a project without an increase in the countervalue. A distinction is made between project risk associated with inadequate project structures, poor performance of employees, risk arising from contracts with external service providers – all of which fall under operational risk – and risk arising from planning uncertainties (such as those created by strategic decisions taken erroneously or late). These risks form part of business and strategic risk.

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

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

OpRisk events that cannot be allocated to other OpRisk sub-types due to their nature, particularly those caused by external events or actions of employees (e.g. processing errors), are allocated to other operational risks. This risk sub-type acts as a “miscellaneous” category of OpRisk sub-types.

Organisation

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

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

Risk Strategy

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

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

Risk measurement

Operational risks are 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 and the potential losses identified as part of the operational risk self assessment (OSA) and scenario analyses at BayernLB and DKB. The calculation is based on a loss distribution approach, using a confidence level of 99.90 percent. The key model assumptions and parameters used in the model are reviewed once a year.

In addition to recording losses, OSA (OpRisk self assessment), which was repeated in 2021, serves as an important database for OpRisk management activities. In particular, this assessed the risks already identified and updated them where necessary. The assessment also took into consideration the results of Group-internal risk analyses (e.g. project analysis). The OSA also specifically addressed and dealt with current issues (e.g. effects of the “Fokus 2024” transformation project relevant to OpRisk and sustainability risks with an OpRisk background).

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

Risk management and monitoring

Operational risks at BayernLB Group are reported to the Board of Management monthly as part of the regular reporting on risk and on an ad hoc basis if material loss events occur. Transpired loss events, changes in the risk profile (risks and scenarios) and the resulting capital charges form a major part of the regular reporting.

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

Business continuity management

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

As a reactive measure to tackle the coronavirus pandemic, the interdisciplinary coronavirus working group was kept on during the new financial year in order to undertake regular assessments of the current coronavirus situation. In addition to the successful business continuity exercises in the specialist units, the effectiveness of the process-specific business continuity plans was also tested. In addition to the implementation of a Bank-wide alarm tool, monthly status requests were used to monitor the overall situation in the divisions in order to actively counter potential disruptions to business continuity. These measures ensured that business continuity was maintained at all times during the financial year and not jeopardised at any time.

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

Current situation

As at 31 December 2021, the risk capital requirement for the BayernLB Group had risen to EUR 531 million (FY 2020: EUR 505 million) and for BayernLB to EUR 338 million (FY 2020: EUR 333 million).

Losses of EUR 10.4 million were reported at the BayernLB Group in 2020; this amount has now been reduced to EUR 10.2 million primarily as a result of more precise estimates of loss events.

Compared with the previous year, the losses incurred at the BayernLB Group following the implementation of loss minimisation measures increased to EUR 23.6 million (restated FY 2020: EUR 10.2 million).

Losses reported at BayernLB increased year on year to EUR 7.5 million (FY 2020: EUR 1.8 million). The majority of the losses were accounted for by the event category execution, delivery and process management.

At DKB, the total losses resulting from operational risks rose year on year following the implementation of loss minimisation measures to EUR 16.2 million (FY 2020: EUR 8.4 million). This increase was primarily attributable to provisions set aside for the ruling by the Federal Court of Justice on changes to general terms and conditions and for the European Court of Justice's ruling on required components in consumer credit agreements, in order to satisfy the requirements of the Consumer Credit Directive.

Loss events resulting from the coronavirus crisis were largely in connection with additional costs to ensure the continuity of business operations and the safety of the employees (e.g. purchasing of cleaning and disinfection products, implementing cleaning measures and procurement of protective masks). The loss amount at the BayernLB Group had not increased since 2020 and remained unchanged at EUR 0.5 million.

There were no loss events associated with climate and environmental risks during the reporting period.

Summary

The total losses resulting from operational risks incurred at the BayernLB Group following the implementation of loss minimisation measures increased. These were mainly the result of changes in the German Federal Supreme Court's rulings.

General overview

The risk profile of the BayernLB Group remained stable in financial year 2021.

The BayernLB Group had adequate risk-bearing capacity at all times in the financial year and as at 31 December 2021, despite the continuing coronavirus pandemic. The stress scenarios conducted also confirmed that adequate capital is held and there was an increase in economic capital compared with the previous year. The quality of the credit portfolio remained very high and the NPL ratio was unchanged at only 0.6 percent. The effects of the coronavirus pandemic remained very much evident in the credit portfolio, although its negative effects had reduced somewhat since the end of the first half of the year. The BayernLB Group had a good supply of liquidity on hand. Risk provisions took appropriate account of known risks. Regulatory solvency requirements were met. Equity capital for the purpose of risk coverage amounted to EUR 13.7 billion at the BayernLB Group and EUR 11.2 billion at BayernLB (figures as per the prepared financial statements as at 31 December 2021; further details are reported in the notes under capital management).

Russia's invasion of Ukraine presents new uncertainties for the economy and capital markets in 2022. The first direct impacts of this conflict were factored in by making temporary adjustments to BayernLB's country ratings for Ukraine and Russia. Besides customer relationships with companies directly located there, the Bank is also reviewing and closely monitoring customers with a strong focus on eastern European sales markets for any potential impact. Due to low business volume levels with Russia and Ukraine, the impact on BayernLB from its direct customer relationships is minor.

The sanctions on Russia that have already been agreed and those that are anticipated, along with that country's potential response to them, are expected to have a negative impact on the global economy and therefore also on Germany. The strength of the impact is, however, very difficult to ascertain and will depend on how the war progresses and the associated sanctions. BayernLB is continuously evaluating these developments and their impact on BayernLB's risk situation as part of its risk management and monitoring.

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

Corresponding to the timeframe used in the management process applied within the Group, the following outlook covers a period of one year and is based on BayernLB's expectations and estimates and currently available information.

Russian troops started their invasion of Ukraine on 24 February 2022. Since then, the attacks by Russia have become increasingly severe and destructive. Starting from 23 February 2022 in response to the continuous attacks by Russian military forces in the Ukraine, the EU, in coordination with the US, UK, Canada and other partner countries, has agreed hard-hitting economic and financial sanctions against Russia in several tranches. These new sanctions supplement and extend existing EU sanctions in place since 2014. The political situation is unclear and constantly changing. BayernLB has evaluated the impact these developments, including mitigating measures, might have on the Group. BayernLB is closely monitoring developments in connection with the Russia-Ukraine war and is adequately prepared for any deterioration in the current situation. The Bank conducts its planning on a rolling basis, which also allows it to exploit opportunities that temporarily arise both quickly and systematically and to duly respond to unexpected risks. Its significant risks are described in the risk report in this management report.

Macroeconomic forecast

Economy, inflation and monetary policy

In 2022, the economic situation will be overshadowed by the war between Russia and Ukraine and the continuing coronavirus pandemic.[43] But thanks to the progress made in vaccinating the population, which some countries may only achieve by introducing mandates, the direct economic impact of the pandemic should fade in the summer. Over the course of the year, the indirect effects of the pandemic – disrupted supply chains on the supply side and pent up consumption and capital spending on the demand side – are likely to lose their sway over the economy, helping to slow the pace of inflation. The policy taken by some central banks at the end of 2021 to reverse ultra-loose monetary measures is likely to be continued in 2022, although at a more gradual rate. The ECB will probably tag along too and start lifting the deposit rate for the first time around the end of 2022. The unexpected war between Russia and the Ukraine and the Western sanctions are a major historical event which will have serious repercussions on geopolitical and economic developments.

1 See BayernLB Research, Perspektiven, November 2021 (updated in BayernLB Research, Perspektiven, February 2022)

In the short term, the spike in raw materials prices will feed into rising inflation, while supply bottlenecks and elevated risk premiums will chill the economy. The length and future progression of the conflict is, however, fraught with great uncertainty. It is therefore very difficult, as at the time of writing this report, to estimate the exact impact on the economy and financial markets. The forecasts are therefore subject to upside risk in inflation and downside risk in the economy, interest rates and prices of riskier asset and real estate.

In 2021, the rebound of the economy following the coronavirus recession combined with substantial baseline effects caused the biggest jump in global GDP growth since 1973. Driven by the rapid recovery in China, momentum in the emerging markets was stronger than in developed ones during this period. With the roll-out of vaccinations accelerating, the upturn in many emerging countries is likely to be rapid and remain intact. However, the recently slower pace of growth in China is likely to remain unchanged, as the financing problems affecting large real estate developers is putting the brakes on construction activity and the state is intervening in many areas of the economy. The country's restrictive coronavirus strategy with regional lockdowns will be a drag too.

Among developed countries, the eurozone will probably recover in 2022 and achieve GDP growth on par with the US. The two factors behind this are the delayed lifting of coronavirus restrictions compared with other regions and the effects of economic packages of measures taking time to appear. In the US, the fiscal stimulus in 2022 will have a pronounced dampening effect on the economy, while in the eurozone the ending of national programmes will be offset by the rolling out of the "NextGenerationEU" programme. Due to the closer connections with Russia and the Ukraine, the potential negative impact on the economy in the eurozone could be worse than in the US.

Even though the presidents of the US and China had constructive exchanges on a range of issues at the end of 2021, the scramble to achieve global dominance will continue in 2022. Besides the positioning in the Russia-Ukraine war and the tense situation with Taiwan, leadership in key areas of technology will play a major role. The search for allies on both sides of the Pacific will go on. This is likely to put the EU and especially export-dependent Germany in an increasingly difficult situation over the next few years.

In 2021, the economic recovery in Germany was not as buoyant as it was in the rest of the eurozone due to the personal services sector accounting for a smaller share of the economy. The country will be a laggard in 2022 too as it will be badly affected by the disruptions to global supply chains and self-inflicted failure to achieve a higher level of vaccinations. Owing to insufficient capacity (in the construction sector and shortages of skilled workers), the policy to increase investment in decarbonisation and digitalisation being pursued by the new broad coalition of parties making up the government is likely to only be realised in part initially and its impact only felt in the years that follow. Like many other countries, Germany will therefore probably not do enough to achieve the target CO_2 reductions by 2030. However, private consumption will soar on the back of an improved labour market and support the economy again, notwithstanding high levels of inflation.

Despite the inflation-inducing increase in VAT expiring, the country will experience an increase in the cost of living on par with the eurozone (4.4 percent compared with 4.5 percent) in 2022. But the rate will still be much higher than the ECB's target, partly on account of the tighter labour market and partly due to pent-up demand for spending by consumers and companies which has not yet subsided. Another driver of inflation will be the new government policy which will ratchet up taxes on CO_2 emissions and crank up the minimum wage to a significant degree. All this will more than compensate for the price dampening effects of the end of the EEG surcharge. The Russia-Ukraine war will drive up inflation through higher prices for commodities in the energy, industry and agricultural sectors and changes to supply chains. By the end of the year, inflation will still be above 3 percent and therefore at least somewhat closer to the ECB's interest rate target of 2 percent.

Because of its closer trading ties to the US and China, Bavaria is somewhat more heavily dependent on global and geopolitical developments than the German economy as a whole. As a trading partner, especially for energy imports, Russia is also more important than it is on average in Germany. The region also benefits from its strong industrial base, although a large part of this is the cyclical automotive industry, which has been affected more than other sectors of the economy by interruptions in supply chains and a collapse in demand, and which also must manage the task of transitioning to electric mobility over the course of a number of years. During the year a comeback is likely, provided that the supply problems fade into the background in the middle of the year at the earliest. In overall terms, economic output in Bavaria should increase at a faster rate than on average for the rest of Germany. Unemployment will also drop to a sizeable degree.

Despite the war in Ukraine, the potentially biggest economic risk for 2022 is still the coronavirus pandemic. An aggressive or resistant coronavirus variant and the long lockdowns this would trigger would prove fatal to small and medium-sized companies in particular. Supply problems might prove persistent and put the recovery in jeopardy, while the expiry of government support measures could lead to a wave of insolvencies. In addition, the high rate of inflation could result in the monetary policy decision-makers slamming too hard on the brakes and jacking interest rates up. A big sell-off on overbought financial markets and rising risk aversion in the real estate market could then also trip up the economy. The positive risks in the forecast for the economy are expansive monetary and fiscal policy proving more effective than anticipated, the coronavirus pandemic being brought to an end more quickly and the political tensions between the US, China and Russia easing. In the electrical and manufacturing & engineering industries, orders could be processed more quickly if supply chain problems are increasingly resolved, leading to a strong expansion in production.

On the exchange-rate front, BayernLB is expecting the US dollar to depreciate against the euro to EUR-USD 1.17. In the US, the Bank expects the fiscal stimulus and booming demand to weaken overall, along with the economy. Supply bottlenecks and inflationary pressure should also subside, meaning that expectations of the Fed quickly and imminently hiking interest rates will probably be disappointed. The currently extremely low expectations of the ECB pursuing a policy of normalisation in its monetary policy will probably be easily met if its QE bond buying is tapered to a significant degree in 2022. We also believe the elevated risk aversion in the wake of the Russia-Ukraine war, which has caused the dollar to soar, will subside over the course of the year. In light of this, it is anticipated that the dollar will not be able to keep up its current high valuation against the euro over a year's horizon. The euro, which will strengthen slightly, will generally trend sideways against the pound. For the end of 2022, BayernLB is expecting exchange rates to be roughly what they were at the start of the year, at EUR-GBP 0.83. The Bank forecasts the euro will lose significant ground against the Swiss franc, falling to EUR-CHF 1.06. Demand for the safe haven of the Swiss franc should lessen over the course of 2022 if both risk aversion in markets and inflationary pressures in Europe soften.

Financial and real estate markets

For 2022, BayernLB is expecting yields on bond markets to continue their climb on both sides of the Atlantic, with conditions volatile. This trend is likely to be only temporarily interrupted by the flight by many investors to the safe haven of government bonds since the start of the Russia-Ukraine war. In the US, higher Treasury yields are likely to be the outcome of the ending of the Fed's net buying up of bonds, the start of tighter monetary policy and the upturn remaining intact. With these conditions on the Treasury market, the ECB cutting back on its bond purchases over the year due to the PEPP programme coming to an end followed by the APP programme, as well as a robust economic situation in the eurozone, Bund yields are also likely to rise. The Bank believes 10-year Bunds will be yielding 0.18 percent by the end of 2022. However, due to the escalation in Ukraine, the forecast is subject to a significantly higher level of uncertainty.

Covered bond investors will need to accommodate themselves to a negative net supply of new issues in 2022 too. Although EUR 136.0 billion of fixed income is due to mature, it is anticipated gross issues of new debt will not easily exceed EUR 110.0 billion. Although banks are increasingly using capital markets to refinance, as they must gradually replace the central bank funds that are outstanding, a chunk of this amount was already pre-financed the previous year. Spreads are unlikely to remain at their very low levels, as potential changes to the ECB's monetary policy, especially in respect of the purchase programmes, will increase spread volatility. As covered bonds are seen as a safe haven, spreads suffer less than other types of investment as a result of the war in Ukraine.

Credit markets are currently in a phase of reassessment. For example, the ECB's February meeting already triggered a sell-off of corporate bonds. Accelerated by the war in Ukraine, we are expecting, with CSPP net purchases ending earlier and the first interest rate hike at the end of 2022, a gradual widening in spreads (to 100 bp over 12 months; measured on the IBoxx Non-Financials) and, over the next few years, levels much higher than the average of the previous few years. Until a major de-escalation emerges in the Russia-Ukraine war, investment-grade seniors are likely to outperform.

For stock markets in 2022, the Bank is expecting higher volatility and a less favourable performance than in the previous year. Russia's attack on Ukraine has temporarily caused risk premiums to spike and prices to tumble. Depending on how the war develops, there is potential for a recovery as the year progresses, even if the forecast risks are markedly higher. Markets will be lifted by the economic outlook brightening, with the coronavirus pandemic being tackled more effectively and a further increase in corporate earnings, although the pace will be much slower than in the previous year. Secondly a boost will come from the fact that the monetary environment for equities will remain favourable despite central banks' easing of stimuli. In the past, stock markets did not respond negatively for any length of time until considerably later in the monetary tightening cycle. And thirdly, real negative yields on bonds will continue to encourage the flow of funds into equities. One significant risk factor is, however, geopolitical developments, the impact of which could dampen the macro-environment for equities more strongly.

Provided that the global economic upturn is not throttled by the impact of the Russia-Ukraine war, the global real estate market will be supported in 2022. While there are no alternatives to real estate on offer for institutional investors, the focus will stay on real estate projects in central metropolitan locations in Europe. Residential and logistics real estate will prove particularly popular. In 2022, the recovery in the office real estate market, which is sensitive to how the economy performs, will continue to strengthen in Germany, the UK and the US. Despite the positive economic environment, bricks-and-mortar retail for non-food products will continue to be squeezed by the structural shift towards online shopping. It is also unlikely there will be a full recovery in travel, especially business trips, in 2022, which means the hotel industry will remain under pressure.

Sector forecasts

In 2022, the banking sector will be heavily affected by the pandemic, how the war progresses in Ukraine and the responses to it. Because of the good quality of German banks' assets and the resilience of the country's economy, the sector will be able to cope with any flare-ups in the pandemic. German banks' exposure to the countries currently engaged in conflict is also limited.

Banks will also have to tackle familiar challenges such as increased competition and pressure to digitalise. Digitalisation has also been given a push by the pandemic and is forcing banks to make their business models more fit for the future and extensively invest in IT. At the same time, cost-cutting and the accompanying downsizing of workforces will remain in the foreground. Geopolitical tensions, especially between the US and China, but also in the east of Europe, are building and could impede banks' business activities directly and indirectly.

The European Commission's recommendations on the implementation of Basel IV, which had been eagerly awaited, were announced at the end of October 2021. Although a softening of the output floor through the use of one that is parallel with the existing requirements calculated using buffers was not considered, the recommendation did meet banks' concerns in several respects. The gradual introduction of the output floor will be delayed from 2023 (before the coronavirus pandemic it had originally been 2022) to 2025. In key areas, the transitional periods have been extended and therefore the problem areas of European banks addressed. If passed in this form to become law, it will result in a manageable deterioration in regulatory own funds ratios across the EU.

The topic of sustainability, which politicians and supervisory authorities have made a major focus, has become even more important with the progress made in the EU Taxonomy Regulation, for example. In addition, the first climate stress test by the ECB in the first half of 2022 will shed light on the starting points for further ESG efforts by the European banking sectors. The necessary changes and regulations pose risks, but they also provide an opportunity to develop business models further. For example, banks could play a key role in funding the transition to a more sustainable economy and support their customers with new services.

Banks' financing via the capital market will probably take on increased importance due to high levels of maturities and the replacement of TLTRO funds. A total of EUR 2.2 trillion has been drawn down from the ECB via long-term refinancing transactions, for which no follow-up operations are planned and which must therefore be substituted to some degree. The solidifying of inflation above the ECB's advised target could result in the ECB exiting from its ultra-loose monetary policy faster than had been expected last year, which will be reflecting in rising yields on the capital market. When bonds have touched their lows, the outlook for interest income should improve. At the same time, there is a risk that the exit from expansionary monetary policy will be delayed by the war in Ukraine, which could then have a negative impact on profitability, or could result in the exit happening too quickly, causing market turmoil. This could lead to a correction in high asset prices across all market segments.

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.

In January 2022, BaFin set a domestic anti-cyclical capital buffer in the amount of 0.75 percent, which will apply from 1 February 2023. BaFin also intends to stipulate a capital buffer for systemic risks of 2 percent for risk positions secured by residential mortgages. These requirements are due to take effect from 1 February 2023 as well. The formal stipulation has not yet been issued.

The current option to exclude deposits at central banks from leverage exposure, which will remain in effect until the end of March 2022, will not be extended beyond this date, according to the ECB. From April 2022, these deposits must once again form part of the leverage exposure.

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 for the next CRR update, the 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 which deviates from the original Basel timetable.

The CRR III draft amends the standardised (CRSA) and internal ratings-based approach (IRBA) for measuring credit risks. The method for calculating capital requirements for operational risks and the risk of credit ratings of derivatives counterparties (credit valuation adjustments, CVA) deteriorating is also being revised. A key component of these changes for banks is the output floor, which restricts the advantages of using an internal model and links it to the results of the CRSA. It will be phased in between 2025 and 2030. Deviating from Basel II, the CRR III draft contains EU-specific exemptions, for example for the CVA calculation, and transitional rules in the period to 31 December 2032, as a result of which loans and advances to companies with no external credit ratings and revocable credit commitments will benefit. Despite the EU-specific adjustments, European banks still anticipate capital requirements will rise significantly as a result of the output floor, which can only be deferred by using the transitional rules.

To be able to estimate and calibrate future capital needs, the EBA will be conducting an extensive impact study in the first quarter of 2022, which will expand the Basel Committee's regular monitoring to include issues specific to the EU.

In response to ongoing climate warming, the issue of sustainability will be an additional focus of the banking regulators over the years to come. The regulatory basis was created in 2020 with the EU guidelines on climate and environmental risks and with the EU Taxonomy Regulation. While the guidelines should help banks identify their climate and environmental risk so that they can then implement it in their existing frameworks for risk management, the EU Taxonomy Regulation contains definitions and criteria to determine what activities can be classified as ecologically sustainable. In addition, CRR II, which went into force in 2021, has been supplemented with requirements for the regulatory disclosure report. Starting from 2022, this report will deal with several aspects of sustainability, the scope of which will be expanded in the years to follow.

In the first half of 2022, the ECB will conduct a climate stress test for the first time, based on the methodology published in October 2021. All SSM banks are required to submit qualitative and quantitative information on climate risks. However, selected banks are expected to also provide forecasts of their risks based on set climate scenarios.

The future importance of sustainability in rules and regulations is also highlighted by the ECB's published supervisory priorities for 2022 to 2024. One of these focuses is on fighting new emerging risks, which include not only climate and environmental risks, but also counterparty risks in respect of financial institutions outside of the banking sector, and IT outsourcing and cyberattacks. In addition, ECB banking supervisors have set themselves the goal of ensuring that banks emerge in good health from the Covid-19 pandemic: in respect of credit risk, particular attention will need to be paid to deficiencies in credit risk management, sectors badly hit by the pandemic and risk positions in leveraged finance; in respect of market risk and IRRBB, vulnerabilities to interest rate and credit spread shocks are on the agenda. Another focal point of supervisory activity is eliminating structural deficiencies through effective digitalisation strategies and improved governance.

Besides the ECB's publication of priorities for supervisors, the Single Resolution Board has given the annual details of its working programme for the new calendar year 2022. This includes far-reaching and in-depth analyses, especially on liquidity and funding in settlements and on information systems for bail-ins and valuation data.

Through the passing of the Financial Stability Data Collection Ordinance (FinStabDev) and the Directive for Collecting Data on Real Estate Financing (WIFSta) in 2021, the foundations were laid in German legislation for new data collection requirements for residential real estate loans, providing detailed information on financed residential properties and the loan agreements based thereon. This will be implemented at the banks in 2022, with the first reporting date on 31 March 2023.

Another regulatory project for implementation is the Integrated Reporting Framework (IReF) of the European and national central banks. The intention is to harmonise redundant reporting requirements of different authorities. A standardised reporting approach will eventually replace national reporting regulations and improve data quality and consistency. Whereas full implementation, planned for 2027, will bring efficiency improvements at banks and supervisors, the project will initially result in high IT implementation costs and effort in the near future and will need to be managed in parallel with the finalisation of Basel III and implementation of CRR III.

The BayernLB Group also faces additional challenges in implementing the Sustainable Finance Disclosure Regulation and the EU Taxonomy Regulation.

Company forecasts

Expectations regarding the BayernLB Group

Key forecast assumptions

In its forecast for financial year 2022, the BayernLB Group has made the following key assumptions:

- The negative impact from the coronavirus pandemic on the credit portfolio will continue to decline. However, key customer sectors will continue to be exposed to the challenges posed by the coronavirus and sector-specific structural changes
- Interest rates will edge up slightly but remain low for the long term, competition will be fierce and the pressure to digitalise will remain high
- There will be a further targeted implementation and systematic adherence to the cost-cutting measures in the Group set out in the Fokus 2024 transformation programme
- Administrative expenses for strategic investment in growth, digitalisation and sales at DKB will increase further

In respect of our financial performance indicators, we are expecting the following developments, also taking into account the difficult conditions caused by the Russia-Ukraine war:

	Net profit for 2021	Outlook for 2022
Profit/loss before taxes	EUR 816 million	EUR 300-500 million
Return on Equity (RoE)	7.9 %	>4%
Cost/income ratio (CIR)	59.0 %	63 % – 68 %
Common Equity Tier 1 (CET1) capital ratio	17.3 %	>15 %
Leverage ratio (LR)[1]	5.2 %	>4 %

1 Valid from 30 June 2021.

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

Under supervisory rules, a liquidity coverage ratio (LCR) of at least 100 percent is mandatory. The BayernLB Group anticipates that it will easily exceed the floor of this key liquidity ratio in 2022 and will stay at the comparatively high level it reached in financial year 2021 (31 December 2021: 271.2 percent).

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

In 2022 the net profit for the year after taxes (HGB) is expected to be on par with financial year 2021.

The outlook for 2022 is 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 and negatively impact some portfolios as a result of deteriorations in ratings, higher-than-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.

Expectations regarding the operating business segments

Corporates & Markets segment

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

The Corporates divisions will focus 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.

The Non-Core Corporates & Markets (NCCM) Division will support the strategic realignment for the entire segment through the systematic and structured winding down of non-core business bundled into one unit.

In view of the challenges posed by the coronavirus pandemic, the Corporates & Markets segment is therefore positioning itself on a more stable and forward-looking footing to take advantage of the changed dynamics of the market through its focus on the promising sectors of the future and by deepening its sector expertise.

Real Estate & Savings Banks/Financial Institutions segment

The main thrust of the strategic approach taken in the real estate business is unchanged. This is to gradually but selectively expand commercial and residential real estate financing in the established asset classes of offices, residential, logistics, retail and property management. Because of the pandemic, no hotels or shopping centres are currently being financed. To strengthen the planned path to growth, the Board of Management gave the go-ahead to the further improved Immo 2024 business area strategy, which the segment started to implement at the end of 2021. Besides Germany, business activities will continue to be centred on Western Europe, selected countries in Eastern Europe and the US. To better diversify income and risks, the foreign share in the portfolio will be raised from 36 percent to around 43 percent in the medium term. Most of the expansion will take place through the Paris, London, Milan and New York branches, as well as the Amsterdam sales office (expected from 2022), while market developments will be constantly monitored, especially with regard to the impact of 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. In parallel, the segment will improve on its sustainable financing solutions, expand active new syndicated business and improve its distribution capabilities for real estate financing.

In the real estate business, BayernLB will crank up the financing of sustainable products across all the aforementioned asset classes in Germany and selected established international markets. It will incorporate sustainable finance expertise into commercial and project finance encompassing state-subsidised loans and in conjunction with syndicate banks and savings banks. The segment will also supplement financing with specialised services along the Group’s entire value chain, such as BayernFM's “Check-Up Energie”, an energy use assessment involving building appraisals and optimisation of energy consumption, and LBImmoWert's sustainability criteria integrated into appraisals in Germany, Europe and the US, which indicate the value and performance of a property.

BayernLB's professionalism, expertise and reliability also make it a partner of choice for financial institutions and the public sector. The successful, trust-based collaboration with savings banks is based on the 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. For a detailed forecast for the DKB segment, please refer to DKB's combined management report.

Future plans for the BayernLB Group

Confirmed again in 2021, the strategic target structure 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 also be pursuing the strategic goals and objectives outlined in the section on the business model and Group strategy. The Bank will further strengthen its future sources of earnings through new business cases such as the expansion of the Nuremberg Cash Center (foreign notes and coins and precious metals business) and the growth case in the "Immo 2024" real estate business.

The fundamental indicators for the successful implementation of the BayernLB Group's business strategy are to have a solid capital base, a stable core business, and to have implemented the transformation as planned, including meeting the cost targets set. The main areas of the Group-wide Fokus 2024 transformation programme in 2022 will be achieving growth in the real estate and structured asset finance business, further improving IT infrastructure and internal bank management processes, strengthening distribution capabilities and steadily transforming DKB into a modern tech bank. Despite new challenges from the ruling by the Federal Court of Justice on changes to general terms and conditions and increasing uncertainty about future case law, DKB is still targeting higher gross earnings through ambitious customer growth and by increasing lending volumes in the retail customer segment.

As regards internal processes and procedures, the strategic targets up to 2024 are focused on further rigorously optimising the cost base, adapting the operating model to changing market conditions, increasing process efficiency, boosting the Group's innovativeness and ensuring all Group units work together in a customer and solutions-centric manner. Specifically, BayernLB core-Bank[44] is planning to significantly reduce administrative expenses to EUR 500 million by 2024. This is to be achieved partly by making significant reductions to the headcount up to 2024. To markedly improve the efficiency of the core Bank in Munich, the Group is planning to invest around EUR 300 million in IT at BayernLB by 2024. Capital spending of around EUR 400 million on IT systems and customer growth is envisaged to transform DKB under its "Corporate strategy 9" programme.

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44 BayernLB core Bank, comprising BayernLB Bank and branches; excluding BayernLabo, BayernInvest, Real I.S. und DKB.

The financial guidelines for realising the transformation to the target structure include keeping RWA volumes within the BayernLB Group largely constant, with the aim of achieving a figure of EUR 70.0 billion in 2024. The BayernLB Group also plans to achieve a return on equity (RoE) of 7.5 percent and a cost/income ratio (CIR) of about 55 percent. On top of this, it is aiming for a Common Equity Tier 1 ratio (on a consolidated basis) in 2024 of at least 14 percent.

Based on this systematic and sustainable strategy, the Bank will be working over the next few years to increase the share of the portfolio that is ESG-compliant and impactful. To this end, BayernLB published a new Sustainability Strategy in which its sustainability topics are rigorously driven forward. Among other things, it aims to significantly increase the share of ESG-compliant financing compared with the figures for 2020 by 2023 and attain a climate-neutral portfolio before 2050.

Despite the large-scale modernisation of IT and processes at BayernLB and DKB and higher preventative risk costs as a result of the pandemic, the BayernLB Group will produce good and increasing profits while maintaining a solid capital base. This means that the BayernLB Group will be in a position to fund its comprehensive transformation from its own resources.

Our expectations for the operating business segments and the strategic direction of the BayernLB Group are dependent on various external and internal factors. The ability to implement the strategic goals on time and in full may be impeded by the reduced earnings capacities of some of the core business areas in the current challenging macroeconomic and market environment, especially in view of the Russia-Ukraine war, the still ongoing coronavirus pandemic, and the headwinds from the regulatory reforms. Although it is too early to predict the 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.

Opportunities and risks

The following section focuses on future trends and events which may give rise to opportunities and risks, based on the expectations for the BayernLB Group and its strategic direction.

Macroeconomic opportunities and risks

At the top of the list is the potential impact from the ongoing coronavirus pandemic. In addition, the Russia-Ukraine war and resulting sanctions on Russia by the EU are intensifying the existing challenges for international goods markets. Supply problems might prove persistent and put the recovery in jeopardy, while the expiry of government support measures could lead to a wave of insolvencies.

In addition, the ongoing drift towards protectionism, as is evident from, for example, the trade dispute between the US and China, the war in Ukraine and massive sanctions against Russia, and the structural changes in certain sectors, especially in the automotive industry, combined with below-average economic growth in Germany and the eurozone, may have a greater negative impact than expected.

In addition, the high rate of inflation could result in the monetary policy decision-makers slamming too hard on the brakes and jacking interest rates up. A big sell-off on overbought financial markets and rising risk aversion in the real estate market could then also trip up the economy. In addition, the risk of a military conflagration in Europe has also risen in light of the Russia-Ukraine war.

Company-specific opportunities and risks

The Bank’s strategic transformation over a number of years creates both opportunities and risks. The latter include the agreed measures being implemented only in part or with a delay, requiring additional investment or not generating the scheduled cost savings, and, for example, the market or customers reacting negatively to the planned streamlining of business activities. The new strategy will lead to a higher foreign share and in some cases longer maturities in the credit portfolio, a changed risk structure due to the business model focusing more on certain asset classes and stronger growth ambitions in the retail customer segment at DKB in times of great uncertainty, involving for example the ruling by the Federal Court of Justice on changes to general terms and conditions. As part of the strategic realignment, the Bank has already worked out specific measures to mitigate these factors, including building up additional expertise in the relevant sectors of the future, focusing on the foreign markets the Bank is already familiar with, increasing regional diversification in the real estate business, and strengthening the Bank's placement ability. The planned expansion of its business activities in real estate, in the foreign notes and coins and precious metals business and at DKB as part of its strategic realignment will provide the Bank with opportunities to tap additional earnings potential and also focus on promising topics such as renewable energy and Industry 4.0. In addition, the targeted efficiency improvement and digitalisation measures have the potential to generate earnings and cut down on costs, although it will be some time before this bears fruit with a better bottom line.

Although the ongoing process of digitalisation and supervisory authorities' increased focus on sustainability pose potential risks (as they would result in changes to market and customer requirements), they also offer the BayernLB Group opportunities to modify, fine-tune and refine its business model.

The coronavirus pandemic has left its marks on many different parts of the Group and will continue to do so, both in respect of risks and opportunities, which under certain conditions could result in our business earnings fluctuating and affect our strategic planning.

As a result of the outbreak of war in Ukraine, which comes in addition to the ongoing coronavirus pandemic, there is huge uncertainty about the future direction of the economy. It is anticipated the economy and therefore Germany will be negatively impacted by the sanctions on Russia that have already been agreed and those that are still expected, along with that country's potential response to them. The strength of the impact is, however, very difficult to ascertain and will depend on how the war progresses and the associated sanctions. BayernLB is continuously evaluating these developments and their impact on BayernLB's risk situation as part of its risk management and monitoring.

The first direct impacts of this conflict were considered by making temporary adjustments to BayernLB's country ratings for Ukraine and Russia. Besides customer relationships with companies directly located there, the Bank is also reviewing and closely monitoring customers with a strong focus on eastern European sales markets for any potential impact. Due to low business volume levels with Russia and Ukraine, the impact on BayernLB from its direct customer relationships is minor.

Regulatory opportunities and risks

In addition, because of its membership of the institutional guarantee scheme of the Landesbanks and also due to the European bank levy, BayernLB may be called upon to make a special payment if conditions deteriorate to the extent that a package of compensation and support measures is required, and this could have unforeseeable effects on the BayernLB Group's net assets, financial position and results of operations. It is also expected that contributions to the bank levy will rise significantly up to the end of the regular building-up phase in 2023, especially due to a rise in the target volume. It is anticipated that further contributions may be collected even after 2023.

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

Furthermore, a shadow could also be cast were stricter than currently anticipated regulations to be introduced.

On the other hand, the BayernLB Group may also find opportunities in the aforementioned conditions over the forecast period if the outcome for the factors is more positive than expected.

BayernLB Group’s consolidated financial statements

Statement of comprehensive income

Income statement

EUR million	Notes	2021	2020
Interest income		4,682	5,258
Interest income from financial instruments determined using the effective interest method		3,198	3,126
Interest income – other		1,484	2,132
Interest expenses		(2,816)	(3,486)
Interest expenses from financial instruments determined using the effective interest method		(1,327)	(1,372)
Interest expenses – other		(1,489)	(2,113)
Net interest income	(28)	1,866	1,772
Risk provisions	(29)	(48)	(142)
Net interest income after risk provisions		1,818	1,631
Commission income		823	747
Commission expenses		(443)	(416)
Net commission income	(30)	380	331
Gains or losses on fair value measurement	(31)	190	62
Gains or losses on hedge accounting	(32)	(20)	11
Gains or losses on derecognised financial assets	(33)	6	(14)
Gains or losses on financial investments	(34)	46	68
Administrative expenses	(35)	(1,520)	(1,520)
Expenses for the bank levy and deposit guarantee scheme	(36)	(195)	(161)
Other income and expenses	(37)	108	77[1]
Gains or losses on restructuring	(38)	2	(287)
Profit/loss before taxes		**816**	**197**
Income taxes	(39)	(259)	31[1]
Profit/loss after taxes		**556**	**229**
Profit/loss attributable to non-controlling interests		(3)	(3)
Consolidated profit/loss		**553**	**226**

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

Statement of comprehensive income

EUR million	Notes	2021	2020
Profit/loss after taxes as per the income statement		**556**	**229[1]**
Components of other comprehensive income temporarily not recognised in profit or loss			
Changes in the revaluation surplus containing gains or losses on fair value measurement of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category	(63)	(66)	46
Change not including deferred taxes		(99)	65
Change in measurement		(320)	114
Reclassification adjustment due to realised gains and losses		222	(49)
Change in deferred taxes		32	(19)
Changes in the revaluation surplus containing changes in the fair value of currency swaps arising from currency basis spread fluctuations	(63)	(5)	(4)
Change not including deferred taxes		(5)	(4)
Change in measurement		(5)	(4)
Reclassification adjustment due to realised gains and losses		–	–
Change in deferred taxes		–	–
Currency-related change	(63)	(3)	3
Change not including deferred taxes		(3)	3
Change in measurement		(3)	3
Reclassification adjustment due to realised gains and losses		–	–
Change in deferred taxes		–	–
Components of other comprehensive income permanently not recognised in profit or loss			
Rating-related changes in the fair value of financial liabilities from the “fair value option” category recognised through other comprehensive income	(63)	(14)	14
Change not including deferred taxes		(23)	13
Change in the revaluation surplus for rating-related changes in the fair value of financial liabilities from the “fair value option” category		(25)	14
Change in retained earnings for realised rating-related changes in the fair value of financial liabilities from the “fair value option” category		2	(1)
Change in deferred taxes		9	1
Change due to remeasurement of defined benefit plans	(63)	337	(238)
Change not including deferred taxes		349	(280)
Change in measurement		349	(280)
Change in deferred taxes		(12)	43
Other comprehensive income after taxes		**248**	**(179)**
Total reported comprehensive income recognised and not recognised in profit or loss		**804**	**50[1]**
Attributable:			
To BayernLB shareholders		800	47[1]
To non-controlling interests		3	3
Total comprehensive income attributable to BayernLB shareholders:			
From continuing operations		800	47[1]
From discontinued operations		–	–

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

Balance sheet

Assets

EUR million	Notes	31 Dec 2021	31 Dec 2020
Cash reserves	(7, 40)	17,542	9,342
Loans and advances to banks	(8, 41)	56,266	56,177
Loans and advances to customers	(8, 42)	158,988	152,376
Risk provisions	(9, 43)	(1,117)	(1,084)
Portfolio hedge adjustment assets	(10)	231	1,014
Assets held for trading	(11, 44)	8,880	12,110
Positive fair values from derivative financial instruments (hedge accounting)	(12, 45)	509	876
Financial investments	(13, 46)	20,085	21,881
Investment property	(14, 47)	25	28
Property, plant and equipment	(14, 48)	445	489
Intangible assets	(15, 49)	170	144
Current tax assets	(26, 50)	103	55[1]
Deferred tax assets	(26, 50)	587	680
Non-current assets or disposal groups classified as held for sale	(16, 51)	65	26
Other assets	(17, 52)	3,775	2,113
Total assets		**266,554**	**256,226**

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

Liabilities

EUR million	Notes	31 Dec 2021	31 Dec 2020
Liabilities to banks	(18, 53)	76,447	75,995
Liabilities to customers	(18, 54)	119,292	109,779
Securitised liabilities	(18, 55)	43,880	43,037
Liabilities held for trading	(19, 56)	8,343	9,374
Negative fair values from derivative financial instruments (hedge accounting)	(20, 57)	1,073	1,178
Provisions	(21, 58)	1,768	2,895
Current tax liabilities	(26, 59)	98	122[1]
Liabilities of disposal groups	(22, 60)	28	6
Other liabilities	(23, 61)	627	572[1]
Subordinated capital	(24, 62)	2,689	1,685
Equity	(63)	12,307	11,583[1]
Equity excluding non-controlling interests		12,297	11,565[1]
Subscribed capital		3,412	3,412
Capital surplus		2,182	2,182
Retained earnings		6,548	5,726[1]
Revaluation surplus		78	165
Foreign currency translation reserve		2	5
Distributable profit		75	75
Non-controlling interests		11	18
Total liabilities		**266,554**	**256,226**

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

Statement of changes in equity

EUR million	Parent								Non-controlling interests	
	Subscribed capital	Compound instruments	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	Equity before non-controlling interests		Consolidated equity
As at 31 Dec 2019[1]	**3,412**	**–**	**2,182**	**5,667**	**109**	**2**	**150**	**11,521**	**16**	**11,537**
Adjusted as per IAS 8	–	–	–	9	–	–	–	9	–	9
As at 1 Jan 2020	**3,412**	**–**	**2,182**	**5,676**	**109**	**2**	**150**	**11,530**	**16**	**11,547**
Changes in the Revaluation surplus										
Changes in the fair value of debt instruments - FVOCIM[3]	–	–	–	–	46	–	–	46	–	46
Rating-related changes in the fair value of financial liabilities - FVPLD (FVO)[4]	–	–	–	(1)	16	–	–	14	–	14
Changes in the fair value of currency swaps from currency basis spread fluctuations	–	–	–	–	(4)	–	–	(4)	–	(4)
Currency-related changes	–	–	–	–	–	3	–	3	–	3
Changes due to remeasurement of defined benefit plans	–	–	–	(238)	–	–	–	(238)	–	(238)
Other comprehensive income	–	–	–	(239)	57	3	–	(179)	–	(179)
Consolidated profit/loss[2]	–	–	–	–	–	–	226	226	3	229
Total comprehensive income[2]	–	–	–	(239)	57	3	226	47	3	50
Capital increase/ capital decrease	–	–	–	–	–	–	–	–	–	–
Changes in the Scope of consolidation and other[2]	–	–	–	(12)	–	–	–	(12)	–	(12)
Allocations to/withdrawals from reserves[2]	–	–	–	301	–	–	(301)	–	–	–
Distributions on silent partner contributions, profit participation rights and specific-purpose capital	–	–	–	–	–	–	–	–	–	–
Distribution of profits	–	–	–	–	–	–	–	–	(2)	(2)
As at: 31 Dec 2020[2]	**3,412**	**–**	**2,182**	**5,726**	**165**	**5**	**75**	**11,565**	**18**	**11,583**

Rounding differences may occur in the tables.

Details on equity can be found in note 63.

1 Adjustments as per 31 December 2019 (see 2020 Annual Report, note 2).

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

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

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

EUR million	Parent								Non-controlling interests	
	Subscribed capital	Compound instruments	Capital surplus	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated profit/loss	**Equity before non-controlling interests**		**Consolidated equity**
As at: 31 Dec 2020[2]	**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[3]	–	–	–	–	(66)	–	–	(66)	–	(66)
Rating-related changes in the fair value of financial liabilities - FVPLD (FVO)[4]	–	–	–	2	(16)	–	–	(14)	–	(14)
Changes in the fair value of currency swaps from currency basis spread fluctuations	–	–	–	–	(5)	–	–	(5)	–	(5)
Currency-related changes	–	–	–	–	–	(3)	–	(3)	–	(3)
Changes due to remeasurement of defined benefit plans	–	–	–	337	–	–	–	337	–	337
Other comprehensive income	–	–	–	339	(87)	(3)	–	248	–	248
Consolidated profit/loss	–	–	–	–	–	–	553	553	3	556
Total comprehensive income	–	–	–	339	(87)	(3)	553	800	3	804
Capital increase/ capital decrease	–	–	–	–	–	–	–	–	–	–
Changes in the scope of consolidation and other	–	–	–	6	–	–	–	6	–	6
Allocations to/withdrawals from reserves	–	–	–	478	–	–	(478)	–	–	–
Distributions on silent partner contributions, profit participation rights and specific-purpose capital	–	–	–	–	–	–	–	–	–	–
Distribution of profits	–	–	–	–	–	–	(75)	(75)	(10)	(85)
As at 31 Dec 2021	**3,412**	**–**	**2,182**	**6,548**	**78**	**2**	**75**	**12,297**	**11**	**12,307**

Rounding differences may occur in the tables.

Details on equity can be found in note 63.

1 Adjustments as per 31 December 2019 (see 2020 Annual Report, note 2).

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

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

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

Cash flow statement

EUR million	1 Jan – 31 Dec 2021	1 Jan – 31 Dec 2020
Profit/loss after taxes	**556**	**229**[1]
Items in consolidated profit/loss not affecting the cash flow and carryforwards to cash flow from operating activities		
Amortisation, depreciation, writedowns, loss allowances and writeups on receivables and fixed assets	185	443
Changes to provisions	(908)	(1,659)
Changes to other items not affecting cash flow	(109)	145[1]
Gains or losses on the sale of assets	(136)	(34)
Other adjustments (net)	(1,528)	(1,513)[1]
Sub-total	**(1,941)**	**(2,389)**
Changes to assets and liabilities from operating activities		
Loans and advances		
To banks	(114)	(25,073)
To customers	(5,714)	(7,828)
Risk provisions	(92)	(249)
Securities (unless financial investments) and derivatives	4,057	2,296
Other assets from operating activities	(1,666)	(208)
Liabilities		
To banks	453	25,896
To customers	9,267	9,637
Securitised liabilities	589	(1,226)
Other liabilities from operating activities	(185)	(237)[1]
Cash flows from hedging derivatives	896	(645)
Interest and dividends received	5,761	7,078
Interest paid	(4,161)	(5,503)
Income tax payments	(32)	(60)
Cash flow from operating activities	**7,118**	**1,488**
Proceeds from the sale of		
Financial investments	45	41
Investment property	109	0
Property, plant and equipment	20	55
Intangible assets	0	0
Payments for the acquisition of		
Financial investments	(2)	(3)
Investment property	(6)	(1)
Property, plant and equipment	(22)	(49)
Intangible assets	(65)	(73)
Cash flow from investing activities	**78**	**(30)**
Disbursements to company owners and minority shareholders	(85)	(2)
Changes in cash from subordinated capital (net)	998	(418)[1]
Cash flow from financing activities	**913**	**(420)**
Cash and cash equivalents at end of previous period	9,342	8,512
+/- cash flow from operating activities	7,118	1,488[1]
+/- cash flow from investing activities	78	(30)
+/- cash flow from financing activities	913	(420)[1]
+/- exchange-rate, scope of consolidation and measurement-related changes in cash and cash equivalents	91	(208)
Cash and cash equivalents at end of period	**17,542**	**9,342**

Rounding differences may occur in the tables.

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

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

Notes

Notes to the consolidated financial statements

The consolidated financial statements for Bayerische Landesbank, an institution established under public law, Munich, Germany (BayernLB), entered in the Commercial Register at Munich District Court (HRA 76030), for financial year 2021 were prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to Commission Regulation 1606/2002 of the European Parliament and Council of 19 July 2002 (including all addenda), as well as supplementary provisions applicable under section 315e para. 1 of the German Commercial Code (HGB). In addition to the IFRS standards, IFRSs also comprise the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). All standards and interpretations that are mandatory within the EU for financial year 2021 have been applied.

The consolidated financial statements contain the statement of comprehensive income including the income statement, the balance sheet, the statement of changes in equity, the cash flow statement, and the notes including the segment report. The presentation currency is the euro.

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

The information on the nature and extent of risks arising from financial instruments (IFRS 7.31 to IFRS 7.42) is provided in the combined management report, with the exception of the information on default risk as per IFRS 7.35A to IFRS 7.38, which is disclosed in the notes.

Accounting policies

(1) Principles

Pursuant to IFRS 10.19, the BayernLB Group's accounts are prepared in accordance with Group-wide accounting and valuation policies. Items are recognised and measured on a going concern basis.

Income and expenses are treated on an accruals basis and recognised through profit or loss in the period to which they are economically attributable.

Estimates and assessments required for recognition and measurement pursuant to IFRS are made in accordance with the respective standards. They are regularly checked and are based on past experience and other factors such as expectations of future events. No assurance as to the reliability of estimates can be given, particularly when calculating the value of risk provisions, provisions, deferred taxes, and the fair value of financial instruments.

An asset is recognised when it is probable that the economic benefits will flow to the BayernLB Group in the future and its cost can be measured reliably.

A liability is recognised when it is probable that an outflow of resources embodying economic benefits will result from its settlement and the settlement amount can be measured reliably.

Impact of amended and new International Financial Reporting Standards

In the reporting year, the following amended standards and interpretations had to be applied for the first time:

- *IFRS 4*
  The implementation of the changes to IFRS 4 Insurance Contracts has been put back until 1 January 2023 in particular the option for companies that conclude contracts falling within the scope of application of IFRS 4 to temporarily exempt themselves from applying IFRS 9. There was no impact on BayernLB's consolidated financial statements as at 31 December 2021.

- *IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*
  The amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts mainly provide for reliefs when presenting in the balance sheet the changes to the basis for calculating contractually agreed cash flows of financial assets or financial liabilities resulting from the IBOR reform and other temporary exemptions granted as a consequence of the IBOR reform which permit an entity to waive the application of specific hedge accounting requirements. The amendments to IFRS 16 Leases contain rules for lessees on accounting for a change to a lease that was made necessary by the IBOR reform. As a result of the amendment to IFRS 7 Financial Instruments: Disclosures, additional disclosures need to be made in connection with the IBOR reform.

  Interbank offered rates (IBORs) are/were used as benchmarks for determining prices and cash flows of a wide number of financial instruments. As part of the IBOR reform (IBOR transition), IBOR reference rates and euro overnight index average (EONIA) are being/have been replaced by other, risk-neutral reference interest rates known as risk-free rates (RFRs). Some of the reforms have already taken effect or a time limit has been placed on the use of a specific IBOR, while others are still being implemented or considered.

Overview of variable reference rates in selected currencies

Currency	Previous reference rate	New alternative reference interest rate	Status
EUR	EONIA	Overnight rate: Euro Short-Term Rate (€STR)	Publication from 2 October 2019; final transition as at 3 January 2022
	EURIBOR	EURIBOR	A change was made to the accounting policy that henceforth ensures compliance with the benchmark.
CHF	CHF LIBOR	• Overnight rate: • Swiss Average Rate Overnight (SARON) • Term structure: Compounded in arrears	Final transition as at 31 December 2021
GBP	GBP LIBOR	• Overnight rate: Sterling Overnight Index Average (SONIA) • Term structure: Compounded in arrears	Final transition as at 31 December 2021
JPY	JPY-LIBOR	• Overnight rate: • Tokyo Overnight Average Rate (TONAR) • Term structure: Compounded in arrears	Final transition as at 31 December 2021
USD	USD LIBOR	• Overnight rate: Secured Overnight Financing Rate (SOFR) • Term structure: still under discussion	Final transition expected as at 30 June 2023

At the BayernLB Group, the IBOR transition has affected a large number of products and contracts whose interest rates and/or interest payments are or were determined on the basis of an IBOR. These include interest rate swaps, interest rate options, securities, issues and loans. In addition, numerous valuation models use or used IBOR-based yield curves for discounting and for determining forward rates.

In light of the ongoing IBOR transition, in the reporting year BayernLB decided to switch over to RFRs to value its products, where necessary. The clearing entities (CCPs) used by BayernLB as central counterparties had already switched over their discounting curves by the end of July 2020 and made the balancing payments needed to adjust the agreed interest rates on the securities to the euro short-term rate (€STR). In the case of bilateral secured derivatives, the Bank also switched over master agreements and EONIA discounting to €STR in the reporting year, in line with the switchover by the CCPs.

The reform of variable interest rates could have resulted in yield curves performing differently or having a different basis compared with previous years. In the case of CHF/GBP/JPY, the transition in the reporting year did not place any stress or have any negative repercussions on the Group's financial position and financial performance. However, it is difficult to fully forecast the impact on USD. The discontinuation of the IBORs and EONIA and switchover to RFRs have posed a number of challenges owing to process, accounting, management and operational risk arising in the case of this currency. To mitigate these risks at the BayernLB Group, a special IBOR project was set up to manage the switchover process and ensure the transition to the RFR reference rates is as smooth as possible, both for the customers' and the Bank's benefit. This involved identifying the major risks and implementing the measures needed to replace the IBORs and EONIA by the RFRs in as smooth a process as possible. For example, the Bank centrally managed via the IBOR project the work to coordinate external customer communications on the changes to the reference rate and to issue instructions on how to use and structure the relevant contractual documentation. BayernLB is represented on panels of national and international experts who are dealing with the IBOR reform.

No significant risks arose as a result of the switchover in connection with the IBOR transition in the period to 31 December 2021. Importantly, the transition for the currencies CHF/GBP/JPY was concluded in the reporting year. For new contracts in the credit and derivatives business, the Bank has been using the most up-to-date contractual clauses and master agreements or has amended the existing ones to bring them into line with the current situation

All EONIA derivatives were switched over to €STR by 31 December 2021. No derivatives contract now uses EONIA as a reference interest rate.

All CHF and JPY-denominated loans and derivatives were switched over to the compounded arrears method or amended in accordance with the ISDA fallback protocol. In one case involving a bilateral CHF interest rate swap, it was agreed with the customer to delay the switchover to 2022. Otherwise, the Bank no longer offers any products that use CHF or JPY-LIBOR as the reference rate.

Almost all GBP-denominated loans and derivatives were switched over to SONIA either bilaterally or made subject to the protocol. The switchover could not be completed in full in the reporting year in the case of some credit and swap contracts. This was partly because customers do not have the resources to perform a switchover until 2022 in the case of contracts where GBP-LIBOR does not have to be modified until well into 2022 due to the fixed-rate periods in place. In some cases, the authorities need to approve any switchovers of contracts. Until this approval is received, no unilateral switchovers of contracts can be carried out by borrowers. There is no economic or contractual risk from the last six loan agreements and three swap agreements that had not been switched over as at 31 December 2021. These will all be switched over in 2022. Any forthcoming fixing of interest rates will be carried out on the basis of the synthetic GBP-LIBOR, i.e. the interim legal successor to GBP LIBOR.

As at 31 December 2021, the following financial instruments with the nominal volumes listed below that are affected by the IBOR reform had not yet been switched over to an alternative reference interest rate:

EUR million	Non-derivative financial assets		Non-derivative financial liabilities	Derivatives
	Receivables/loans	Debt securities		
CHF LIBOR	–	–	–	24
GBP LIBOR[1]	186	–	–	86
USD LIBOR	3,645	9	146	24,327

1 Switch amounting to GBP 157 million already agreed with the customer and contracts negotiated but still to be specified in a final agreement as at 31 December 2021.

- *IFRS 16*
  The amendments to IFRS 16 Leases extended the optional reliefs available to lessees when accounting for COVID-19-related rent concessions. The relief grants lessees an exemption under certain circumstances from assessing whether a rent concession in connection with the Covid-19 pandemic should be classified as a change to a lease, and may instead report the rent concession as if it did not represent a change to a lease. This did not have an impact on the consolidated financial statements of the BayernLB Group as at 31 December 2021.

As permitted in the reporting year, BayernLB elected not to engage in 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 2022 or 2023:

- *IFRS 3*
  In May 2020, the International Accounting Standards Board (IASB) published amendments to IFRS 3 Business Combinations, which update the reference in IFRS 3 to the revised 2018 conceptual framework. IFRS 3 also now stipulates that if an acquirer acquires liabilities (with the exception of contingent liabilities) that fall within the scope of IAS 37 or IFRIC 21 acquirer must apply the rules of IAS 37 or IFRIC 21 instead of the conceptual framework and is also prohibited from recognising acquired contingent liabilities. The amendments were incorporated into European law in July 2021 and take effect in financial years beginning on or after 1 January 2022. No impact on BayernLB's consolidated financial statements is expected from these amendments.

- *IFRS 17*

  In May 2017, the IASB published the new Standard IFRS 17 Insurance Contracts, which contains new rules on the recognition of insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts. To simplify the requirements in the new standard and provide some reliefs for implementing it, the IASB published an amendment to IFRS 17 in June 2020. This includes postponing first-time mandatory application of IFRS 17 (including the amendments) to the financial years beginning on or after 1 January 2023. The new standard (including the amendments) will be transposed into European law in November 2021. The impact on BayernLB's consolidated financial statements is currently being analysed.

- *IAS 1*

  In February 2021, the IASB published amendments to IAS 1 Presentation of Financial Statements, which specify the content of the disclosures on the accounting policies in the notes. The amendments were incorporated into European law in March 2022 and take effect in the financial year beginning on or after 1 January 2023. No impact on BayernLB's consolidated financial statements is expected as a result.

- *IAS 8*

  In February 2021, the IASB issued amendments to IAS Accounting Policies, Changes in Accounting Estimates and Errors introducing a definition for accounting estimates. This will be transposted into European law in March 2022. The amendments take effect in financial years beginning on or after 1 January 2023. No impact on BayernLB's consolidated financial statements is expected from these amendments.

- *IAS 16*

  In May 2020, the IASB published amendments to IAS 16 Property, Plant and Equipment. One of the main changes were rules that stipulated that, in future, proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management must be recognised in profit or loss and no longer be deducted from the cost of the asset. The amendments were incorporated into European law in July 2021 and take effect in financial years beginning on or after 1 January 2022. BayernLB does not expect any impact on its consolidated financial statements as a result.

- *IAS 37*

  In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets, which will be transposed into European law in July 2021. These stipulate that when an entity is determining whether a contract is onerous, it must include all the costs of fulfilling the contract that can be directly related to the contract. The amendments take effect in financial years beginning on or after 1 January 2022. No material impact on BayernLB's consolidated financial statements is expected from these amendments.

- *Improvements to IFRS – 2018-2020 cycle*
  In May 2020, in its Annual Improvement Cycle, the IASB also published minor amendments to standards IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, and IAS 41 Agriculture. The amendments were incorporated into European law in July 2021 and take effect in financial years beginning on or after 1 January 2022. No impact on BayernLB's consolidated financial statements is expected as a result.

The IASB has also issued the following amended standards in particular which have not yet been incorporated into European law:

- *IFRS 17*
  In December 2021, the IASB published amendments to IFRS 17 Insurance Contracts, which contain rules on presenting comparative information upon first-time application of IFRS 17 and IFRS 19. The amendments take effect in financial years beginning on or after 1 January 2023. The impact on BayernLB's consolidated financial statements is currently being analysed.

- *IAS 1*
  In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements that alter the criteria for classifying liabilities as current or non-current. With the changes to IAS 1 published by the IASB in July 2020, mandatory first-time application was deferred to financial years beginning on or after 1 January 2023. No impact on BayernLB's consolidated financial statements is expected from these amendments.

- *IAS 12*
  In May 2021, the IASB published amendments to IAS 12 Income Taxes. This stipulates that deferred taxes must be applied to transactions that, upon first-time recognition of an asset and a liability, give rise to temporary differences that are taxable and eligible for a deduction. The amendments take effect in financial years beginning on or after 1 January 2023. The impact of these amendments on BayernLB's consolidated financial statements is currently being examined.

(2) Changes on the previous year

Restatements pursuant to IAS 8.14 et seq.

As a result of Brexit, derivatives of central counterparties based in the United Kingdom were ported to central counterparties within the European Union. To prevent distortions between net interest income and gains or losses on fair value measurement, fair value arising upon initial recognition as a result of this porting was not accrued in interest income or expenses in the case of derivatives in economic hedges, contrary to the usual procedure. The accrual in these cases is a full component of gains or losses on fair value measurement. The changes to the methodology had no impact on the annual financial statements of the BayernLB Group as at 31 December 2020.

Under the "Fokus 2024" transformation programme, the BayernLB Group implemented changes to the way it manages the corporate customers sub-portfolio in the reporting year. From financial year 2021, the new sectors previously presented were replaced by the following eight sectors: energy, mobility, construction & basic resources, consumption & trading, technology, healthcare, manufacturing & engineering and other industries. In respect of the previous breakdown of sectors, this resulted in the following changes to the information on gross credit volumes by sector presented in the combined management report (risk report) in accordance with IFRS 7.34 (a):

- The gross credit volumes of the previous utilities sector were allocated to the energy sector.
- The gross credit volumes of the previous logistics & aviation sector were allocated to the mobility sector.
- The gross credit volumes of the previous consumer goods, tourism, wholesale & retail sector were allocated to the consumption & trading and mobility sectors.
- The gross credit volumes of the previous telecoms, media & technology were allocated to the technology and other industries sectors.
- The gross credit volumes of the previous manufacturing & engineering, aerospace & defence sector were allocated to the construction & basic resources, energy, manufacturing & engineering, mobility, and other industries sectors.
- The gross credit volumes of the previous automotive sector were allocated to the mobility sector.
- The gross credit volumes of the previous commodities, oil and gas industry sector were allocated to the construction and basic resources and energy sectors.
- The gross credit volumes of the previous chemicals, pharmaceuticals & healthcare sector were allocated to the health care and other industries sectors.
- The gross credit volumes of the previous construction industry sector were allocated to the construction & basic resources sector.

The previous year's figures were therefore adjusted to the new allocation of nine sectors, while the gross credit volumes remained unchanged overall.

Among the changes to methodology in financial year 2021 and to increase transparency and comparability, the Bank modified the approach used to calculate gross credit volumes by using for the first time potential future exposure calculated using a modified standardised approach for counterparty credit risk (SA-CCR) at a confidence level of 95 percent. This updating of methodology did not produce any significant changes as at 31 December 2021 to the information presented in the combined management report (risk report) in accordance with IFRS 7.34 (a) on gross replacement risk and gross credit volumes. No restatements were made to the previous year as the system is not able to calculate the impact of retroactive adjustments.

Restatements pursuant to IAS 8.32 et seq.

In the first half of 2021, refinements were made to the discounting rate to calculate risk provisions in Stage 3 and also provisions for other contingent liabilities/other liabilities to ensure a uniform discounting rate is used to determine risk provisions under IFRS 9 (Stages 1, 2 and 3) and provisions under IAS 37. The system is unable to calculate the impact of the changes in estimates in the reporting year. However, after performing some test calculations as at 31 December 2020 the Bank has reached the conclusion the impact is only moderate overall. The changes in estimates will also have an impact on future periods which currently cannot be reliably estimated.

Moreover, in the second half of 2021 the Bank made certain changes to loss given default (LGD) for Pfandbriefs to introduce a model that differentiates by country. This resulted in a decrease in LGDs in the reporting year and therefore to a modest reduction in risk provisions in Stages 1 and 2. It is anticipated that this will also marginally reduce risk provisions in future periods.

In another change in the second half of 2021, the ratings procedure used for national real estate underwent a revamp. The system is unable to calculate the impact of the changes in estimates in the reporting year. However, after performing some test calculations the Bank has reached the conclusion the impact is only moderate overall.

Restatements pursuant to IAS 8.41 et seq.

In the tax calculation as at 31 December 2020, the interest liabilities for taxes were overstated by EUR 12 million and the current tax assets (Germany) by EUR 45 million and the current tax liabilities (Germany) by EUR 40 million due tax balance sheet corrections. The necessary restatement increased retained earnings as at 31 December 2020 by EUR 6 million (1 January 2020: EUR 9 million). In the income statement, there were effects on other income and expenses (interest expenses from tax arrears) in the amount of EUR +2 million and on income taxes in the amount of EUR -6 million, of which EUR -3 million in each case was due to the German corporation tax including solidarity surcharge and to municipal trade tax. The corresponding restatements are recognised in the statement of comprehensive income including the income statement, the balance sheet, the statement of changes in equity, cash flow statement and the notes including segment reporting.

In the note on Contingent assets, contingent liabilities and other commitments, commitments as at 31 December 2020 of EUR 101 million were incorrectly reported. The need to restate the previous year's figures reduced the irrevocable lending commitments by the same amount and increased the liabilities from guarantees and indemnity agreements by the same amount. The error also affected the liquidity risk reported in the consolidated management report (risk report) of the BayernLB Group. The previous year's figures were restated accordingly.

In addition, in the information disclosed pursuant to IFRS 7.34 (a) in the combined management report (risk report) the liquidity coverage ratio (LCR) key performance indicator used within the Group was overstated by 34 percentage points as at 31 December 2020 due to an error in a data field. After restating the previous year's figure, LCR fell from its original value of 245 percent to 211 percent.

In the cash flow statement, the cash flow from financing activities was overstated by EUR 9 million, while the cash flow from operating activities was understated by EUR 9 million due to an error in the calculation of changes in cash from subordinated capital (net). The previous year's figures were restated accordingly.

(3) Scope of consolidation

Besides the parent company, the group of companies consolidated within BayernLB comprises 14 (FY 2020: 14) subsidiaries that are consolidated in accordance with IFRS 10.

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

Changes at BayernLB and in the consolidated Deutsche Kreditbank Aktiengesellschaft sub-group

On 1 October 2021, BayernLB's shareholding in Bayern Card-Services GmbH - S-Finanzgruppe, Munich (BCS) in the amount of 50.1 percent was transferred to Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) in exchange for the payment of the purchase price. With effect on 1 October 2021 BCS was therefore incorporated into the DKB sub-group for the first time. As this was a transfer within the Group, the transaction had no impact on BayernLB's consolidated financial statements.

Determining the scope of consolidation

BayernLB's scope of consolidation is determined by materiality criteria. 109 (FY 2020: 109 companies were neither consolidated nor measured at equity due to their negligible importance individually or collectively to the financial position and financial performance of the Group. The impact on the balance sheet of the contractual relationships between Group entities and these non-consolidated entities is recognised in the consolidated financial statements.

The list of shareholdings shows all the subsidiaries included in the consolidated financial statements (see note 84).

(4) Consolidation principles

BayernLB, the parent company, and the subsidiaries within the scope of consolidation are presented in the consolidated financial statements as an economic unit. The subsidiaries comprise all entities controlled by the BayernLB Group, regardless of their legal structure. These also include structured entities where voting or similar rights are not the dominant factor in deciding who controls the entity. This includes entities whose relevant activities are predetermined by a narrowly defined purpose in the articles of association or in other contractual arrangements or where the decision-making power of the governing body is permanently limited.

A subsidiary is controlled if the BayernLB Group is exposed to variable returns as a result of its involvement with this entity or has rights to them and the ability to influence these returns through its power over decisions affecting the entity. The BayernLB Group has control over an entity if it has rights that give it the current ability to direct the relevant activities of the entity. Relevant activities are those that, depending on the nature and the purpose of the entity, significantly affect its returns. Variable returns are all returns that have the potential to vary as a result of the entity's performance. Returns from involvement with an entity may therefore be positive or negative. Variable returns include dividends, fixed and variable interest, remuneration and fees, changes in the value of the investment and other economic benefits.

When assessing whether control exists, all facts and circumstances must be considered. These include voting rights and other contractual rights to direct relevant activities if no economic or other obstacles to the exercise of existing rights exist. Power of decision is exercised on the basis of voting rights if the BayernLB Group holds more than 50 percent of the voting rights based on equity instruments or contractual arrangements and its share of these voting rights gives it substantive power over the relevant activities. Other contractual rights that may give it controlling influence are primarily rights of appointment to or removal from corporate bodies, and rights of liquidation and other decision-making rights. Contractual arrangements designed to protect only the interests of the BayernLB Group as creditor or minority shareholder (protective rights) do not constitute control.

The BayernLB Group also controls a subsidiary if control is exercised by a third party in the interest of and for the benefit of the BayernLB Group (principal-agent relationship). In such cases, if another party with decision-making rights acts as an agent for the BayernLB Group, it does not control the subsidiary as it is only exercising decision-making rights delegated by the BayernLB Group (the principal). To determine whether such delegated decision-making powers exist, an assessment is carried out based on the scope of its decision-making authority, the rights of other parties, the remuneration and the agent's exposure to risk.

In some cases, due to ongoing insolvency proceedings, the BayernLB Group holds more than 50 percent of the voting rights, but without the corresponding controlling influence. Conversely, in certain other cases, the BayernLB Group has contractual rights giving it controlling influence, but holds less than 50 percent of the voting rights.

Subsidiaries are included in the consolidated financial statements of the BayernLB Group through full consolidation. A subsidiary is consolidated from the date on which the BayernLB Group gains control over it.

When consolidating an acquisition, the cost of acquiring the subsidiary is eliminated against the Group's share of the equity on the date of acquisition. Where there is an acquisition within the meaning of IFRS 3, this equity is the balance of the assets and liabilities of the acquired company measured at their fair value at initial consolidation, adjusted for deferred taxes. If any differences between the higher cost of acquisition and the Group's share of the remeasured equity remain on the assets side, they are recognised in the consolidated balance sheet as goodwill under intangible assets.

Equity interests in subsidiaries not owned by the parent company are disclosed under the equity item as non-controlling interests. If an entity deemed to be controlled under IFRS 10 is incorporated into the consolidated financial statements and the interests in it are not considered equity pursuant to IAS 32, as is the case with an investment fund for example, the interests in the net assets of this debt instrument not belonging to the parent company are recognised under other liabilities and not in equity.

If further equity interests are acquired in a company that is already fully consolidated, the transaction is not classified as a corporate acquisition as defined in IFRS 3 as a controlling relationship was already in existence. The acquisition of an interest is reported instead as a transaction with the minority shareholders. The positive or negative differences remaining after eliminating the additional interests acquired against equity are therefore offset against retained earnings within other comprehensive income.

If first-time consolidation takes place at a later date on materiality grounds, it is not classified as an acquisition as defined in IFRS 3 if control already existed. Where this is the case, the positive or negative differences remaining after eliminating against equity are offset against retained earnings within other comprehensive income.

In the event of a restructuring within the Group, the BayernLB Group uses predecessor accounting if the criteria set out in IFRS 3 are met. In such cases, the acquiring subsidiary carries forward the carrying amounts of the parent company.

Joint arrangements are based on contractual arrangements on the basis of which two or more partners have joint control. Joint control exists if the partners must cooperate to direct the relevant activities of the joint arrangement and decisions require the unanimous consent of the partners sharing control. A joint venture is a joint arrangement whereby the partners that have joint control have rights to the net assets of the arrangement. If, however, the partners have direct rights to the assets and obligations for the liabilities relating to the joint arrangement, then the arrangement is a joint operation. A joint venture in principle exists if a joint arrangement is embodied in the form of a legally independent partnership or a corporation with its own assets, so that the BayernLB Group, based on its share of interests in the entity, only has a proportional claim to the net assets of the entity. If a joint arrangement is conducted in the form of a civil law partnership (e.g. a consortium) whose legal form does not confer separation of the vehicle's assets and liabilities from the partners, an assessment must be carried out to determine whether it is a joint venture or a joint operation based on the contractual arrangements and the purpose of the joint arrangement. If neither the legal form nor the contractual provisions or other facts and circumstances give any indication as to whether the BayernLB Group has direct rights to the assets or obligations for the liabilities of the joint arrangement, it is deemed to be a joint venture.

Associates are entities over which the BayernLB Group exercises significant but not controlling influence either directly or indirectly through subsidiaries. Significant influence is the power to participate in the financial and operating policy decisions of another entity without exercising control. Significant influence exists if the BayernLB Group holds, as an investor, 20 percent or more of the voting rights either directly or indirectly through subsidiaries. An entity can also be an associate if the BayernLB Group holds less than 20 percent of the voting rights, but, on the basis of other factors, has the power to participate in the financial and operating policy decisions of the entity. This particularly applies to cases where the BayernLB Group is represented on the entity's governing body and has contractual rights to manage or realise assets, including making investment decisions.

In certain cases, the BayernLB Group holds at least 20 percent of the voting rights in the entity, but cannot exercise significant influence due to contractual or legal restrictions.

Subsidiaries cease to be consolidated on the date the BayernLB Group loses control over the subsidiary.

The financial statements of the entities included in the consolidated financial statements are prepared as at the parent company's reporting date. If the financial year differs in a specific case, the respective subsidiary will prepare for consolidation purposes additional financial disclosures with the same reporting date used by the parent company.

When consolidating debt and earnings and eliminating intra-Group earnings from subsidiaries, all receivables and liabilities, income and expenses and intra-Group earnings from transactions within the Group are eliminated provided their importance is not negligible.

Interests in subsidiaries, joint ventures and associates not consolidated or measured at equity due to their negligible importance and other ownership interests are reported in the balance sheet under financial investments and measured at fair value.

(5) Currency translation

On initial recognition, assets and liabilities denominated in a foreign currency are translated into the functional currency at the spot rate applicable on the date of the business transaction. When translating currency in subsequent periods, a distinction is made between monetary and non-monetary items. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate at the end of the reporting period. Non-monetary items measured at historical cost are translated using the exchange rate on the date of the transaction. Non-monetary items measured at fair value are translated at the exchange rate on the date the fair value was calculated. Income and expenses in a foreign currency are translated into the functional currency at the end of the month using the ECB average exchange rate. Gains or losses on currency translation are recognised through profit or loss in gains or losses on fair value measurement.

The balance sheet items of the subsidiaries and foreign branches included in the consolidated financial statements are, if their functional currency is not the euro, translated into euros at the exchange rate of the respective currency on the reporting date and the expenses and income translated into euros at the ECB's annual average rate. Currency exchange rate differences arising from this translation are reported in the foreign currency translation reserve within equity.

(6) Financial instruments

Recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognised in the balance sheet from the date on which the entity drawing up the balance sheet becomes a contractual party and entitled to receive or obliged to make the agreed payments. Purchases or sales of financial assets (regular-way contracts) are normally recognised on the date of the trade.

All financial instruments, including derivative financial instruments as defined under IFRS 9, are recognised in the balance sheet and assigned to measurement categories. Financial instruments are initially recognised at fair value, which, as a rule, is the cost of acquisition.

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

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

- Financial assets held to collect contractually agreed cash flows are assigned to the "hold to collect" business model.
- Financial assets held to collect contractually agreed cash flows and with a view to being sold are assigned to the "hold to collect and sell" business model.
- Financial assets held for trading or that do not meet the criteria of the "hold to collect" or "hold to collect and sell" business model are assigned to the "residual" business model.

When analysing the cash flow criterion, the Bank must examine each financial asset to determine if the contractually agreed cash flows are solely payments of principal and interest. Contractually agreed cash flows that are solely payments of principal and interest have the characteristics of a typical credit agreement. Interest is normally compensation for the time value of money and default risk, but can also incorporate compensation for other underlying credit risks (e.g. liquidity risk), costs (e.g. administrative costs) in connection with the holding of a financial asset over a certain period of time, and a profit margin. Repayments are repayments of the outstanding capital amount. In the BayernLB Group, the analysis of the cash flow criterion includes in particular an evaluation of the following contractual features: repayment, termination, interest rate, currency, renewal agreement, credit agreement clause and quasi-equity. If an investment is made in certain assets (principally in non-recourse financing), the Bank checks compliance with internal ratios (e.g. loan-to-value) relating to these financing transactions in addition to the general cash flow criterion. If the internal indicators are not complied with, the cash flow criterion is not met.

Financial assets are measured in accordance with the measurement category to which they have been assigned. These categories are defined as follows:

Financial assets measured at fair value through profit or loss

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

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

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

  These instruments are measured at fair value. The measurement gains or losses are booked to gains or losses on fair value measurement unless they are measurement gains or losses from equity instruments not held for trading and which are measured at fair value through profit or loss; in this case they are shown in gains or losses on financial investments. Gains or losses on fair value measurement also includes realised and current income. Current income from financial instruments not held for trading and derivatives in economic hedges is recognised in net interest income (see the section on hedge accounting).

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

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

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

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

Financial assets measured at amortised cost

These include debt instruments that are assigned to the "hold to collect" business model and meet the cash flow criterion and for which the fair value option is not applied. For the most part, these comprise loans and deposits with central banks.

These instruments are measured at amortised cost. Current income is recognised in net interest income. Realised gains or losses are reported in gains or losses on derecognised financial assets. For the reporting of gains or losses in connection with modifications, refer to the "Modifications" section, and for the specific details regarding the measurement of hedged items qualifying for hedge accounting, to the section on hedge accounting.

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

Loss allowances for the financial assets reported in the balance sheet items "cash reserves", "loans and advances to banks" and "loans and advances to customers" are shown separately in the asset item "risk provisions". In the case of securities included in the balance sheet item "financial investments", any necessary loss allowances are deducted from the carrying amount of the financial asset. As at the reporting date, the BayernLB Group had loss allowances for loans and advances to banks and loans and advances to customers. Income and expenses from the release or addition to risk provisions are taken to the income statement in the line item "risk provisions". Income above the original cost of acquisition from the writeup of the carrying amount of purchased or originated credit-impaired financial assets is also shown here. The method for determining loss allowances is described in note 76.

Financial assets measured at fair value through other comprehensive income

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

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

  These include debt instruments that are assigned to the “hold to collect and sell” business model and meet the cash flow criterion and for which the fair value option is not applied. For the most part, these comprise fixed-income securities.

  These instruments are measured at fair value. Measurement gains and losses are reported in the revaluation surplus within other comprehensive income. Current income is reported under net interest income. If financial assets in the “financial assets mandatorily measured at fair value through other comprehensive income” category are derecognised, the amounts booked in the revaluation surplus are reclassified to the income statement. These released gains or losses are shown in gains or losses on financial investments or other income and expenses. For the reporting of gains or losses in connection with modifications, refer to the “Modifications” section, and for the specific details regarding the measurement of hedged items qualifying for hedge accounting, to the section on hedge accounting.

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

  Any necessary loss allowances are shown in the revaluation surplus within other comprehensive income. Income and expenses from the release or addition to risk provisions are taken to the income statement in the line item “risk provisions”. Income above the original cost of acquisition from the writeup of the carrying amount of purchased or originated credit-impaired financial assets is also shown here. The method for determining loss allowances is described in note 76.

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

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

  This category has not been used in the BayernLB Group to date.

Financial liabilities are also measured according to the related measurement category. The categories are differentiated as follows:

Financial liabilities measured at fair value through profit or loss

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

- Held-for-trading financial liabilities:

  Besides financial liabilities not used for trading purposes, this category includes derivative financial instruments with negative fair values reported on the balance sheet in accordance with IFRS 9 and not designated as hedging instruments in accordance with hedge accounting criteria.

  These instruments are measured at fair value. Measurement gains or losses are reported under gains or losses on fair value measurement. Realised and current income is also normally reported under this item. Current income from derivatives in economic hedges is recognised in net interest income (see the section on hedge accounting).

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

- Fair value option:

  The fair value option is applied to reduce or eliminate measurement or recognition inconsistencies or to avoid bifurcating embedded derivatives which must be separated or if a group of financial assets or financial liabilities is managed in accordance with a documented risk management or investment strategy and the change in value is assessed through the fair value and the information on this group calculated on this basis is forwarded to the management in key positions. These instruments are measured at fair value. Measurement gains or losses must be recognised under gains or losses on fair value measurement. Current income is reported under net interest income. Changes in value resulting from the Bank’s own default risk (rating-related changes in the fair value) are not recognised through profit or loss but are recognised in the revaluation surplus within other comprehensive income, unless this would lead to or exacerbate a mismatch in the disclosure or measurement. There are no such recognition or measurement inconsistencies in the BayernLB Group at present. When financial liabilities in the “fair value option” category are derecognised, the amounts derecognised in the revaluation surplus are reclassified to retained earnings within equity.

Financial liabilities (mainly structured issues and liabilities with embedded derivatives) designated to the fair value option must be reported in the balance sheet line items "liabilities to banks", "liabilities to customers", "securitised liabilities" and "subordinated capital". In the BayernLB Group, primarily loans and advances to banks, loans and advances to customers and securitised liabilities were held as at the reporting date.

Financial liabilities measured at amortised cost

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

These instruments are measured at amortised cost. Current income is recognised in net interest income. Realised gains or losses are reported in net interest income or other income and expenses. For the reporting of gains or losses in connection with modifications, refer to the "Modifications" section, and for the specific details regarding the measurement of hedged items qualifying for hedge accounting, to the section on hedge accounting.

The financial liabilities falling within this category must be shown in the balance sheet line items liabilities to banks, liabilities to customers, securitised liabilities and subordinated capital. The BayernLB Group had holdings in all these balance sheet line items as at the reporting date.

Derecognition

Financial assets are derecognised if the contractual rights to cash flows from the assets have lapsed or the BayernLB Group has for the most part transferred all risks and rewards of ownership. Financial liabilities are derecognised if the contractual liabilities are discharged, cancelled or have expired.

Modification

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

If the contractual rights to cash flows are modified so that they are deemed de facto to have been extinguished or expired, the financial instrument is derecognised and the modified financial instrument booked (significant modification). Any resulting income or expense is recognised through profit or loss. Subsequent accounting is based on the category to which the modified financial instrument is assigned.

Gains or losses on non-significant modifications of contractually agreed cash flows of financial assets whose loss allowances are measured in the amount of the 12-month credit loss are recognised in net interest income, while those of financial assets whose loss allowances are measured in the amount of the lifetime expected credit loss are reported in the risk provisions. Gains or losses on non-significant modifications of contractually agreed cash flows of financial liabilities are shown in net interest income. Gains or losses on significant modifications of financial assets in the “financial assets measured at amortised cost” category are booked to the “gains or losses on derecognised financial assets” category, while financial assets in the “financial assets mandatorily measured at fair value through other comprehensive income” category are carried to gains or losses on financial investments or other income and expenses; in the case of financial liabilities, the gains or losses are reported in net interest income or other income and expenses. Income and expenses from the amortisation of the amortised costs of significantly and non-significantly modified financial assets are presented under net interest income.

When distinguishing between significant and insignificant modifications, the BayernLB Group applies both qualitative criteria (e.g. changes in borrower, currency or type of financial instrument) and quantitative criteria (e.g. adjustment of interest rates or maturities). The evaluation of the quantitative criteria for financial assets is based on the provisions for financial liabilities.

Offsetting

Financial assets and financial liabilities are offset against each other in accordance with IAS 32.42 if a legally enforceable right to set off the recognised amounts currently exists and an intention exists to settle on a net basis or to realise the asset and settle the liability simultaneously.

Fair value

The fair value of a financial instrument is the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. Market participants are knowledgeable, willing partners that are independent of each other and able to enter into a transaction for the asset or liability. The relevant market for measuring fair value is the most active market that the BayernLB Group has access to (principal market). If no principal market exists, the most advantageous market is used.

Fair value is calculated where possible by reference to a quoted (unadjusted) price on an active market for an identical financial instrument. A market is considered active for a financial instrument if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. This means that pricing is regular, bid-ask spreads are small and several price contributors exist with only slightly different prices.

If no active market exists, fair value is calculated using a range of measurement methods including measurement models based on discounted cash flow methods and indicative valuation prices. The objective is to estimate the price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under current market conditions. The valuation techniques applied maximise the use of relevant observable inputs and minimise the use of non-observable inputs.

In the case of financial instruments, differences may arise between the transaction price and the fair value upon recognition determined through a valuation model (day one profit or loss). If, when calculating fair value, the relevant market deviates from the market in which the transaction was concluded and the valuation model uses non-observable parameters to a significant extent, this difference must be recognised as a day one profit or a loss reserve either in assets held for trading or liabilities held for trading and released over the term through profit or loss.

Valuation models

The methods used to calculate fair values include recognised valuation models based mainly on observable market data. The discounted cash flow method and option pricing models are among the valuation models used.

If a quoted price is not available for an identical financial instrument, the discounted cash flow method is used for interest-bearing financial instruments. This method calculates the instruments' value based on their cash flow structures, taking account of their nominal values, residual maturities and the agreed day-count convention. If the financial instrument has a contractually agreed cash flow, the cash flow structure is calculated using the agreed cash flows. In the case of variable rate instruments, cash flows are determined using forward curves. Cash flows are discounted using matching currency and maturity, secured and unsecured yield curves, and a risk-adjusted spread. Market data is used where spreads are publicly available. Bid-ask valuations are used for fair value measurement.

To determine the fair values of asset-side loans and advances whose loss allowances are measured in the amount of the 12-month expected credit losses (Stage 1 of the general approach for determining loss allowances), in the amount of the lifetime expected credit losses (Stage 2 of the general approach for determining loss allowances) or in the amount of the life time expected credit losses and that are credit-impaired (Stage 3 of the general approach for determining loss allowances and purchased or originated credit-impaired financial assets (POCI)) for which, however, the creation of a risk provision was not necessary despite credit impairment, the contractually agreed cash flows are discounted using the cost curve plus transaction-specific measurement spreads. This also applies to POCI that were no longer credit-impaired on the reporting date. The cost curve corresponds to the risk-free yield curve and a liquidity spread curve, which differs depending on the currency and cover status of the transaction. In addition to a constant margin over the term of the transaction, which is determined at the time the transaction is concluded, the transaction-specific valuation spread includes an updated risk component that reflects the creditworthiness of the business partner over time. Optional components included in credit agreements (e.g. termination options) are valued using common assessment methods. When determining the fair values of credit transactions whose loss allowances are measured in the amount of the lifetime expected credit losses and that are credit-impaired (Stage 3 of the general approach for determining loss allowances and POCI), and for which a risk provision was necessary due to the credit impairment, the expected losses are taken into account by adjusting the cash flows for the risk costs and consequently not including them in the discounting in the form of a credit spread. The fair values of credit transactions measured at fair value through profit or loss are determined using the same approach on the basis of credit spreads observable on the market.

In the case of borrowing, cash flows are discounted using the risk-free yield curve plus a liquidity spread curve which reflects BayernLB's current credit rating and differs depending on the currency and the cover status of the transaction.

The liquidity spreads are based on the internal pricing curves of Asset Liability Management and tested for plausibility independently of Trading using the external market interest rate.

As mid-rate inputs are usually used when theoretically measuring fair values of derivatives, an accounting fair-value discount is determined on the basis of bid-ask spreads. In the case of OTC derivatives, discounting takes account of the collateral status and currency. In addition, the Bank takes account of counterparty risk and own default risk using credit valuation adjustments (CVA) and debit valuation adjustments (DVA). These values are calculated by conducting a Monte Carlo simulation of future fair values, taking account of any netting or collateral agreements and weighting default probabilities based on credit spreads. The Bank also factors in bank-specific financing conditions using a funding valuation adjustment (FVA). Any allocations to individual transactions are made on the basis of the relative credit adjustment approach.

Options and other derivative financial instruments with option characteristics are measured largely using the Black-Scholes option pricing model. The displaced diffusion model is used to perform valuations when interest rates are negative. In turn, the Black-Scholes model is used here after parallel shifting of the strike price and forward price parameters (depending on the product type and currency). The following inputs are used when measuring: cumulative probability distribution function for standard normal distribution, option strike prices, continuously compounding risk-free interest rates (for different currencies and maturities), volatility, time to option expiry, estimated dividends, interest rate and pricing barriers, discounts, increments and probability of occurrence.

The binomial model is used for options with several possible exercise dates. Publicly accessible market data is also used in the measurement.

Credit derivatives are measured using the hazard rate model based on the latest credit spreads.

Summary of the principal valuation models by derivative product group

Product group	Principal valuation model
Interest rate swaps	Discounted cash flow method
Forward rate agreements	Discounted cash flow method
Interest rate options	Black 76, displaced diffusion
Forward exchange deals	Discounted cash flow method
Currency swaps/cross-currency swaps	Discounted cash flow method
Foreign exchange options	Black 76, Trinomial tree (Cox-Ross-Rubinstein)
Equity/index options	Black-Scholes, Roll-Geske-Whaley
Credit derivatives	Hazard rate model

Structured products are concluded within structured issues. These structures are each hedged with mirror swaps. Besides using the above methods, these structures are measured largely using short-rate and BGM models (Libor market model) and Monte Carlo simulations.

In the case of equity instruments not traded on an active market, fair value is calculated using recognised valuation methods, particularly the German income method (Ertragswertverfahren), in which the expected and valuation-relevant cash flows are based on budgeted values of the companies in question, which are discounted to the valuation date using a risk-adjusted capitalisation rate based on a capital asset pricing model.

The valuation models presented above are therefore used to calculate the fair values of financial instruments in the “financial assets measured at fair value through profit or loss”, “financial assets measured at amortised cost”, “financial assets measured at fair value through other comprehensive income”, “financial liabilities measured at fair value through profit or loss” and “financial liabilities measured at amortised cost” categories. The balance sheet items most affected are cash reserves, loans and advances to banks, loans and advances to customers, assets held for trading, positive fair values from derivative financial instruments (hedge accounting), financial investments, liabilities to banks, liabilities to customers, securitised liabilities, liabilities held for trading, negative fair values from derivative financial instruments (hedge accounting) and subordinated capital.

Embedded derivatives

Derivative financial instruments embedded in financial liabilities are recognised as independent derivatives and measured at fair value if they have to be separated from the host contract. If this is the case, the host contract is recognised and measured according to its measurement category. In the case of compound (structured) products, no separation is made if the fair value option has been applied.

Hedge accounting

For risk management purposes, derivative financial instruments are used to hedge recognised financial assets and recognised financial liabilities. These hedged items are accounted for and measured on the basis of whether they meet hedge accounting criteria or are economic hedges.

The BayernLB Group conducts hedge accounting in the form of micro fair value hedges in accordance with IFRS 9 and portfolio fair value hedges in accordance with IAS 39 in order to hedge interest-rate risk and in the form of group fair value hedges in accordance with IFRS 9 in order to hedge currency risks (see note 68).

Derivatives used to hedge the fluctuations in the fair value of financial assets and financial liabilities on the balance sheet are measured at fair value and changes in their value are recognised through profit or loss. If the currency basis spread of a financial instrument is separate from a financial instrument and exempt from being designated as a hedging instrument, fair value changes arising from currency basis spread fluctuations are booked as hedging costs to other comprehensive income. The carrying amounts of hedged items in a micro hedge are adjusted in line with gains or losses on measurements attributable to the hedged risk and are recognised in the income statement. Where the fluctuations in the fair value are hedged in a portfolio hedge, the cumulative gains or losses on measurement attributable to the hedged risk for financial assets are recognised under portfolio hedge adjustment assets and the carrying amounts of the hedged items left at amortised cost.

Changes in the fair value of hedging instruments carried to profit or loss and changes in the fair value of hedged items arising from the hedged risk are reported under gains or losses on hedge accounting. Changes in the fair value from currency basis spread fluctuations are shown in the revaluation surplus in other comprehensive income. Interest income and expenses from hedging derivatives are recognised as net interest income. Derivative financial instruments (hedge accounting) are reported under positive fair values from derivative financial instruments (hedge accounting) or negative fair values from derivative financial instruments (hedge accounting).

Derivative financial instruments in economic hedges (derivatives for hedging fair value option transactions and derivatives in other economic hedges) that do not meet hedge accounting criteria are recognised and measured in accordance with their categorisation as financial assets measured at fair value through profit or loss or financial liabilities measured at fair value through profit or loss. The amounts are reported under assets held for trading or liabilities held for trading. Measurement gains or losses are reported under gains or losses on fair value measurement. Unlike current income and expenses of held-for-trading derivative financial instruments, the current income and expenses arising from these derivatives are reported under net interest income.

(7) Cash reserves

Cash reserves comprise cash, demand deposits at central banks, debt certificates issued by public entities and bills of exchange eligible for refinancing with central banks. Cash and balances at central banks are recognised at nominal value. Debt certificates issued by public entities and bills of exchange eligible for refinancing with central banks are financial assets assigned to the "hold to collect and sell" business model. These are measured at fair value and not carried to the income statement (see the comments on financial assets mandatorily measured at fair value through other comprehensive income in note 6).

(8) Loans and advances

Loans and advances to banks are non-derivative financial assets, which are allocated to the "hold to collect" or "hold to collect and sell" business models, regardless of whether they meet the cash flow criterion. These items are measured according to the related measurement category (refer to note 6).

If the criteria for offsetting financial assets and financial liabilities are met, receivables and liabilities from repurchase agreements with central and bilateral counterparties are shown netted.

(9) Risk provisions

Risk provisions comprise loss allowances for financial assets in the "financial assets measured at amortised cost" category which are recognised in the balance sheet line items "cash reserves", "loans and advances to banks", "loans and advances to customers" and "other assets". For the calculation of loss allowances, including a breakdown of loss allowances and restatements as a result of the coronavirus pandemic, refer to note 76.

Income and expenses from the release or addition to risk provisions are taken to the income statement in the line item "risk provisions".

(10) Portfolio hedge adjustment assets

This balance sheet item shows the changes in value of the hedged items for which fair value hedge accounting in the form of portfolio hedges was used.

(11) Assets held for trading

Assets held for trading include debt instruments that are assigned to the "residual" business model, derivative financial instruments with positive fair values that are recognised in accordance with IFRS 9 and are not designated as hedging instruments as part of hedge accounting, and equity instruments that are held for trading. Refer to note 6 for information on financial assets mandatorily measured at fair value through profit or loss" (including derivatives).

If the requirements for netting financial assets against financial liabilities are met, derivative financial instruments are recognised at the net value of their market price and any variation margin paid or received.

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

This item on the balance sheet includes derivative financial instruments with positive fair values, which are used as hedges and meet hedge accounting criteria. The derivative instruments are measured at fair value. Changes in the fair value of hedging instruments recognised through profit or loss and changes in the fair value of hedged items arising from the hedged risk are reported under gains or losses on hedge accounting. Changes in the fair value from currency basis spread fluctuations are shown in the revaluation surplus in other comprehensive income. Interest income and expenses from hedging derivatives are recognised as net interest income.

If the requirements for netting financial assets against financial liabilities are met, derivative financial instruments are recognised at the net value of their market price and any variation margin paid or received.

(13) Financial investments

Financial investments comprise bonds, notes and other fixed-income securities, equities and other non-fixed income securities, equity interests and other financial investments. Debt instruments allocated to the "hold to collect" or "hold to collect and sell" business models, regardless of whether they meet the cash flow criterion, and equity instruments not held for trading are recorded. These items are measured according to the related measurement category (refer to note 6).

(14) Investment property and property, plant and equipment

Land or buildings held for the purposes of earning rental income or capital appreciation is reported on the balance sheet under investment property.

Property, plant and equipment comprises owner-occupied property, furniture and office equipment (including equipment leased under operating leases). These balance sheet line items comprise, besides own assets, capitalised rights as a lessee to use the underlying assets.

Mixed-use property that can be disposed of separately is allocated proportionately to the "investment property" and the "property, plant and equipment" items. If a theoretical division of the property is impossible, the entire property is reported as an investment asset if only a non-material proportion (less than 10 percent) is held for internal operations.

Upon initial recognition, property, plant and equipment is recognised at cost. Subsequent costs are capitalised if they lead to a significant improvement in the asset and thus add to the future economic benefit of the asset. Depreciable property, plant and equipment is subsequently reported on the balance sheet after deducting for straight-line depreciation corresponding to the useful life. BayernLB applies the option under IAS 40 to measure investment property at amortised cost.

Useful life is determined by considering the expected physical wear and tear, technical obsolescence and legal and contractual restrictions. In the case of buildings, the components are depreciated over their specific useful life (component approach).

All property, plant and equipment and investment property is depreciated on a straight-line basis over the following periods:

- Buildings 28-93 years
- Furniture and office equipment 3-25 years

Impairments are recognised in the amount by which the carrying amount exceeds the greater of the fair value less cost to sell and the value in use (impairment test). If the reasons for impairment cease to apply, an impairment reversal (writeup) is made up to no more than the value of the amortised cost.

Depreciation and impairment of investment property is reported under other income and expenses, while depreciation and impairment of property, plant and equipment is shown under administrative expenses. Writeups are reported in other income and expenses.

For materiality reasons acquisitions of low-value property, plant and equipment are recognised directly in administrative expenses. Profits and losses from the sale of property, plant and equipment and investment property are reported under other income and expenses.

(15) Intangible assets

Intangible assets comprise internally generated intangible assets and other intangible assets (purchased software).

The development costs of internally generated intangible assets are capitalised where their production is likely to result in an inflow of economic benefits and costs can be determined reliably. Expenditure on research is not capitalised but recognised through profit or loss.

Intangible assets are reported on the balance sheet at amortised cost. They are amortised on a straight-line basis over an expected useful life of usually four or five years or up to ten years in certain cases. Useful life is determined by considering the expected technical obsolescence and legal and contractual restrictions.

Impairments are recognised in the amount by which the carrying amount exceeds the greater of the fair value less cost to sell and of the value in use (impairment test). If the reasons for impairment cease to apply, an impairment reversal (writeup) is made up to no more than the value of the amortised cost.

Amortisation and impairment of intangible assets is reported under administrative expenses. Writeups are reported in other income and expenses.

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

This item comprises both non-current assets in the held-for-sale category and the assets of disposal groups in the held-for-sale category.

The conditions for designation as held for sale are met if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and the non-current asset or disposal group can be sold immediately in its present condition and the sale is highly probable. For this, a decision must be taken by management to carry out the sale, with the expectation it will be completed within the next 12 months.

Non-current assets or disposal groups classified as held for sale are recognised at the end of the reporting period at the lower of carrying amount or fair value less costs of sale if there are no measurement exceptions in accordance with IFRS 5.

(17) Other assets

Other assets comprise assets not allocated to one of the other items on the assets side. This item includes emissions certificates, precious metals and claims from reinsurance. The measurement depends on the regulations for the respective asset.

(18) Liabilities

Liabilities to banks and customers and securitised liabilities are non-derivative financial liabilities not used for trading purposes. These items are measured according to the related measurement category (refer to note 6).

If the criteria for offsetting financial assets and financial liabilities are met, receivables and liabilities from repurchase agreements with central and bilateral counterparties are shown netted.

(19) Liabilities held for trading

Liabilities held for trading includes, besides financial liabilities not used for trading purposes, derivative financial instruments with negative fair values reported on the balance sheet in accordance with IFRS 9 and not designated as hedging instruments in accordance with hedge accounting criteria. For measurement of financial liabilities in the "held for trading" category (including derivatives), refer to note 6.

If the requirements for netting financial assets against financial liabilities are met, derivative financial instruments are recognised at the net value of their market price and any variation margin paid or received.

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

This item on the balance sheet includes derivative financial instruments with negative fair values, which are used as hedges and meet hedge accounting criteria. The derivative instruments are measured at fair value. Changes in the fair value of hedging instruments recognised through profit or loss and changes in the fair value of hedged items arising from the hedged risk are reported under gains or losses on hedge accounting. Changes in the fair value from currency basis spread fluctuations are shown in the revaluation surplus in other comprehensive income. Interest income and expenses from hedging derivatives are recognised as net interest income.

If the requirements for netting financial assets against financial liabilities are met, derivative financial instruments are recognised at the net value of their market price and any variation margin paid or received.

(21) Provisions

Provisions for pensions and similar obligations and other provisions are recognised under this item.

Provisions for pensions and similar obligations

Provisions are made for pensions and similar obligations as a result of pension plans covering commitments regarding retirement pensions and disability and surviving dependants' benefits. The benefits provided by the BayernLB Group vary according to the legal and economic circumstances pertaining in the country concerned and generally depend on the length of service and salary of the individual employee. For a description of the defined benefit plans in the BayernLB Group, refer to the explanations in note 58.

Some of the defined benefit plans are financed by asset contributions in the form of a Contractual Trust Arrangement (CTA) and by qualifying insurance policies.

The defined benefit obligations are measured by independent actuaries using the projected unit credit method. This takes into account the current pension payments and vested retirement benefits as at the reporting date and also the expected changes in certain parameters such as salary and pension trends. The discount rates used to calculate the present value of pension obligations are based on yields on high-quality, fixed-rate corporate bonds – at maturities and currencies that match the pension payments – on the respective markets as at the reporting date. No high-quality, fixed-rate corporate bonds are available as a benchmark for very long terms. The relevant discount rates are determined by extrapolation from the observable market yields along the yield curve.

The following actuarial assumptions are used:

in %	2021	2020
Discount rate for retirement benefits	1.1	0.7
Discount rate for medical costs and death benefits	1.2	0.8
Changes in salaries[1]	2.0	2.0
Changes in benefits[2]	1.8	1.8
Changes in medical costs	5.5	5.5

1 In the case of non-payscale employees, a different assumption of a 2.3 percent change in estimated future salaries was used as a basis.
2 Eligible social insurance pensions at BayernLB in Germany were calculated to have increased by 2.3 percent.

They are measured in Germany on the basis of the biometric probabilities according to the "Heubeck Richttafeln 2018G" actuarial tables and in other countries on the basis of country-specific mortality tables.

The plan assets used to cover pension obligations are measured at fair value as at the reporting date and set off against the corresponding commitments. If plan assets exceed pension obligations, the resulting asset is reported under "other assets". The asset is recognised mainly on the basis of the future economic benefits it will provide, taking account of future charges from a reduction in contributions due to existing minimum funding requirements being met. Depending on the regulatory or contractual provisions, the plan assets are accounted for under the asset ceiling rules.

The service cost is classified as staff costs. Past service cost arises when a defined benefit plan is introduced or changes are made to the benefits payable under an existing defined benefit plan and is recognised immediately as an expense.

The impact from the remeasurement of defined benefit plans, such as actuarial gains and losses arising from the difference between expected and actual values or changed assumptions, is recognised in retained earnings directly in the period it arises.

Income from plan assets and expenses from the discounting of pension obligations are reported under net interest income.

In addition, some Group companies provide their employees with defined contribution plans due to statutory or contractual provisions. These defined contribution plans involve no commitments on the part of the company beyond paying contributions to an external pension provider. The payments are recognised as an expense and reported under administrative expenses at the time of the payment obligation. No pension provisions need to be made.

Other provisions

Other provisions include provisions for off-balance sheet transactions, restructuring provisions and other provisions.

Provisions for off-balance sheet transactions are made for contingent liabilities and other liabilities where there is a risk of default. They include loss allowances for financial guarantees and for irrevocable and revocable credit commitments to which the impairment rules in accordance with IFRS 9 are applied (for calculation of loss allowances, including a breakdown of loss allowances, refer to note 76), in addition to provisions for other contingent liabilities and other commitments in accordance with IAS 37.

Restructuring provisions are recognised for termination benefits in accordance with IAS 19 and obligations under contracts in accordance with IAS 37. These are recognised if the BayernLB Group has a detailed formal plan for the restructuring measures and has already begun to carry it out, or if the major details of the restructuring have been announced.

Miscellaneous provisions are made in accordance with IAS 37 for present legal or de facto obligations if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations.

The size of the provision corresponds to the best estimate of the amount that would be required to settle the liability as at the reporting date. The risks and uncertainties associated with the liability are factored into the calculation.

Where the effect of the time value of money is material, provisions are discounted and the present value of the expenditures required to settle the liability is reported. To this end a pre-tax discount rate is used that reflects the current market assessments of the time value of money and the risks specific to the liability.

(22) Liabilities of disposal groups

This item comprises the debts of disposal groups in the held-for-sale category.

(23) Other liabilities

Other liabilities comprise liabilities not allocated to one of the other items on the liabilities side. This item includes deferred income and accruals. The measurement depends on the regulations for the respective liability.

The line item also includes financial liabilities to non-controlling interests holding shares in DKB sustainability funds that are part of the DKB sub-group (see note and to which the fair value option is applied.

(24) Compound instruments

Debt and equity instruments are classified in accordance with IAS 32, taking account of IDW statement HFA 45 on the presentation of financial instruments under IAS 32. A financial instrument is therefore recognised in equity if

- it evidences a residual interest in the assets of an entity after deducting all of its liabilities (IAS 32.11) and
- in particular, it contains no contractual obligation to deliver cash or other financial assets to the contractual partner (IAS 32.16).

The contractual terms of the compound instruments used by BayernLB result in the following accounting treatment and measurement in the consolidated financial statements.

As they are compound financial instruments, dated silent partner contributions, including those that are callable by the lender, must be divided into their equity and debt components (split accounting). The fair value of the debt component was initially measured by discounting the nominal value of the compound instrument as a whole by its effective interest rate. The value is recognised in the balance sheet in the subordinated capital item. In subsequent years, interest on the debt component accrues and the resulting expense is reported in net interest income. The equity component – which as a residual interest as defined in IAS 32.11 corresponds to the present value of expected future distributions – is recognised in equity in the compound instruments (equity component) sub-item. Distributions on compound instruments are made only if their payment does not produce or increase a net accumulated loss in the separate accounts prepared under the German Commercial Code (HGB).

If a compound financial instrument shares in the losses, this affects the repayment of the nominal value of the compound instrument and therefore the debt component whose present value must be adjusted as necessary to take account of the changed cash flow expectations in accordance with IFRS 9.B5.4.6. The income resulting from the change in the present value (or expenses resulting from replenishing the instrument in subsequent years) is recognised in other income and expenses.

(25) Leasing

Leases are agreements whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a fee. They are recognised and measured on the basis of whether the BayernLB Group acts as a lessee or lessor.

The BayernLB Group as lessee

As at the date of preparation, lease liabilities are recognised at the net present value of the lease payments not yet made at the time. At the same time, the Bank capitalises a right to use the underlying asset that corresponds to the net present value of future lease payments plus initial direct costs, upfront payments and dismantling costs, less any incentive payments received. The BayernLB Group elects to use the option under IFRS 16 to apply the exemption from recognising in the balance sheet short-term leases or leases where the underlying asset is of low value. The rules in IFRS 16 do not apply to leases of intangible assets. Except for real estate leases, the BayernLB Group does not separate non-lease and lease components from each other.

Right-of-use assets are capitalised in subsequent measurements less straight-line depreciation or amortisation based on the useful life of the underlying assets or the term of the lease. In doing so the Bank also takes account of any impairments or remeasurements of lease liabilities. The carrying amount of the lease liability is adjusted for the accrued interest, the lease payments made and any remeasurements. The right-of-use asset is recognised under property, plant and equipment. Lease liabilities are shown under other liabilities.

Depreciation and impairments of right-of-use assets are reported in administrative expenses. Interest expenses for lease liabilities are reported under net interest income. Lease payments associated with short-term leases and leases where the underlying asset is of low value are recognised in administrative expenses or in other income and expenses.

The BayernLB Group as lessor

Leases are recognised and measured on the basis of whether they are classified as finance or operating leases. Since effectively all risks and rewards associated with ownership of the underlying assets remain with the BayernLB Group as lessor, all leases are operating leases.

In the case of operating leases, the leased asset is recognised at amortised cost (see note 14). The lease payments received by the lessee are recognised in other income and expenses. Depreciation and impairments are reported in administrative expenses and other income and expenses.

(26) Tax

Current tax assets and liabilities are measured by applying the currently applicable tax rates and netting against expected tax refunds or tax liabilities.

Deferred tax assets and liabilities result from the temporary differences between the carrying amount of an asset or a liability and the tax base and from unused loss carryforwards and tax credits. This creates tax liabilities or assets expected in the future. Deferred taxes are recognised where permitted. They are measured for each of the companies consolidated within the Group, at the specific relevant income tax rate expected to be applicable for the period of the reversal of the temporary differences based on tax laws that have been enacted or passed by the end of the reporting period.

Deferred tax assets are only reported if it is probable that taxable profit in future periods will be sufficiently high to offset the as yet unused tax losses carried forward and deductible temporary differences. The amount of deferred tax assets recognised is calculated on the basis of the tax planning for the company in question or – if a tax group exists – for the consolidated tax group in question. When recognising deferred tax assets from interest carryforwards, the same accounting policies as used for deferred tax assets from tax loss carryforwards are applied.

Deferred taxes are not discounted. Deferred tax assets and liabilities are created and carried through profit or loss if the underlying item is recognised in the income statement, or are created and carried in other comprehensive income if the underlying item is recognised through other comprehensive income.

Income tax expenses and income calculated on profit before taxes are reported in the consolidated income statement as income taxes. Other taxes not based on income are reported under other income and expenses.

Segment reporting

(27) 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 and on non-current assets by geographical region required under IFRS 8.33 (b) is not available. This is because the cost of producing the information would be excessively high and the BayernLB Group's business activities are focused on Germany. There is therefore no significant amount of business that could be distributed across geographical regions.

As is the case with internal management information, the contribution of capital made available by the BayernLB core Bank, which shows the earnings contribution of non-interest bearing liabilities that form part of net interest income, is as of 2021 no longer distributed across the operating business segments but shown completely under the Group Treasury Business Area and therefore fully assigned to the Central Areas & Others (including consolidation) segment The relevant segment figures for the comparison period were adjusted accordingly.

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

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

Segment reporting as at 31 December 2021[1]

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Net interest income	363	315	1,023	153	11	**1,866**
Risk provisions	(32)	(60)	3	40	–	**(48)**
Net commission income	271	80	53	(24)	–	**380**
Gains or losses on fair value measurement	57	38	51	59	(16)	**190**
Gains or losses on hedge accounting	–	1	(3)	(17)	–	**(20)**
Gains or losses on derecognised financial assets	–	1	4	–	–	**6**
Gains or losses on financial investments	–	2	5	39	–	**46**
Administrative expenses	(402)	(283)	(689)	(148)	2	**(1,520)**
Expenses for the bank levy and deposit guarantee scheme	–	–	(79)	(116)	–	**(195)**
Other income and expenses	13	(6)	1	101	–	**108**
Gains or losses on restructuring	–	–	–	1	1	**2**
Profit/loss before taxes	**271**	**87**	**369**	**89**	**(1)**	**816**
Risk-weighted assets (RWAs)	12,705	21,078	24,633	4,898	–	**63,315**
Average economic/regulatory capital	1,699	3,210	3,431	746	1,193	**10,279**
Return on equity (RoE) (%)	16.0	2.7	10.8	–	–	**7.9**
Cost/income ratio (CIR) (%)	57.0	65.8	60.8	–	–	**59.0**

1 The utility of key indicators RoE and CIR is very limited in the case of the Central Areas & Others sub-segment due to its specific characteristics. For this reason, the Bank will no longer disclose them or provide voluntary information on average headcount per segment from financial year 2021. The previous year's figures were restated accordingly in each specific case.

Segment reporting as at 31 December 2020

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Net interest income	335[1]	301[1]	956	150[1]	31	**1,772**
Risk provisions	(53)	(169)	(44)	124	–	**(142)**
Net commission income	240	105	12	(27)	1	**331**
Gains or losses on fair value measurement	67	59	19	(56)	(28)	**62**
Gains or losses on hedge accounting	–	2	3	5	–	**11**
Gains or losses on derecognised financial assets	–	(19)	5	–	–	**(14)**
Gains or losses on financial investments	2	(2)	37	31	–	**68**
Administrative expenses	(418)	(327)	(653)	(127)	4	**(1,520)**
Expenses for the bank levy and deposit guarantee scheme	–	–	(57)	(104)	–	**(161)**
Other income and expenses	13	–	24	45[2]	(4)	**77**
Gains or losses on restructuring	–	–	(38)	(248)	–	**(287)**
Profit/loss before taxes	186[1]	(51)[1]	264	(206)[1,2]	4	**197**
Risk-weighted assets (RWAs)	11,734	24,045	23,931	5,264	–	**64,974**
Average economic/regulatory capital	1,687	3,419	3,460	735	726	**10,027**
Return on equity (RoE) (%)	11.0[1]	(1.5)[1]	7.6	–	–	**1.9**
Cost/income ratio (CIR) (%)	63.7[1]	73.4[1]	61.8	–	–	**66.0**

1 Adjusted as per IFRS 8.29.
2 Adjusted as per IAS 8.42 (see note 2).

Notes on delimitation of segments

The Real Estate & Savings Banks/Financial Institutions segment incorporates business with commercial and residential real estate customers, business with the savings banks, the public sector, insurers, credit institutions and institutional customers. In addition, the legally dependent institution Bayerische Landesbodenkreditanstalt, Munich (BayernLabo) and consolidated subsidiary Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich (Real I.S.) and BayernInvest are allocated to this segment. The Real Estate Division focuses on long-term commercial real estate financing in Germany and selected foreign markets and business with residential construction companies and residential property developers. BayernLB offers commercial real estate customers a comprehensive range of services related to real estate financing. The Savings Banks & Financial Institutions Division functions as the central hub for the Bank's working relationship with the savings banks and public sector in Germany and the services it provides to insurers, credit institutions, pension funds and asset managers at national and international level. Its activities include BayernLB's business with savings banks in Germany, particularly Bavaria, and the state-subsidised loan business. The savings banks are a fundamental part of BayernLB's business model as both customers and sales partners. The Division also serves state and municipal customers and public agencies in Germany, but also credit institutions, insurers and institutional customers worldwide, which BayernLB, as a partner, provides with a wide range of products and tailor-made solutions. In addition, an extensive network of institutional customers provides BayernLB with a broad investor pool. The Savings Banks & Financial Institutions Division also offers a broad range of products and services in an expanding foreign notes and coins and precious metals business as a market leader in the S-Finanzgruppe. BayernLabo is responsible for the non-competitive residential construction and urban development business under public mandate on behalf of BayernLB. It also provides financing for local authorities in Bavaria, special-purpose associations, school associations and the Free State of Bavaria.

The Corporates & Markets segment comprises 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 firms 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 Markets Division is responsible for winding down trading products and portfolios which BayernLB will no longer be offering in the future due to its strategic realignment, while seeking at the same time to maximise value.

The DKB segment comprises the business the Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB) sub-group. In addition to providing online banking for its retail customers, DKB's business activities also include the infrastructure and corporate banking markets. In these markets DKB specialises largely in business with customers in promising and relatively non-cyclical sectors with long-term growth potential, such as residential property, renewable energy, agriculture and nutrition. With the transfer of BayernLB's shareholding in Bayern Card Services GmbH – S-Finanzgruppe, Munich (BCS) to DKB with effect from 1 October 2021, BCS also became part of the DKB sub-group. BCS's business activities are focused on providing services in the payments business using credit cards.

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 and liability management and the related money market activities and liquidity management. Earnings contributions from money market transactions for customers are shown in the respective customer segment. The segment includes transactions that cannot be allocated to either a business area or a central area. The Consolidation column, disclosed with the segment on an aggregate basis, includes consolidation entries not allocated to any segment. These mainly arise from differences in the way intra-Group transactions are measured and the application of hedge accounting to cross-segment derivatives transactions.

Earnings from typical banking operations after risk provisions (net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on derecognised financial assets, and gains or losses on financial investments) were EUR 2,420 million (FY 2020: EUR 2,088 million), including EUR 2,341 million (FY 2020: EUR 2,035 million) in Germany, EUR 16 million (FY 2020: EUR 20 million) in Europe excluding Germany, and EUR 63 million (FY 2020: EUR 34 million) in America. Of the risk-weighted assets (RWAs) in the amount of EUR 63,315 million (FY 2020: EUR 64,974 million) recognised instead of non-current assets, EUR 61,252 million (FY 2020: EUR 63,377 million) relate to Germany, EUR 9 million (FY 2020: EUR 12 million) relate to Europe excluding Germany and EUR 2,054 million (FY 2020: EUR 1,585 million) relate to America.

Notes to the statement of comprehensive income

(28) Net interest income

EUR million	2021	2020
Interest income	**4,682**	**5,258**
Interest income from financial instruments determined using the effective interest method	3,198	3,126
From lending and money market transactions	2,580	2,745
From financial investments	72	156
Modification gains from non-significant modifications of financial assets[1]	1	1
From the amortisation of significant and non-significant modifications of financial assets	1	1
From negative interest	545	222
Interest income – other	1,484	2,132
From lending and money market transactions	69	70
From financial investments	29	23
From hedge accounting derivatives	410	607
From derivatives in economic hedges	613	1,047
Other interest income	2	–
From negative interest	361	386
Interest expenses	**(2,816)**	**(3,486)**
Interest expenses from financial instruments determined using the effective interest method	(1,327)	(1,372)
For liabilities to banks and customers	(709)	(857)
For securitised liabilities	(213)	(308)
For subordinated capital	(72)	(71)
Modification losses on non-significant modifications of financial assets[1]	–	(2)
From the amortisation of significant and non-significant modifications of financial assets	(2)	(2)
Other interest expenses	(24)	(21)
From negative interest	(306)	(113)
Interest expenses – other	(1,489)	(2,113)
For liabilities to banks and customers	(99)	(125)
For securitised liabilities	(35)	(36)
For hedge accounting derivatives	(418)	(504)
For derivatives in economic hedges	(493)	(944)
Other interest expenses	(19)	(41)
From negative interest	(425)	(463)
Total	**1,866**	**1,772**

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

Total interest income amounted to EUR 2,278 million (FY 2020: EUR 2,631 million) for financial assets measured at amortised cost and EUR 67 million (FY 2020: EUR 156 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 474 million (FY 2020: EUR 1,034 million).

(29) Risk provisions

EUR million	2021	2020
Income from risk provisions	**1,021**	**1,114**
From the release of risk provisions for on and off-balance sheet transactions	963	918
Income from the write-up of purchased or originated credit-impaired financial assets	3	13
Modification gains on non-significant modifications[1]	–	1
From recoveries on written down receivables	55	182
Expenses for risk provisions	**(1,069)**	**(1,255)**
From additions to risk provisions for on and off-balance sheet transactions	(1,069)	(1,254)
Modification losses on non-significant modifications[1]	–	(1)
Total	**(48)**	**(142)**

1 Not including modification gains or losses from modifications of contractually agreed cash flows of financial assets, the loss allowances for which are measured in the amount of the 12-month expected credit losses.

Refer to note 76 for details about the post model adjustment shown as at 31 December 2021.

(30) Net commission income

EUR million	2021	2020
Commission income	**823**	**747**
Securities business	120	114
Credit business	190	194
Payments	60	44
Documentary business	7	7
Credit card business	172	165
Fund business	223	175
Trust transactions	16	16
Other	36	33
Commission expenses	**(443)**	**(416)**
Securities business	(70)	(65)
Broker fees	(13)	(18)
Credit business	(86)	(72)
Payments	(56)	(60)
Documentary business	(1)	–
Credit card business	(118)	(126)
Fund business	(95)	(69)
Other	(4)	(6)
Total	**380**	**331**

Net commission income includes expenses of EUR -75 million (FY 2020: EUR -63 million) from financial instruments not measured at fair value through profit or loss.

(31) Gains or losses on fair value measurement

EUR million	2021	2020
Net trading income	**45**	**144**
Interest-related transactions	14	(18)
Currency-related transactions	31	22
Equity-related and index-related transactions and transactions with other risks	(41)	78
Credit derivatives	(8)	(1)
Other financial transactions	51	66
Refinancing of trading portfolios	3	8
Trading-related commission	(6)	(10)
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	**117**	**(55)**
Fair value gains or losses on financial instruments in the "fair value option" category	**29**	**(27)**
of which:		
Profit/loss attributable to non-controlling interests arising from the capital consolidation	**(24)**	**(8)**
Total	**190**	**62**

Net trading income includes realised and unrealised gains or losses attributable to these trading activities, the interest and dividend income related to these transactions, and gains or losses on foreign currency translation.

Current income and expenses from derivatives in economic hedges, from debt instruments in the "financial assets mandatorily measured at fair value through profit or loss" category that are not held for trading, and from financial instruments in the "fair value option" category are reported under net interest income.

(32) Gains or losses on hedge accounting

EUR million	2021	2020
Gains or losses on micro fair value hedges	**(19)**	**8**
Gains or losses on the measurement of hedged items	(49)	(4)
Gains or losses on the measurement of hedging instruments	30	12
Gains or losses on portfolio fair value hedges	**(3)**	**3**
Gains or losses on the measurement of hedged items	(657)	444
Gains or losses on the measurement of hedging instruments	654	(441)
Gains or losses on group fair value hedges	**2**	**(1)**
Gains or losses on the measurement of hedged items	245	(302)
Gains or losses on the measurement of hedging instruments	(243)	302
Total	**(20)**	**11**

(33) Gains or losses on derecognised financial assets

EUR million	2021	2020
Gains on derecognised financial assets	**10**	**20**
Gains on disposals	4	5
Gains on significant modifications	7	15
Losses on derecognised financial assets	**(5)**	**(34)**
Losses on disposals	(1)	(24)
Losses on significant modifications	(4)	(10)
Total	**6**	**(14)**

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

(34) Gains or losses on financial investments

EUR million	2021	2020
Gains or losses on financial investments in the "financial assets mandatorily measured at fair value through other comprehensive income" category	**12**	**34**
Income from financial investments	12	34
Gains on disposals	12	34
Fair value gains or losses on equity instruments in the "financial assets mandatorily measured at fair value through profit or loss" category that are not held for trading	**34**	**34**
Total	**46**	**68**

(35) Administrative expenses

EUR million	2021	2020
Staff costs	**(844)**	**(856)**
Salaries and wages	(661)	(642)
Social security contributions	(93)	(88)
of which:		
Employer contributions to statutory pension scheme	(46)	(45)
Expenses for pensions and other employee benefits	(91)	(126)
of which:		
Expenses for defined contribution plans	(11)	(11)
Other administrative expenses	**(588)**	**(587)**
Expenses for real estate[1]	(31)	(36)
Data processing costs	(289)	(276)
Office costs	(6)	(5)
Advertising	(37)	(35)
Communication and other selling costs	(58)	(57)
Membership, legal and consulting fees	(122)	(128)
Miscellaneous administrative costs	(44)	(49)
Expenses from the amortisation, depreciation, loss allowances and writedowns of property, plant and equipment and intangible assets	**(88)**	**(78)**
Total	**(1,520)**	**(1,520)**

1 *Not including investment property*

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

EUR million	2021	2020
Expenses for the bank levy	(75)	(67)
Expenses for the deposit guarantee scheme	(120)	(94)
Total	**(195)**	**(161)**

(37) Other income and expenses

EUR million	2021	2020
Other income	**194**	**159**
Rental income from investment property	3	4
Gains on the sale of investment property	101	–
Gains on the sale of hedged items from hedge accounting[1]	2	6
Gains on repurchases of own issues	1	1
Income from claims for damages	–	47
Income from the release of provisions	40	30
Interest income from tax refunds due	8	21
Sundry other income	39	49
Other expenses	**(86)**	**(82)**
Current expenses from leased investment property	(2)	(2)
Expenses from the depreciation of investment property	(1)	(1)
Losses on repurchases of own issues	(8)	(5)
Expenses from loss transfers	(3)	(4)
Expenses from establishing provisions	(4)	–
Other taxes	(2)	(6)
Interest expenses from tax arrears	(10)	(28)[2]
Sundry other expenses	(54)	(35)
Total	**108**	**77**

1 Financial liabilities in the "financial liabilities measured at amortised cost" category.
2 Adjusted as per IAS 8.42 (see note 2).

Sundry other income and sundry other expenses included principally income and expenses that are not typical for banks.

(38) Gains or losses on restructuring

EUR million	2021	2020
Income from restructuring measures	32	1
Expenses for restructuring measures	(30)	(287)
Total	**2**	**(287)**

(39) Income taxes

EUR million	2021	2020
Current income taxes	**(132)**	**(47)**
Domestic and foreign corporation tax including solidarity surcharge	(73)	(16)[1]
Municipal trade tax/foreign local taxes	(59)	(32)[1]
Deferred taxes	**(127)**	**79**
Domestic and foreign corporation tax including solidarity surcharge	(66)	39
Municipal trade tax/foreign local taxes	(61)	40
Total	**(259)**	**31**

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

Tax expenses totalled EUR 259 million in the reporting year (FY 2020: tax income of EUR 31 million[1]).

Current tax expenses of EUR 132 million (FY 2020: EUR 47 million[1]) arose largely from the current income taxes in the reporting year of the consolidated tax group of BayernLB in the amount of EUR 32 million, DKB in the amount of EUR 75 million and current income taxes for previous years in the amount of EUR 26 million for the consolidated tax group of BayernLB.

The deferred tax expense of EUR 127 million (FY 2020: EUR 79 million tax income) mainly arose as a result of the utilisation of recoverable tax loss carryforwards and the change in the value of the loss carryforwards and temporary differences in the consolidated tax group of BayernLB.

The effective tax expenses recognised in the reporting year were EUR 8 million lower (FY 2020: EUR 94 million[1]) than the estimated tax expenses. The factors responsible for this difference are shown in the table below.

EUR million	2021	2020
Profit/loss before taxes	816	197[1]
Group tax rate (in %)	32.8	31.8
Estimated tax expenses (–)/income (+)	**(267)**	**(63)**
Effects from differing local tax rates	42	18
Effects from taxes from previous years recognised in the reporting year	(24)	(10)
Effects from changes in tax rates	16	(1)
Effects from other non-deductible operating expenses	(26)	(26)
Effects from tax-free income	25	4
Effects from permanent accounting differences	2	11
Effects from revaluations and corrections	(22)	101[1]
Other	(5)	(3)
Effective tax expenses (–)/income (+)	**(259)**	**31[1]**
Effective tax rate (in %)	**31.7**	**(19.0)[1]**

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

In the reporting year, based on the applicable tax rates for corporation tax, the solidarity surcharge and municipal trade tax, the Group tax rate was 32.8 percent as at the reporting date (FY 2020: 31.8 percent).

The increase in the Group tax rate was due to a change in the consolidated tax group of BayernLB in respect of DKB and associated increase in the municipal trade tax.

The effects of differing local tax rates of EUR 42 million (FY 2020: EUR 18 million) was largely the result of DKB and BayernLabo's tax exemption. The effects of changes in tax rates were due to the consolidated tax group of BayernLB.

The non-deductible operating expenses primarily arose from the non-deductible bank levy in the consolidated tax group of BayernLB and with respect of DKB. Offsetting tax-free income arose primarily from tax-exempt dividends and sales proceeds at BayernLB level.

Tax effects of impairments and recognition corrections amounting to EUR -22 million (FY 2020: EUR 101 million[1]) were generated largely from the decrease in the value of the tax loss carryforwards compared with the previous year.

Notes to the balance sheet

(40) Cash reserves

EUR million	2021	2020
Cash	282	266
Deposits with central banks	16,819	9,076
Debt instruments issued by public entities and bills of exchange eligible for refinancing with central banks	441	–
Total	**17,542**	**9,342**

(41) Loans and advances to banks

EUR million	2021	2020
Loans and advances to domestic banks	52,165	48,922
Loans and advances to foreign banks	4,101	7,256
Total	**56,266**	**56,177**

Loans and advances to banks by maturity

EUR million	2021	2020
Payable on demand	**32,153**	**33,334**
With residual maturity of	**24,113**	**22,843**
Up to 3 months	4,085	4,154
Between 3 months and 1 year	2,808	3,329
Between 1 year and 5 years	7,780	6,588
More than 5 years	9,440	8,772
Total	**56,266**	**56,177**

(42) Loans and advances to customers

EUR million	2021	2020
Loans and advances to domestic customers	**131,650**	**125,848**
Government entities/companies under public law	25,085	24,250
Private companies/private individuals	106,564	101,598
Loans and advances to foreign customers	**27,339**	**26,528**
Government entities/companies under public law	2,096	2,017
Private companies/private individuals	25,243	24,511
Total	**158,988**	**152,376**

Loans and advances to customers by maturity

EUR million	2021	2020
With residual maturity of	**157,817**	**151,106**
Up to 3 months	12,641	12,546
Between 3 months and 1 year	14,827	13,593
Between 1 year and 5 years	53,508	52,466
More than 5 years	76,841	72,500
Perpetual maturities	**1,172**	**1,270**
Total	**158,988**	**152,376**

(43) Risk provisions

EUR million	2021	2020
Loss allowances – Stage 1	180	155
Loss allowances – Stage 2	267	299
Loss allowances – Stage 3	612	581
Loss allowances – POCI	58	49
Total	**1,117**	**1,084**

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 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)

Whereas reclassifications to Stage 3 from Stage 1 or Stage 2 are shown separately in the changes in loss allowances, reclassifications from Stage 3 to Stage 1 or Stage 2 result in the release of loss allowances at Stage 3 and additions to loss allowances at Stage 1 or Stage 2.

Changes in loss allowances – Stage 1

EUR million	Loans and advances to banks 2021	Loans and advances to banks 2020	Loans and advances to customers 2021	Loans and advances to customers 2020	Total 2021	Total 2020
As at 1 Jan	**1**	**3**	**154**	**120**	**155**	**123**
Currency-related changes	–	–	1	(2)	**1**	**(2)**
Changes in the expected credit loss due to changes in the risk parameters	2	2	13	43	**15**	**45**
Additions due to lending/purchases	1	1	50	36	**51**	**37**
Releases due to disposals/redemptions/sales	(1)	(2)	(37)	(30)	**(38)**	**(32)**
Reclassifications to Stage 1 from Stage 2	1	–	25	31	**26**	**31**
Reclassifications from Stage 1 to Stage 2	–	(2)	(24)	(34)	**(25)**	**(36)**
Reclassifications from Stage 1 to Stage 3	–	–	(5)	(11)	**(5)**	**(11)**
As at 31 Dec	**4**	**1**	**176**	**154**	**180**	**155**

Changes in loss allowances – Stage 2

EUR million	Loans and advances to banks 2021	Loans and advances to banks 2020	Loans and advances to customers 2021	Loans and advances to customers 2020	Total 2021	Total 2020
As at 1 Jan	**4**	**1**	**295**	**141**	**299**	**142**
Currency-related changes	–	–	(1)	(3)	**(1)**	**(3)**
Changes in the expected credit loss due to changes in the risk parameters	2	2	116	262	**117**	**264**
Additions due to lending/purchases	1	–	21	18	**22**	**18**
Releases due to disposals/redemptions/sales	(1)	(1)	(121)	(96)	**(122)**	**(97)**
Utilisations/writedowns	–	–	–	(16)	**–**	**(16)**
Reclassifications to Stage 2 from Stage 1	–	2	24	34	**25**	**36**
Reclassifications from Stage 2 to Stage 1	(1)	–	(25)	(31)	**(26)**	**(31)**
Reclassifications from Stage 2 to Stage 3	–	–	(46)	(14)	**(46)**	**(14)**
As at 31 Dec	**5**	**4**	**262**	**295**	**267**	**299**

Changes in loss allowances – Stage 3

EUR million	Loans and advances to banks 2021	Loans and advances to banks 2020	Loans and advances to customers 2021	Loans and advances to customers 2020	Total 2021	Total 2020
As at 1 Jan	**6**	**6**	**575**	**658**	**581**	**665**
Currency-related changes	–	–	6	(6)	**6**	**(6)**
Changes in the expected credit loss due to changes in the risk parameters	–	–	106	153	**106**	**153**
Additions due to lending/purchases	–	–	32	40	**32**	**40**
Releases due to disposals/redemptions/sales	–	–	(66)	(76)	**(66)**	**(76)**
Utilisations/writedowns	–	–	(91)	(232)	**(91)**	**(232)**
Unwinding		–	(11)	(14)	**(11)**	**(14)**
Reclassifications to Stage 3 from Stage 1	–	–	5	11	**5**	**11**
Reclassifications to Stage 3 from Stage 2	–	–	46	14	**46**	**14**
Transfers/other changes	–	–	4	27	**4**	**27**
As at 31 Dec	**6**	**6**	**605**	**575**	**612**	**581**

Changes in loss allowances – POCI

EUR million	Loans and advances to customers 2021	Loans and advances to customers 2020
As at 1 Jan	**49**	**44**
Currency-related changes	(3)	(2)
Changes in the expected credit loss due to changes in the risk parameters	15	12
Additions due to lending/purchases	3	2
Releases due to disposals/redemptions/sales	(3)	(5)
Utilisations/writedowns	(1)	(1)
Unwinding	(1)	(1)
As at 31 Dec	**58**	**49**

The total volume of non-discounted expected credit losses as at first-time recognition of purchased or originated credit-impaired financial assets was EUR 25 million (FY 2020: EUR 27 million) in the reporting year. 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 232,005 million (FY 2020: EUR 216,995 million[1]) as at the reporting date and comprised:

EUR million	2021	2020
Financial assets – Stage 1	213,829	196,685[1]
Financial assets – Stage 2	16,478	18,816
Financial assets – Stage 3	1,499	1,323
Financial assets – POCI	155	133
Trade receivables – simplified approach	44	38
Total	**232,005**	**216,995**

1 From financial year 2021, the financial instruments in other assets were recognised. The previous year's figure was restated accordingly.

The table below shows the extent to which changes in the gross carrying amount of financial assets contributed to changes in the loss allowance.

Changes in gross carrying amounts – Stage 1

	Cash reserves		Loans and advances to banks		Loans and advances to customers		Other assets[1]		Total	
EUR million	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
As at 1 Jan	**9,342**	**8,114**	**50,734**	**30,602**	**136,584**	**135,556**	**25**	**26**	**196,685**	**174,298**
Currency-related changes	41	(80)	140	(151)	435	(419)	–	–	**616**	**(650)**
Lending/purchases	86,682	41,907	303,526	164,339	66,445	64,717	17	26	**456,670**	**270,989**
Disposals/redemptions/sales	(78,964)	(40,600)	(305,929)	(135,412)	(59,295)	(56,090)	(20)	(27)	**(444,207)**	**(232,129)**
Non-significant modifications	–	–	–	–	(15)	(3)	–	–	**(15)**	**(3)**
Reclassifications to Stage 1 from Stage 2	–	–	2,808	2,336	7,056	6,131	–	–	**9,864**	**8,467**
Reclassifications to Stage 1 from Stage 3	–	–	–	–	22	10	–	–	**22**	**10**
Reclassifications from Stage 1 to Stage 2	–	–	(1,027)	(7,998)	(5,540)	(13,218)	–	–	**(6,568)**	**(21,216)**
Reclassifications from Stage 1 to Stage 3	–	–	–	–	(46)	(75)	–	–	**(46)**	**(75)**
Transfers/other changes	–	–	880	(2,983)	(72)	(25)	–	–	**808**	**(3,008)**
As at 31 Dec	**17,100**	**9,342**	**51,133**	**50,734**	**145,574**	**136,584**	**22**	**25**	**213,829**	**196,685**

1 From financial year 2021, the financial instruments in other assets were reported. The previous year's figures were restated accordingly.

Changes in gross carrying amounts – Stage 2

EUR million	Loans and advances to banks 2021	Loans and advances to banks 2020	Loans and advances to customers 2021	Loans and advances to customers 2020	Total 2021	Total 2020
As at 1 Jan	**5,437**	**543**	**13,379**	**6,854**	**18,816**	**7,396**
Currency-related changes	147	(295)	178	(201)	**325**	**(496)**
Lending/purchases	17,698	12,328	5,348	4,359	**23,046**	**16,687**
Disposals/redemptions/sales	(16,368)	(12,797)	(5,797)	(4,462)	**(22,165)**	**(17,259)**
Non-significant modifications	–	–	–	1	**–**	**1**
Reclassifications to Stage 2 from Stage 1	1,027	7,998	5,540	13,218	**6,568**	**21,216**
Reclassifications to Stage 2 from Stage 3	–	–	46	85	**46**	**85**
Reclassifications from Stage 2 to Stage 1	(2,808)	(2,336)	(7,056)	(6,131)	**(9,864)**	**(8,467)**
Reclassifications from Stage 2 to Stage 3	–	–	(534)	(338)	**(534)**	**(338)**
Transfers/other changes	(4)	(3)	244	(6)	**240**	**(8)**
As at 31 Dec	**5,129**	**5,437**	**11,348**	**13,379**	**16,478**	**18,816**

Changes in gross carrying amounts – Stage 3

EUR million	Loans and advances to banks 2021	Loans and advances to banks 2020	Loans and advances to customers 2021	Loans and advances to customers 2020	Total 2021	Total 2020
As at 1 Jan	**7**	**6**	**1,317**	**1,488**	**1,323**	**1,494**
Currency-related changes	–	–	16	(22)	**16**	**(22)**
Lending/purchases	–	–	225	220	**225**	**220**
Disposals/redemptions/sales	–	–	(553)	(667)	**(553)**	**(667)**
Utilisations/writedowns	–	–	(7)	(6)	**(7)**	**(6)**
Non-significant modifications	–	–	1	–	**1**	**–**
Reclassifications to Stage 3 from Stage 1	–	–	46	75	**46**	**75**
Reclassifications to Stage 3 from Stage 2	–	–	534	338	**534**	**338**
Reclassifications from Stage 3 to Stage 1	–	–	(22)	(10)	**(22)**	**(10)**
Reclassifications from Stage 3 to Stage 2	–	–	(46)	(85)	**(46)**	**(85)**
Transfers/other changes	–	1	(18)	(15)	**(18)**	**(15)**
As at 31 Dec	**7**	**7**	**1,492**	**1,317**	**1,499**	**1,323**

Changes in gross carrying amounts – POCI

EUR million	Loans and advances to banks		Loans and advances to customers		Total	
	2021	2020	2021	2020	2021	2020
As at 1 Jan	**–**	**1**	**133**	**153**	**133**	**153**
Currency-related changes	–	–	1	(2)	**1**	**(2)**
Lending/purchases	–	–	73	55	**73**	**55**
Disposals/redemptions/sales	–	–	(64)	(81)	**(64)**	**(81)**
Utilisations/writedowns	–	–	–	–	**–**	**–**
Non-significant modifications	–	–	22	13	**22**	**13**
Transfers/other changes	–	(1)	(8)	(4)	**(8)**	**(5)**
As at 31 Dec	**–**	**–**	**155**	**133**	**155**	**133**

Changes in gross carrying amounts – simplified approach

EUR million	Other assets	
	2021	2020
As at 1 Jan	**38**	**37**
Lending/purchases	23	19
Disposals/redemptions/sales	(20)	(18)
Transfers/other changes	3	–
As at 31 Dec	**44**	**38**

(44) Assets held for trading

EUR million	2021	2020
Bonds, notes and other fixed-income securities	**828**	**1,351**
Money market instruments	525	683
Bonds and notes	303	668
Equities and other non-fixed income securities	**293**	**330**
Equities	293	330
Loans and advances	**574**	**1,375**
Schuldschein note loans	546	1,336
Loan syndications	28	37
Other receivables	–	1
Positive fair values from derivative financial instruments (not hedge accounting)	**7,185**	**9,054**
Total	**8,880**	**12,110**

Assets held for trading by maturity

EUR million	2021	2020
With residual maturity of	**8,587**	**11,780**
Up to 3 months	1,216	1,317
Between 3 months and 1 year	1,002	965
Between 1 year and 5 years	1,470	1,986
More than 5 years	4,900	7,512
Perpetual maturities	**293**	**330**
Total	**8,880**	**12,110**

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

EUR million	2021	2020
Positive fair values from micro fair value hedges	453	669
Positive fair values from portfolio fair value hedges	–	1
Positive fair values from group fair value hedges	55	206
Total	**509**	**876**

Positive fair values from derivative financial instruments (hedge accounting) by maturity

EUR million	2021	2020
With residual maturity of		
Up to 3 months	3	10
Between 3 months and 1 year	1	34
Between 1 year and 5 years	129	175
More than 5 years	376	657
Total	**509**	**876**

(46) Financial investments

EUR million	2021	2020
Bonds, notes and other fixed-income securities	**19,063**	**21,021**
Bonds and notes	19,063	21,021
Equities and other non-fixed income securities	**433**	**345**
Equities	333	231
Investment units	87	107
Other non-fixed income securities	12	7
Equity interests	**565**	**490**
Interests in unconsolidated subsidiaries	170	148
Interests in joint ventures not measured at equity	1	1
Interests in associates not measured at equity	3	3
Other equity interests	392	338
Other financial investments	**24**	**25**
Total	**20,085**	**21,881**

Financial investments by maturity

EUR million	2021	2020
With residual maturity of	**19,087**	**21,049**
Up to 3 months	1,111	850
Between 3 months and 1 year	2,295	1,859
Between 1 year and 5 years	9,275	11,306
More than 5 years	6,405	7,034
Perpetual maturities	**998**	**831**
Total	**20,085**	**21,881**

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 63.

As at the reporting date, the gross carrying amount of the financial investments in the financial assets measured at amortised cost was EUR 11 million (FY 2020: EUR 75 million), all of which comprised bonds and notes in Stage 1.

Changes in gross carrying amounts

	Stage 1	
EUR million	2021	2020
As at 1 Jan	**75**	**-**
Lending/purchases	13	75
Disposals/redemptions/sales	(77)	-
As at 31 Dec	**11**	**75**

(47) Investment property

EUR million	2021	2020
Leased property	25	28
Total	**25**	**28**

Changes in investment property

EUR million	2021	2020
Cost		
As at 1 Jan	57	56
Additions	6	1
Disposals	(11)	–
As at 31 Dec	52	57
Depreciation, writedowns and writeups		
As at 1 Jan	(29)	(28)
Depreciation	(1)	(1)
Disposals	3	–
As at 31 Dec	(27)	(29)
Carrying amount		
As at 1 Jan	28	28
As at 31 Dec	25	28

One purchase accounted for EUR 6 million of the additions to investment property (FY 2020: EUR 1 million).

As at the reporting date, the fair value of investment property was EUR 72 million (FY 2020: 98 million). The fair value was calculated by independent experts and based on the German income method (Ertragswertverfahren) using market and geodata. The main inputs are unobservable (Level 3 in the fair value hierarchy).

As at the reporting date, there was a restriction on the realisability of an investment property in the amount of EUR 13 million (FY 2020: EUR 8 million).

(48) Property, plant and equipment

EUR million	2021	2020
Property	**275**	**293**
Owner-occupied property	269	287
Assets leased under operating leases	5	5
Furniture and office equipment	**46**	**46**
Right-of-use assets from leases	**124**	**150**
Total	**445**	**489**

Changes in property, plant and equipment

	Property[1]		Furniture and office equipment		Right-of-use assets from leases		Total	
in Mio. EUR	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Cost								
As at 1 Jan	390	390	133	126	198	220	**721**	**735**
Currency-related changes	–	–	–	(1)	2	(2)	**2**	**(3)**
Additions	2	1	13	13	7	35	**22**	**49**
Transfers	–	–	–	–	–	–	**–**	**–**
Disposals	(15)	–	(10)	(6)	(15)	(55)	**(40)**	**(61)**
As at 31 Dec	377	390	137	133	192	198	**706**	**721**
Depreciation, writedowns and writeups								
As at 1 Jan	(98)	(89)	(87)	(78)	(48)	(23)	**(233)**	**(191)**
Currency-related changes	–	–	–	–	–	–	**(1)**	**–**
Depreciation	(9)	(9)	(14)	(13)	(26)	(26)	**(48)**	**(48)**
Impairments	–	–	–	–	–	–	**–**	**–**
Disposals	4	–	10	5	7	–	**20**	**6**
As at 31 Dec	(103)	(98)	(91)	(87)	(68)	(48)	**(261)**	**(233)**
Carrying amount								
As at 1 Jan	293	301	46	47	150	196	**489**	**544**
As at 31 Dec	275	293	46	46	124	150	**445**	**489**

1 Including assets leased under operating leases.

Expenditure on construction in progress in the reporting year of EUR 2 million (FY 2020: EUR 0 million) was capitalised.

(49) Intangible assets

EUR million	2021	2020
Internally generated intangible assets	77	66
Other intangible assets	94	79
Total	**170**	**144**

Intangible assets largely comprise internally generated and purchased software.

Changes in intangible assets

EUR million	Internally generated intangible assets 2021	Internally generated intangible assets 2020	Other intangible assets 2021	Other intangible assets 2020	Total 2021	Total 2020
Cost						
As at 1 Jan	140	112	280	238	**419**	**349**
Additions	27	28	39	45	**65**	**73**
Transfers	–	–	–	–	**–**	**–**
Disposals	–	–	(5)	(3)	**(5)**	**(3)**
As at 31 Dec	166	140	313	280	**479**	**419**
Depreciation, writedowns and writeups						
As at 1 Jan	(74)	(65)	(201)	(182)	**(275)**	**(247)**
Depreciation	(16)	(9)	(23)	(20)	**(39)**	**(29)**
Impairments	–	–	–	(2)	**–**	**(2)**
Disposals	–	–	5	3	**5**	**3**
As at 31 Dec	(90)	(74)	(219)	(201)	**(309)**	**(275)**
Carrying amount						
As at 1 Jan	66	47	79	55	**144**	**102**
As at 31 Dec	77	66	94	79	**170**	**144**

(50) Current and deferred tax assets

EUR million	2021	2020
Current tax assets	**103**	**55**
Germany	103	54[1]
Abroad	–	1
Deferred tax assets	**587**	**680**
Germany	526	629
Abroad	61	51
Total	**690**	**735**

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

Current tax assets arose predominantly from reimbursement claims in the consolidated tax group of BayernLB and amounted to EUR 103 million (FY 2020: EUR 53 million[1]). This included income tax receivables of EUR 55 million (FY 2020: EUR 22 million[1]), which were capitalised in accordance with IFRIC 23.

The following deferred taxes under assets and liabilities relate to recognition and measurement differences in individual balance sheet items, and to tax loss carryforwards:

EUR million	Deferred tax assets 2021	Deferred tax liabilities 2021	Deferred tax assets 2020	Deferred tax liabilities 2020
Loans and advances to banks and customers including risk provisions in Germany	262	120	331	59
Assets held for trading	2	584	173	732
Positive fair values from derivative financial instruments (hedge accounting)	23	296	4	563
Financial investments	47	46	51	117
Property, plant and equipment	2	28	1	43
Non-current assets or disposal groups classified as held for sale	–	–	–	8
Other assets	29	25	66	102
Liabilities to banks and customers	249	6	6	186
Securitised liabilities	118	10	3	14
Liabilities held for trading	321	–	683	–
Negative fair values from derivative financial instruments (hedge accounting)	403	1	572	1
Provisions	326	2	336	2
Other liabilities	7	271	9	140
Subordinated capital	10	1	27	1
Loss carryforwards and other	178	–	386	–
Sub-total	**1,977**	**1,390**	**2,648**	**1,968**
less netting	1,390	1,390	1,968	1,968
Total deferred taxes less loss allowances and netting	**587**	**-**	**680**	**–**

The deferred tax assets and liabilities of each reporting unit subject to taxation and of the consolidated tax group of BayernLB were fully netted, as the applicable tax laws permit current tax liabilities to be offset against current tax assets.

The EUR 93 million change (FY 2020: EUR 99 million) in net deferred tax assets and liabilities (decrease in surplus assets) does not correspond to deferred tax expenses of EUR 127 million (FY 2020: deferred tax income of EUR 79 million).

This was due to changes in deferred taxes of EUR 30 million (FY 2020: EUR 24 million) recognised in other income and expenses. Of this, a partial amount of EUR -12 million was attributable to the reserve for defined benefit pension plans (FY 2020: EUR 43 million). The remaining amount of EUR 42 million (FY 2020: EUR -19 million) comprised the revaluation surplus for gains or losses on fair value measurement of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category and rating-related changes in the fair value of financial liabilities from the "fair value option" category recognised through other comprehensive income. An amount of EUR 4 million resulting from currency translation differences was also shown in retained earnings (FY 2020: EUR -4 million).

Tax loss carryforwards and instalments for which a deferred tax asset has been recognised or not recognised are listed separately in the table below for all types of loss relevant to the BayernLB Group. The tax loss carryforwards for the consolidated tax group of BayernLB were calculated based on the tax audit of the units. The period of time in which unrecognised loss carryforwards may still be used according to the tax law applicable in each case is also shown. Tax loss carryforwards of companies subject to taxation in Germany may be used indefinitely.

EUR million	2021	2020
Corporation tax		
Loss carryforwards	3,381	3,466
Loss carryforwards for which a deferred tax asset has been recognised	609	1,258
Loss carryforwards for which no deferred tax asset has been recognised	2,772	2,208
Expire after 10 years	1,733	1,599
May be used indefinitely	1,039	609
Municipal trade tax		
Loss carryforwards	1,808	1,951
Loss carryforwards for which a deferred tax asset has been recognised	538	1,200
Loss carryforwards for which no deferred tax asset has been recognised	1,270	751
Expire after 10 years	573	529
May be used indefinitely	697	222

The deferred tax assets recognised on loss carryforwards relate to the tax planning for the relevant company/consolidated tax group of BayernLB.

No deferred tax assets were recognised for deductible temporary differences of EUR 2,979 million (FY 2020: EUR 3,738 million).

The sum of the temporary differences associated with equity interests in subsidiaries, branches, joint ventures and associates, for which no deferred tax liability is recognised under IAS 12.39, amounted to EUR 127 million (FY 2020: EUR 46 million). The increase was mainly due to DKB, which exited the consolidated tax group of BayernLB. The current tax expense fell by EUR 31 million due to the utilisation of tax losses brought forwards from the pre-consolidation tax group era that had not been recognised by DKB.

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

EUR million	2021	2020
Loans and advances to customers	70	–
Risk provisions	(5)	–
Assets held for trading	–	26
Total	**65**	**26**

As at the reporting date certain non-current receivables in the hold to collect business model from the energy and mobility sector met the criteria for classification as non-current assets held for sale under IFRS 5, for which the respective sales process has been initiated (see the comments on the related liabilities and off-balance sheet transactions in note 60.

As permitted under the exemption provided for under IFRS 5.5 (c), customer receivables assigned to the Corporates & Markets segment are measured at amortised cost in accordance with the rules of IFRS 9 (see the comments on financial assets in the “financial assets measured at amortised cost” category in the consolidated financial statements for 2020 (note 6).

The interest rate and commodities derivatives portfolios held for sale as at 31 December 2020 were transferred in the first half of 2021.

The loss allowances deducted from the 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 (FY 2020: EUR 0 million) and were all in Stage 3 (for the breakdown of loss allowances, see note 43).

Changes in loss allowances

	Stage 3	
EUR million	2021	2020
As at 1 Jan	–	–
Transfers/other changes	5	–
As at 31 Dec	**5**	–

The gross carrying amount of financial assets in the “financial assets in the measured at amortised cost” category amounted to EUR 70 million (FY 2020: EUR 0 million) as at the reporting date and comprised:

EUR million	2021	2020
Financial assets – Stage 1	49	–
Financial assets – Stage 3	21	–
Total	**70**	**–**

The table below shows the extent to which changes in the gross carrying amount of financial assets and contract assets contributed to changes in the loss allowance.

Changes in gross carrying amounts

	Stage 1		Stage 3		Total	
EUR million	2021	2020	2021	2020	2021	2020
As at 1 Jan	**–**	**–**	**–**	**–**	**–**	**–**
Currency-related changes	1	–	–	–	1	–
Put options	(58)	–	–	–	(58)	–
Transfers/other changes	107	–	21	–	128	–
As at 31 Dec	**49**	**–**	**21**	**–**	**70**	**–**

(52) Other assets

EUR million	2021	2020
Emissions certificates	2,879	1,254
Precious metals	362	364
Claims from reinsurance	232	229
Other assets	303	265
Total	**3,775**	**2,113**

EUR 397 million (FY 2020: EUR 398 million) of other assets were due after more than 12 months.

The fair value of emissions certificates was calculated using prices quoted on active markets for similar financial instruments (Level 2 of the fair value hierarchy) and was EUR 2,879 million (FY 2020: EUR 1,254 million) as at the reporting date.

(53) Liabilities to banks

EUR million	2021	2020
Liabilities to domestic banks	73,044	72,973
Liabilities to foreign banks	3,403	3,022
Total	**76,447**	**75,995**

Liabilities to banks by maturity

EUR million	2021	2020
Payable on demand	**4,672**	**5,271**
With residual maturity of	**71,775**	**70,724**
Up to 3 months	3,414	2,704
Between 3 months and 1 year	29,660	3,354
Between 1 year and 5 years	16,448	42,971
More than 5 years	22,252	21,695
Total	**76,447**	**75,995**

Liabilities to banks by product

EUR million	2021	2020
Schuldschein note loans/issues	**5,193**	**5,317**
Schuldschein note loans	2,281	2,431
Registered public Pfandbriefs issued	815	860
Mortgage Pfandbriefs issued	433	416
Other registered securities	1,664	1,609
Book-entry liabilities	**71,254**	**70,678**
On-lending business/subsidised loans	36,567	34,722
Overnight and time deposits	29,782	29,785
Current account liabilities	4,333	5,016
Securities repurchase transactions	20	463
Other liabilities	553	692
Total	**76,447**	**75,995**

Liabilities to banks included funding measured at amortised cost with a carrying amount of EUR 26,532 million (FY 2020: EUR 26,929 million), which arose from the Bank's participation in the third series of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO III). The repayment by BayernLB in the reporting year was almost completely compensated here by the raising of new borrowing by a Group company. 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. Due to the BayernLB Group's very good business performance, the conditions for the second discounted interest rate for the period from 24 June 2021 to 23 June 2022 were met, after the conditions for the first interest rate were fulfilled for the period from 24 June 2020 to 23 June 2021. The net interest income from the TLTRO III programme, the re-estimate of the cash flows and the reinvested funds totalled EUR 166 million for the BayernLB Group in the reporting year totalled EUR 166 million (FY 2020: EUR 13 million).

(54) Liabilities to customers

EUR million	2021	2020
Liabilities to domestic customers	**112,052**	**101,684**
Government entities/companies under public law	10,077	10,330
Private companies/private individuals	101,976	91,354
Liabilities to foreign customers	**7,240**	**8,095**
Government entities/companies under public law	2,032	1,796
Private companies/private individuals	5,208	6,299
Total	**119,292**	**109,779**

Liabilities to customers by maturity

EUR million	2021	2020
With residual maturity of		
Up to 3 months	98,129	85,964
Between 3 months and 1 year	4,498	4,273
Between 1 year and 5 years	5,775	6,997
More than 5 years	10,891	12,544
Total	**119,292**	**109,779**

Liabilities to customers by product

EUR million	2021	2020
Schuldschein note loans/issues	**16,361**	**17,728**
Schuldschein note loans	860	970
Registered public Pfandbriefs issued	7,420	8,069
Mortgage Pfandbriefs issued	1,940	2,183
Other registered securities	6,140	6,505
Book-entry liabilities	**102,931**	**92,051**
Overnight and time deposits	36,230	39,427
Current account liabilities	66,204	52,009
Securities repurchase transactions	–	–
Other liabilities	497	614
Total	**119,292**	**109,779**

(55) Securitised liabilities

EUR million	2021	2020
Bonds and notes issued	**37,056**	**39,402**
Mortgage Pfandbriefs	5,157	5,615
Public Pfandbriefs	10,875	12,148
Other bonds and notes	21,024	21,638
Other securitised liabilities	**6,824**	**3,635**
Money market instruments	6,037	3,481
Miscellaneous securitised liabilities	787	154
Total	**43,880**	**43,037**

Securitised liabilities by maturity

EUR million	2021	2020
With residual maturity of		
Up to 3 months	5,482	4,631
Between 3 months and 1 year	6,315	4,996
Between 1 year and 5 years	20,239	21,184
More than 5 years	11,844	12,226
Total	**43,880**	**43,037**

(56) Liabilities held for trading

EUR million	2021	2020
Liabilities	**916**	**1,022**
Liabilities from short sales	29	16
Other liabilities	888	1,006
Negative fair values from derivative financial instruments (not hedge accounting)	**7,427**	**8,352**
Total	**8,343**	**9,374**

Liabilities held for trading by maturity

EUR million	2021	2020
With residual maturity of		
Up to 3 months	1,291	1,059
Between 3 months and 1 year	921	899
Between 1 year and 5 years	2,293	2,333
More than 5 years	3,838	5,083
Total	**8,343**	**9,374**

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

EUR million	2021	2020
Negative fair values from micro fair value hedges	926	1,135
Negative fair values from portfolio fair value hedges	19	10
Negative fair values from group fair value hedges	129	33
Total	**1,073**	**1,178**

Negative fair values from derivative financial instruments (hedge accounting) by maturity

EUR million	2021	2020
With residual maturity of		
Up to 3 months	10	12
Between 3 months and 1 year	42	41
Between 1 year and 5 years	305	250
More than 5 years	716	876
Total	**1,073**	**1,178**

(58) Provisions

EUR million	2021	2020
Provisions for pensions and similar obligations	**924**	**1,968**
Other provisions	**844**	**927**
Provisions for off-balance-sheet transactions	147	141
Loss allowances for financial guarantees/credit commitments as per IFRS 9	119	113
Provisions for other contingent liabilities/other commitments	28	28
Restructuring provisions	530	586
Miscellaneous provisions	167	199
Total	**1,768**	**2,895**

EUR 607 million (FY 2020: EUR 675 million) of other provisions were due after more than 12 months.

Provisions for pensions and similar obligations

The majority of the pension obligations in the BayernLB Group relate to direct or indirect pension commitments at BayernLB. The Bank has both employer- and employee-funded pension plans. In addition to retirement pensions, the pension benefits include disability and surviving dependants' benefits. The current pension payments are adjusted for inflation in accordance with the tariff increases for employees of public-sector sectors and for some recipients in accordance with section 16 of the Occupational Pensions Act (Betriebsrentengesetz).

At BayernLB, the core element of the promised defined benefit obligations provided directly by the employer to employees in Germany is the full benefits package (Gesamtversorgungszusage), modelled on the pension system for civil servants ("pension eligibility"). In essence, no more employees are being added to the number of employees eligible for civil-servant style pension benefits as BayernLB closed the scheme to new entrants at the end of the first quarter of 2009. Following a ruling by the German Federal Employment Court in Erfurt on 15 May 2012 in favour of the plaintiffs reaching an agreement on their pension entitlements, these benefits were reinstated for the persons affected, provided certain conditions were met. The final entitlements for the persons affected were distributed in 2021. The size of the pension commitments for defined benefit plans is based largely on each employee's salary and length of service. Civil-servant style pension benefits are agreed in individual employment contracts. Only employees with at least 20 years of eligible service who also meet other criteria such as positive performance evaluations and no negative health issues are eligible for these pension benefits. The full benefits package also includes entitlements to allowances in the event of illness and an entitlement to payments of death benefits. Both the benefit payments and death benefits are recognised in accordance with the rules for defined benefit plans.

To fulfil the defined benefit obligations and benefit obligations under retirement provision law for active and former employees and their surviving dependants who fall under the guarantee obligation, coverage assets were transferred to a legally independent trust association, BayernLB Treuhand e. V., Munich (trust association) under the framework of the Bank's own contractual trust arrangement (CTA). The assets held by the trust association qualify as plan assets. The contractual trust agreement concluded between BayernLB and the trust association also established insolvency protection for the immediate commitments of the company retirement fund based on the underlying plan assets. The trust association agreements place no funding obligations on the trustor. The trust association's executive bodies consist of the Board of Management and the Members' Meeting. The trust association currently comprises 12 members and three members of the Board of Management elected by the Members' Meeting. The Board of Management of BayernLB is responsible for the trust association's investment strategy, decides on the investment guidelines and monitors their implementation.

BayernLB has two legally independent support funds, Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich (Versorgungskasse I) and Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich (Versorgungskasse II). Versorgungskasse I is a buffer-financed provident fund that manages defined benefit obligations to former employees entitled to or in receipt of vested benefits. Versorgungskasse II is an insured provident fund that manages the portion of the benefits package that had already been earned when the arrangements were changed in respect of some occupational retirement benefits in financial year 2010. BayernLB made an individually determined one-off contribution in the form of a capital component for those employees who agreed to switch their occupational retirement benefits to the new pension system. This contribution was converted into plan assets and took the form of a one-off payment when the life insurance contract was concluded. Versorgungskasse II is responsible for paying the pension benefits and has reinsurance cover from Allianz Lebensversicherungs AG, Stuttgart (Allianz Leben), with BayernLB as the beneficiary of the life insurance contracts. A contractual trust agreement was concluded between BayernLB (trustor) and Willis Towers Watson Gruppen CTA (trustee) to safeguard the entitlements from the life insurance policies. As assets held in trust, BayernLB incorporated the reinsurance policies covering its pension commitments into the CTA. The assets managed under the CTA do not qualify as offsettable plan assets. As the beneficial owner, BayernLB reports the reimbursement rights from reinsurance as an asset on the balance sheet under "other assets". Their amounts and maturities correspond to the pension benefits. BayernLB makes regular contributions to Versorgungskassen I and II in accordance with thresholds defined by fiscal law.

Under the 2005 and 2010 pension schemes, BayernLB employees in Germany acquire rights to benefit entitlements based on indirect pension commitments. To fund these pension commitments, BayernLB and current employees pay defined contributions to two external benefit providers not part of the Group (ÖBAV Unterstützungskasse e. V., Munich and BVV Versorgungskasse des Bankgewerbes e. V., Berlin). These providers conclude reinsurance to fund occupational retirement benefits. As far as the basic provision is concerned, the contributions to the pension institutions comprise employer-funded allowances based on a defined percentage of annual remuneration. In addition to the basic provision, employees can also pay supplementary contributions into the pension institution through deferred compensation via the employer. The benefits promised by BayernLB are essentially the same as the ones the external benefit providers have agreed to provide. However, the external benefit providers are not under an explicit obligation to provide annual pension rises. As an annual pension rise is not explicitly ruled out in the contract, BayernLB still has a de facto obligation to provide the benefits. Consequently these indirect pension obligations are treated formally like defined benefit plans in accordance with IAS 19, but accounted for under the accounting regulations as defined contribution plans due to their economic substance. This means that the contribution payments made to the external benefit providers are recognised as pension costs and therefore in administrative expenses, while the present value of the pension obligations and the plan assets used to cover them are of the same size so that no pension provisions for these pension schemes are reported on the BayernLB Group's balance sheet. Based on the current outlook, it is unlikely that the annual pension rise guarantee will be utilised in a financially significant amount.

Risks from defined benefit plans and plan assets

Both the defined benefit obligations and the plan assets are subject to fluctuations over the course of time, which can have a negative or positive impact on the financing status.

Risks arise from defined benefit obligations in the BayernLB Group in particular from changes in discount rates (including underlying interest rates), fluctuations in the inflation rate and wage agreements and increases in life expectancy. The significant influence of the discount rates on the amount of pension obligations is primarily due to the long-term nature of the obligations. Major risks associated with ancillary benefits include rising medical care costs and a lower contribution by the state to these costs.

The fair value of the plan assets is materially affected by the performance of the capital markets. Unfavourable trends, in equities and fixed-income securities in particular, can reduce the fair values of the investment assets. A broad diversification of investment assets and the ongoing monitoring of income and risk contribute to reducing the investment risk. The majority of the assets are invested in the currency of the respective plan to reduce the currency risk. Plan assets are invested in a range of asset classes to prevent risk concentrations. Where necessary, additional capital is injected to cover future obligations from defined benefit pension plans. The investment strategies match the maturity structure of the assets with the expected payout dates. The investment strategies are checked regularly and adjusted, if required. An investment committee, generally composed of representatives from the Finance, Group Risk Control and Human Resources divisions, is responsible for the adoption of the investment strategies.

The risks arising on the obligations side from the pension plans in the BayernLB Group are part of the Bank's Group-wide risk strategy and are governed in the sub-risk strategy for pension basis risks.

Provisions for pensions and similar obligations reported in the balance sheet

The provisions for pensions recognised in the balance sheet are broken down as follows:

EUR million	2021	2020
Present value of pension obligations	4,315	4,688
Fair value of plan assets	(3,435)	(2,730)
Effects of the asset ceiling	23	6
Asset from defined benefit plans	21	5
Recognised pension provisions	**924**	**1,968**

Reimbursement rights of EUR 232 million (FY 2020: EUR 229 million) were recognised as assets in the BayernLB Group and reported under other assets. These are rights from insurance contracts (reinsurance) which correspond in terms of their size and maturity to the benefits from the related pension obligations to be paid.

Changes in provisions for pensions

	Present value of pension obligations		Fair value of plan assets		Effects of the asset ceiling		Asset from defined benefit plans		Recognised pension provisions	
EUR million	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
As at 1 Jan	**4,688**	**4,342**	**(2,730)**	**(244)**	**6**	**11**	**5**	**4**	**1,968**	**4,113**
Currency-related changes	8	(5)	(8)	6	–	(1)	–	–	–	–
Current service cost	57	56	–	–	–	–	(4)	(1)	53	56
Past service cost	11	42	–	–	–	–	(1)	–	10	42
Interest income/expenses	37	48	(23)	(10)	–	–	–	–	14	38
Changes due to remeasurement	(365)	311	(1)	(26)	16	(5)	19	1	(330)	281
Employer contributions	–	–	(758)	(2,460)	–	–	2	–	(757)	(2,460)
Employee contributions	1	1	(1)	(1)	–	–	–	–	–	–
Benefits paid	(121)	(107)	86	4	–	–	–	–	(34)	(103)
Transfers/other changes	–	–	–	1	–	–	–	1	–	2
As at 31 Dec	**4,315**	**4,688**	**(3,435)**	**(2,730)**	**23**	**6**	**21**	**5**	**924**	**1,968**

Present value of pension obligations

As at the reporting date, the present value of the BayernLB Group's pension obligations was EUR 4,315 million (FY 2020: EUR 4,688 million). Of this, EUR 2,926 million (FY 2020: EUR 3,193 million) relates to salary-related direct entitlements, EUR 848 million (FY 2020: EUR 952 million) to allowances in the event of illness, and EUR 541 million (FY 2020: EUR 543 million) to other defined benefit plans, which are determined largely on the basis of contributions to legally independent benefits providers.

The current pension obligations had an average term (capital tie-up period) of 18 years (FY 2020: 18 years).

The changes arising from the remeasurement of the net present value of pension obligations are due to changes in actuarial assumptions. Of this, EUR -293 million (FY 2020: EUR 322 million) relates to changes in financial assumptions and EUR -71 million (FY 2020: EUR -11 million) to experience-based changes.

To calculate the impact of changes in assumptions on the present value of pension obligations, a sensitivity analysis is conducted by the external actuaries for each major measurement parameter in the same way as for the original measurement of the present value of pension obligations using the projected unit credit method. Potential correlations between the individual assumptions were not taken into account here.

A change in the assumptions used to calculate the net present value of pension obligations (see note 21) of 0.5 percentage points in each case would, as at the reporting date, impact the net present value of the pension obligations as follows:

EUR million	0.5 percentage point increase 2021	2020	0.5 percentage point decrease 2021	2020
Discount rate	(348)	(382)	376	438
Changes in salaries and benefits[1]	258	300	(231)	(268)
Changes in medical costs	85	112	(75)	(97)

1 In the sensitivity calculations, changes in estimated future salaries and benefits are shown together. These incorporate the offsetting impact from a change in the social insurance pension trend by +/– 0.25 percentage points.

The increase in life expectancy (biometrics) by one year increased by pension provisions by EUR 166 million (FY 2020: EUR 194 million).

Fair value of plan assets

The BayernLB Group's plan assets comprised:

EUR million	Prices quoted on active markets 2021	2020	Prices not quoted on active markets 2021	2020
Cash and cash equivalents	**-**	**–**	**1,862**	**1,900**
Equity instruments	**-**	**–**	**398**	**16**
Fund units	-	–	398	16
Debt instruments	**92**	**116**	**1,083**	**699**
Corporate bonds	23	102	431	110
Government bonds	32	14	209	98
Fund units	-	–	-	115
Reinsurance	-	–	166	159
Other debt instruments	37	–	276	217
Total	**92**	**116**	**3,342**	**2,615**

The plan assets may only be used to fulfil the pension and benefit obligations and cover the expenses incurred in the administration of the investment assets. EUR 740 million (FY 2020: EUR 2,427 million) was transferred to the BayernLB CTA in the reporting year.

Effects of the asset ceiling

As at 31 December 2021, the pension plan of a foreign branch reported pension assets in excess of pension obligations.

Change in the fair value of the reimbursement rights reported as an asset

EUR million	2021	2020
As at 1 Jan	**229**	**227**
Interest income	5	5
Benefits paid	(2)	(3)
As at 31 Dec	**232**	**229**

In the BayernLB Group, rights from insurance contracts were capitalised as reimbursement claims. These were acquired by BayernLB in Germany in its role as an employer to provide funding that matches employees' entitlements in Versorgungskasse II.

The pension expenses recognised in the income statement comprised:

EUR million	2021	2020
Current service cost	(57)	(56)
Past service cost	(11)	(42)
Interest income/expenses	(9)	(33)
Total	**(76)**	**(131)**

The total pension expenses in the reporting year of EUR -76 million (FY 2020: EUR -131 million) were recognised under net interest income as a charge of EUR -9 million (FY 2020: EUR -33 million) and under administrative expenses in the amount of EUR -67 million (FY 2020: EUR -98 million).

Expected contributions to the BayernLB Group's pension plans in financial year 2022 were estimated to be EUR 122 million (FY 2020: EUR 922 million).

The defined contribution plans involve defined contributions made to external insurers or funds. These pension plans involve no contractual obligations or risks for the BayernLB Group beyond payment of the defined contributions.

Other provisions

Provisions as per IAS 37

Changes in provisions

	Provisions for off-balance-sheet transactions[1]		**Restructuring provisions**		**Other provisions**		**Total**	
EUR million	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
As at 1 Jan	**28**	**53**	**586**	**334**	**199**	**188**	**814**	**576**
Currency-related changes	–	(2)	–	–	–	–	**1**	**(2)**
Utilisation	–	–	(51)	(33)	(123)	(93)	**(175)**	**(126)**
Releases	(14)	(41)	(26)	–	(35)	(23)	**(75)**	**(64)**
Additions	13	18	27	284	127	124	**168**	**426**
Interest	–	–	–	–	–	1	**1**	**1**
Changes in discount rate	–	–	(6)	–	(2)	4	**(8)**	**4**
Transfers/other changes	–	–	–	–	–	–	**–**	**(1)**
As at 31 Dec	**28**	**28**	**530**	**586**	**167**	**199**	**725**	**814**

1 Not including loss allowances for financial guarantees and for irrevocable and revocable credit commitments to which the impairment rules in accordance with IFRS 9 are applied.

The restructuring provisions shown mainly arose from the measures agreed as part of the "Fokus 2024" transformation programme. They mostly relate to the downsizing of the workforce at BayernLB.

Miscellaneous provisions include personnel-related provisions which are mainly short-term in nature. This line item also includes provisions in connection with equity interests, the costs of storing business documents, litigation costs and for loss events.

The size of each provision corresponds to the best, i.e. uncertain, estimate of the amount of the liability which is likely to be utilised. In the case of litigation, neither the length of the proceedings nor the amount can be reliably predicted when the provision is created.

Loss allowances for financial guarantees/credit commitments as per IFRS 9

The loss allowances for financial guarantees and for revocable and irrevocable credit commitments to which the impairment rules under IFRS 9 apply amounted to EUR 113 million (FY 2020: EUR 113 million) as at the reporting date (for the breakdown of the loss allowances see note 43):

EUR million	2021	2020
Loss allowances – Stage 1	29	26
Loss allowances – Stage 2	63	56
Loss allowances – Stage 3	24	30
Loss allowances – POCI	2	1
Total	**119**	**113**

Changes in loss allowances

	Stage 1		Stage 2		Stage 3		POCI		Total	
EUR million	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
As at 1 Jan	**26**	**28**	**56**	**15**	**30**	**64**	**1**	**5**	**113**	**113**
Currency-related changes	–	–	3	(9)	–	8	–	–	3	(1)
Changes in the expected credit loss due to changes in the risk parameters	(1)	2	14	65	(1)	(18)	1	(3)	**13**	**47**
Additions due to lending	23	25	32	17	7	11	2	–	**64**	**53**
Releases due to disposals	(20)	(22)	(37)	(32)	(7)	(19)	(2)	(1)	**(67)**	**(74)**
Unwinding	–	–	–	–	(1)	(1)	–	–	**(1)**	**(1)**
Reclassifications to Stage 1 from Stage 2	4	3	(4)	(3)	–	–	–	–	–	**–**
Reclassifications to Stage 2 from Stage 1	(4)	(9)	4	9	–	–	–	–	–	**–**
Reclassifications to Stage 3 from Stage 2	–	–	(3)	(7)	3	7	–	–	–	**–**
Transfers/other changes	–	–	–	–	(6)	(24)	–	–	**(6)**	**(24)**
As at 31 Dec	**29**	**26**	**63**	**56**	**24**	**30**	**2**	**1**	**119**	**113**

The total volume of non-discounted expected credit losses as at first-time recognition of purchased or originated credit-impaired financial instruments was EUR 1 million in the reporting year (FY 2020: EUR 1 million).

The exposure to financial guarantees and revocable and irrevocable credit commitments stood at EUR 59,569 million as at the reporting date (FY 2020: EUR 58,836 million) and comprised:

EUR million	2021	2020
Financial guarantees/credit commitments – Stage 1	50,641	50,134
Financial guarantees/credit commitments – Stage 2	8,561	8,419
Financial guarantees/credit commitments – Stage 3	365	270
Financial guarantees/credit commitments – POCI	2	13
Total	**59,569**	**58,836**

The table below shows the extent to which changes in the exposure to financial guarantees and credit commitments contributed to changes in the loss allowance.

Change in exposure as at 31 December 2021

	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
EUR million	**2021**	**2021**	**2021**	**2021**	**2021**
As at 1 Jan	**50,134**	**8,419**	**270**	**13**	**58,836**
Currency-related changes	266	394	–	–	660
Lending/purchases	36,415	8,945	187	**17**	45,564
Disposals/redemptions/sales	(35,890)	(9,353)	(212)	**(28)**	(45,484)
Reclassifications to Stage 1 from Stage 2	3,606	(3,606)	–	–	–
Reclassifications to Stage 1 from Stage 3	–	–	–	–	–
Reclassifications to Stage 2 from Stage 1	(3,877)	3,877	–	–	–
Reclassifications to Stage 2 from Stage 3	–	2	(2)	–	–
Reclassifications to Stage 3 from Stage 1	(7)	–	7	–	–
Reclassifications to Stage 3 from Stage 2	–	(116)	116	–	–
Transfers/other changes	(6)	–	(1)	–	(6)
As at 31 Dec	**50,641**	**8,561**	**365**	**2**	**59,569**

Change in exposure as at 31 December 2020

EUR million	Stage 1 2020	Stage 2 2020	Stage 3 2020	POCI 2020	Total 2020
As at 1 Jan	**54,802**	**1,545**	**175**	**11**	**56,534**
Currency-related changes	(546)	(133)	(2)	–	**(681)**
Lending/purchases	41,463	3,647	91	76	**45,277**
Disposals/redemptions/sales	(38,735)	(3,321)	(160)	(79)	**(42,295)**
Reclassifications to Stage 1 from Stage 2	4,040	(4,040)	–	–	–
Reclassifications to Stage 1 from Stage 3	30	–	(30)	–	–
Reclassifications to Stage 2 from Stage 1	(10,827)	10,827	–	–	–
Reclassifications to Stage 2 from Stage 3	–	13	(13)	–	–
Reclassifications to Stage 3 from Stage 1	(95)	–	95	–	–
Reclassifications to Stage 3 from Stage 2	–	(119)	119	–	–
Transfers/other changes	1	–	(5)	5	**1**
As at 31 Dec	**50,134**	**8,419**	**270**	**13**	**58,836**

Refer to note 43 on risk provisions for details about the post-model adjustment shown as at 31 December 2021.

(59) Current and deferred tax liabilities

EUR million	2021	2020
Current tax liabilities	**98**	**122**
Germany	98	122[1]
Total	**98**	**122**

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

Current income tax liabilities arose largely in the consolidated tax group of BayernLB (EUR 93 million).

A breakdown of deferred tax liabilities is given in note 50, alongside the breakdown for deferred tax assets.

(60) Liabilities of disposal groups

EUR million	2021	2020
Liabilities to banks	28	–
Liabilities held for trading	–	6
Total	**28**	**6**

Liabilities to banks comprise pass-through business and subsidised loans in connection with the customer receivables classified pursuant to IFRS 5 at at the reporting date (see the comments in note 51).

In addition, 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 (FY 2020: EUR 0 million). This amount related to revocable credit commitments in Stage 3.

(61) Other liabilities

EUR million	2021	2020
Accruals	242	272[1]
Lease liability from right-of-use assets	126	152
Non-controlling interests (debt instruments)	139	68
Other liabilities	120	80
Total	**627**	**572**

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

EUR 115 million (FY 2020: EUR 160 million) of other liabilities were due after more than 12 months.

(62) Subordinated capital

EUR million	2021	2020
Subordinated liabilities	2,659	1,654
Profit participation certificates (debt component)	29	30
Dated silent partner contributions (debt component)	1	1
Total	**2,689**	**1,685**

Subordinated capital by maturity

EUR million	2021	2020
With residual maturity of	**2,660**	**1,655**
Up to 3 months	24	67
Between 3 months and 1 year	115	10
Between 1 year and 5 years	234	304
More than 5 years	2,287	1,275
Perpetual maturities	**29**	**30**
Total	**2,689**	**1,685**

(63) Equity

EUR million	2021	2020
Equity excluding non-controlling interests	**12,297**	**11,565**
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	6,548	5,726
Statutory reserve	1,268	1,268
Other retained earnings	5,281	4,458[1]
Revaluation surplus	78	165
Foreign currency translation reserve	2	5
Distributable profit	75	75
Non-controlling interests	**11**	**18**
Total	**12,307**	**11,583**

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

Subscribed capital

BayernLB Holding AG, Munich holds 100 percent of BayernLB's nominal capital. As at 31 December 2021, the Free State of Bavaria's equity interest in BayernLB Holding AG was 75 percent and the equity interest of the Association of Bavarian Savings Banks, Munich was 25 percent.

The capital contribution, reported as specific-purpose capital up to 31 December 2012, was created by a contribution in kind by the Free State of Bavaria in the form of subsidised loans in 1994/1995. Its basis was the law on the formation of special-purpose assets through the transfer of receivables held in trust belonging to the Free State of Bavaria to the liable equity capital of Bayerische Landesbank Girozentrale of 23 July 1994, as most recently amended by the law of 9 May 2006, and the contribution agreements of 15 December 1994 and of 28 December 1995, each as most recently amended by agreement on 23 December 2005. The special-purpose assets transferred are used to construct social housing. To ensure various equity components are recognised as Common Equity Tier 1 capital under the CRR/CRD IV requirements applicable since 1 January 2014, specific-purpose capital was modified and transferred to the capital contribution reported in subscribed capital with effect from 1 January 2013.

Capital surplus

The capital surplus is derived mainly from additional contributions to the parent company's equity.

Retained earnings

Allocations to the reserves from earnings generated in previous years and the reporting year are reported in retained earnings.

In addition, retained earnings includes the impact from the remeasurement of defined benefit pension plans.

Revaluation surplus

EUR million	2021	2020
Gains or losses on fair value measurement of financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category	110	206
Loss allowances for financial assets in the "financial assets mandatorily measured at fair value through other comprehensive income" category	3	6
Rating-related changes in the fair value of financial liabilities from the "fair value option" category recognised through other comprehensive income	10	35
Changes in the fair value of currency swaps from currency basis spread fluctuations recognised through other comprehensive income	(17)	(12)
Deferred taxes recognised through other comprehensive income	(29)	(70)
Total	**78**	**165**

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 43):

EUR million	2021	2020
Loss allowances – Stage 1	2	3
Loss allowances – Stage 2	1	3
Loss allowances – POCI	1	1
Total	**3**	**6**

Changes in loss allowances – Stage 1

	Financial investments	
EUR million	2021	2020
As at 1 Jan	**3**	**2**
Changes in the expected credit loss due to changes in the risk parameters	(2)	2
Releases due to disposals/redemptions/sales	1	(1)
Reclassifications to Stage 1 from Stage 2	1	–
Reclassifications from Stage 1 to Stage 2	–	(1)
As at 31 Dec	**2**	**3**

Changes in loss allowances – Stage 2

	Financial investments	
EUR million	2021	2020
As at 1 Jan	**3**	**–**
Changes in the expected credit loss due to changes in the risk parameters	(1)	1
Reclassifications to Stage 2 from Stage 1	–	1
Reclassifications from Stage 2 to Stage 1	(1)	–
As at 31 Dec	**1**	**3**

Loss allowances for purchased or originated credit-impaired financial assets (POCI) remained unchanged at EUR 1 million as at the reporting date (FY 2020: EUR 1 million) and, as in the previous year, 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 19,262 million (FY 2020: EUR 20,253 million) as at the reporting date and comprised:

EUR million	2021	2020
Financial assets – Stage 1	18,168	18,669
Financial assets – Stage 2	1,094	1,583
Financial assets – POCI	1	1
Total	**19,262**	**20,253**

The table below shows the extent to which changes in the gross carrying amount of financial assets contributed to changes in the loss allowance.

Changes in gross carrying amounts – Stage 1

	Cash reserves		Financial investments		Total	
EUR million	2021	2020	2021	2020	2021	2020
As at 1 Jan	**–**	**397**	**18,669**	**22,165**	**18,669**	**22,563**
Currency-related changes	23	(34)	241	(269)	**264**	**(303)**
Lending/purchases	418	–	1,571	2,557	**1,990**	**2,557**
Disposals/redemptions/sales	–	(364)	(3,376)	(4,256)	**(3,376)**	**(4,620)**
Reclassifications to Stage 1 from Stage 2	–	–	1,121	225	**1,121**	**225**
Reclassifications from Stage 1 to Stage 2	–	–	(565)	(1,689)	**(565)**	**(1,689)**
Transfers/other changes	–	–	66	(64)	**66**	**(64)**
As at 31 Dec	**441**	**–**	**17,726**	**18,669**	**18,168**	**18,669**

Changes in gross carrying amounts – Stage 2

	Financial investments	
EUR million	2021	2020
As at 1 Jan	**1,583**	**10**
Lending/purchases	320	191
Disposals/redemptions/sales	(272)	(84)
Reclassifications to Stage 2 from Stage 1	565	1,689
Reclassifications from Stage 2 to Stage 1	(1,121)	(225)
Transfers/other changes	19	2
As at 31 Dec	**1,094**	**1,583**

The gross carrying amount for purchased or originated credit-impaired financial assets (POCI) remained unchanged at EUR 1 million as at the reporting date (FY 2020: EUR 1 million) and, as in the previous year, all of them related to loans and advances to customers.

Distributable profits

The distributable profits of the BayernLB Group correspond to the consolidated profit after changes in reserves.

Notes to financial instruments

(64) Fair value of financial instruments

EUR million	Fair Value[1] 2021	Carrying amount 2021	Fair value 2020	Carrying amount 2020
Assets				
Cash reserves	17,542	17,542	9,342	9,342
Loans and advances to banks[2]	56,266	56,266	56,114	56,177
Loans and advances to customers[2]	161,487	158,988	157,339	152,376
Assets held for trading	8,883	8,880	12,110	12,110
Positive fair values from derivative financial instruments (hedge accounting)	509	509	876	876
Financial investments	20,085	20,085	21,881	21,881
Non-current assets or disposal groups classified as held for sale	64	65	26	26
Liabilities				
Liabilities to banks	77,238	76,447	77,477	75,995
Liabilities to customers	120,877	119,292	112,170	109,779
Securitised liabilities	44,224	43,880	43,886	43,037
Liabilities held for trading	8,343	8,343	9,374	9,374
Negative fair values from derivative financial instruments (hedge accounting)	1,073	1,073	1,178	1,178
Liabilities of disposal groups	28	28	6	6
Other liabilities/non-controlling interests	139	139	68	68
Subordinated capital	2,849	2,689	1,748	1,685

1 In the case of current financial instruments reported under other assets and liabilities, the respective carrying amount is a reasonable approximation of the 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 is not disclosed.

2 Carrying amount not including deductions of loss allowances for loans and advances to banks of EUR 15 million (FY 2020: EUR 12 million) and loans and advances to customers of EUR 1,101 million (FY 2020: EUR 1,073 million) in the "financial assets measured at amortised cost" category.

Day one profit or loss

In the reporting year, the changes in day one profit or loss were as follows:

EUR million	Assets held for trading 2021
As at 1 Jan	–
Allocations through profit and loss	3
As at 31 Dec	**3**

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

For details on the fair value calculation, refer to note 6.

(65) Financial instrument measurement categories

EUR million	2021	2020
Assets		
Financial assets measured at fair value through profit or loss	10,148	13,239
Financial assets mandatorily measured at fair value through profit or loss	10,041	13,133
Loans and advances to customers	131	126
Assets held for trading	8,880	12,110
Financial investments	1,030	869
Non-current assets or disposal groups classified as held for sale	–	26
Fair value option	106	106
Financial investments	106	106
Financial assets measured at amortised cost	232,365	217,906
Cash reserves	17,100	9,342
Loans and advances to banks[1]	56,266	56,177
Loans and advances to customers[1]	158,856	152,249
Financial investments	11	75
Non-current assets or disposal groups classified as held for sale	65	–
Other assets[2]	66	63
Financial assets measured at fair value through other comprehensive income	19,379	20,831
Financial assets mandatorily measured at fair value through other comprehensive income	19,379	20,831
Cash reserves	441	–
Loans and advances to customers	1	1
Financial investments	18,937	20,830
Derivative financial instruments in hedges (hedge accounting)	509	876
Positive fair values from derivative financial instruments (hedge accounting)	509	876

Liabilities		
Financial liabilities measured at fair value through profit or loss	14,852	17,058
Held-for-trading financial liabilities	8,343	9,380
Liabilities held for trading	8,343	9,374
Liabilities of disposal groups	–	6
Fair value option	6,509	7,678
Liabilities to banks	256	346
Liabilities to customers	3,375	3,864
Securitised liabilities	2,739	3,400
Other liabilities/non-controlling interests	139	68
Financial liabilities measured at amortised cost	236,008	222,917
Liabilities to banks	76,190	75,650
Liabilities to customers	115,917	105,915
Securitised liabilities	41,141	39,636
Liabilities of disposal groups	28	–
Other liabilities[2]	42	31
Subordinated capital	2,689	1,685
Derivative financial instruments in hedges (hedge accounting)	1,073	1,178
Negative fair values from derivative financial instruments (hedge accounting)	1,073	1,178
Lease liabilities	126	152

1 Not including deduction of loss allowances.

2 From financial year 2021, financial instruments measured at amortised cost in other assets and other liabilities were reported. The previous year's figures were restated accordingly.

In addition, as at the reporting date there was a portfolio hedge adjustment asset of EUR 231 million (FY 2020: EUR 1,014 million) for hedged items for which fair value hedge accounting in the form of portfolio hedges was used. This is assigned to the "financial assets measured at amortised cost" category.

(66) Fair value hierarchy of financial instruments

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

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

Financial instruments measured at fair value

Financial instruments measured at fair value by level

EUR million	Level 1 2021	Level 1 2020	Level 2 2021	Level 2 2020	Level 3 2021	Level 3 2020	Total 2021	Total 2020
Assets								
Barreserve	441	–	–	–	–	–	**441**	**–**
Loans and advances to customers	–	–	–	–	132	127	**132**	**127**
Assets held for trading	370	720	8,428	11,282	86	109	**8,883**	**12,110**
Positive fair values from derivative financial instruments (hedge accounting)	–	–	509	876	–	–	**509**	**876**
Financial investments	13,812	15,677	5,896	5,802	366	326	**20,074**	**21,805**
Non-current assets or disposal groups classified as held for sale	–	–	–	26	–	–	**–**	**26**
Total	**14,623**	**16,397**	**14,832**	**17,986**	**584**	**563**	**30,039**	**34,946**
Liabilities								
Liabilities to banks	–	–	256	346	–	–	**256**	**346**
Liabilities to customers	–	–	3,375	3,864	–	–	**3,375**	**3,864**
Securitised liabilities	–	–	2,739	(3,400)	–	–	**2,739**	**3,400**
Liabilities held for trading	12	15	8,318	9,353	13	7	**8,343**	**9,374**
Negative fair values from derivative financial instruments (hedge accounting)	–	–	1,073	1,178	–	–	**1,073**	**1,178**
Liabilities of disposal groups	–	–	–	6	–	–	**–**	**6**
Other liabilities/non-controlling interests	–	–	139	68	–	–	**139**	**68**
Total	**12**	**15**	**15,900**	**18,214**	**13**	**7**	**15,926**	**18,236**

Reclassifications between Level 1 and 2

EUR million	Reclassifications to Level 1 from Level 2: 1 Jan - 31 Dec 2021	to Level 1 from Level 2: 1 Jan - 31 Dec 2020	to Level 2 from Level 1: 1 Jan - 31 Dec 2021	to Level 2 from Level 1: 1 Jan - 31 Dec2020
Assets				
Assets held for trading	–	16	–	2
Financial investments	800	632	1,034	1,785
Total	**800**	**648**	**1,034**	**1,787**

In the reporting year, financial instruments were reclassified between Level 1 and Level 2, as they will again be measured/will no longer be measured using prices quoted on active markets. The reclassifications were mainly the result of changes in the bid-ask spreads and the number of available price contributors for bonds. The amounts reclassified were calculated on the basis of the fair value as at the end of the reporting year.

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

	Interest rate risks		Currency risks		Equity and other price risks		Total	
EUR million	2021	2020	2021	2020	2021	2020	2021	2020
Assets								
Loans and advances to customers	132	127	–	–	–	–	**132**	**127**
Assets held for trading	72	94	14	15	–	–	**86**	**109**
Financial investments	24	25	–	–	342	301	**366**	**326**
Total	**228**	**246**	**14**	**15**	**342**	**301**	**584**	**563**
Liabilities								
Liabilities held for trading	6	1	8	6	–	–	**13**	**7**
Total	**6**	**1**	**8**	**6**	**–**	**–**	**13**	**7**

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

	Loans and advances to customers		Assets held for trading		Financial investments		Total	
EUR million	2021	2020	2021	2020	2021	2020	2021	2020
As at 1 Jan	**127**	**191**	**109**	**159**	**326**	**300**	**563**	**650**
Currency-related changes	5	–	–	(14)	4	(3)	**8**	**(16)**
Income and expenses recognised in the income statement	5	–	(25)	59	34	36	**14**	**94**
Call options	4	2	58	63	12	3	**74**	**69**
Put options	(4)	–	(69)	(89)	(6)	(5)	**(79)**	**(96)**
Settlements	(6)	(65)	–	–	(4)	(3)	**(10)**	**(67)**
Reclassifications to Level 3 from Levels 1 and 2	–	–	2	6	–	–	**2**	**6**
Reclassifications from Level 3 to Levels 1 and 2	–	–	(29)	(102)	–	–	**(29)**	**(102)**
Transfers/other changes	–	–	41	25	–	(2)	**41**	**24**
As at 31 Dec	**132**	**127**	**86**	**109**	**366**	**326**	**584**	**563**
Income and expenses recognised in the income statement during the financial year for financial instruments held at 31 Dec	**–**	**–**	**(22)**	**90**	**33**	**36**	**11**	**125**

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

	Liabilities held for trading	
EUR million	2021	2020
As at 1 Jan	**7**	**4**
Currency-related changes	2	–
Income and expenses recognised in the income statement	20	(17)
Reclassifications to Level 3 from Levels 1 and 2	1	–
Reclassifications from Level 3 to Levels 1 and 2	(57)	(4)
Transfers/other changes	41	24
As at 31 Dec	**13**	**7**
Income and expenses recognised in the income statement during the financial year for financial instruments held at 31 Dec	**21**	**(17)**

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

Non-observable inputs were assessed for materiality at the end of the reporting year 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 again had 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 as at the reporting dates.

The fair values of credit transactions assigned to Level 3 of the fair value hierarchy are calculated on the basis of inputs that are not observable on the market. As at 31 December 2021, the sensitivity of these credit transactions to changes in key factors was:

- for a 10-basis point increase (decrease) in the measurement spread:
  EUR -0.4 million (EUR +0.4 million) (31 December 2020: EUR -0.3 million (EUR +0.3 million))

Derivative financial instruments whose significant inputs for measuring fair value are not observable on the market are also allocated to Level 3 of the fair value hierarchy. As at 31 December 2021, the sensitivity of these financial instruments to changes in key factors was

- for a 10-percentage point increase (decrease) in expected loss given default:
  EUR -2.1 million (EUR +2.1 million) (31 December 2020: EUR -2.4 million (EUR +2.4 million))
- a one notch improvement (deterioration) in the ratings:
  EUR +0.5 million (EUR -0.7 million) (31 December 2020: EUR +0.5 million (EUR -0.7 million))

In addition, receivables secured by real estate that were purchased on the non-performing loan market were allocated to Level 3 of the fair value hierarchy as there was no current market activity in these or similar loans and advances. As at 31 December 2021, the sensitivity of these real estate-secured receivables to changes in key factors was:

- for a 5-percentage point increase (decrease) in the realisable value:
  EUR +0.0 million (EUR -0.0 million) (31 December 2020: EUR 0.1 million (EUR -0.1 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 31 December 2021, the key sensitivity of this financial instrument to changes in key factors was:

- for a 10-percentage point upward (downward) movement in the conversion ratio:
  EUR +5.2 million (EUR -5.2 million) (31 December 2020: EUR +5.3 million (EUR -5.3 million))

As at 31 December 2021, the sensitivity of equity interests whose fair value is calculated using the German income method (Ertragswertverfahren) to changes in key factors was:

- for a 25-basis-point upward (downward) movement in the base interest rate:
  EUR -4.2 million (EUR +5.4 million) (31 December 2020: EUR -4.5 million (EUR +4.8 million))
- for a 25-basis-point upward (downward) movement in the market risk premium:
  EUR -3.8 million (EUR +4.9 million) (31 December 2020: EUR -3.6 million (EUR +3.8 million))

The base interest rate used moved within a range of -0.15-0.35 percent (average: 0.1 percent) (31 December 2020: -0.45-0.05 percent (average: -0.2 percent)), while the underlying market risk premium moved within a range of 7.25-7.75 percent (average: 7.5 percent) (31 December 2020: 7.75-8.25 percent (average: 8.0 percent)).

Financial instruments measured at amortised cost

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

	Level 1		Level 2		Level 3		Total	
EUR million	2021	2020	2021	2020	2021	2020	2021	2020
Assets								
Cash reserves	–	–	–	–	17,100	9,342	**17,100**	**9,342**
Loans and advances to banks	–	–	9,296	20,209	46,970	35,904	**56,266**	**56,114**
Loans and advances to customers	–	–	3,185	3,211	158,170	154,001	**161,355**	**157,212**
Financial investments	–	–	–	–	11	75	**11**	**75**
Non-current assets or disposal groups classified as held for sale	–	–	–	–	64	–	**64**	**–**
Total	**–**	**–**	**12,481**	**23,420**	**222,316**	**199,322**	**234,797**	**222,742**
Liabilities		**–**						
Liabilities to banks	–	–	7,668	21,268	69,314	55,863	**76,982**	**77,131**
Liabilities to customers	–	–	22,849	25,125	94,652	83,181	**117,501**	**108,306**
Securitised liabilities	8,471	11,154	33,015	29,332	–	–	**41,486**	**40,486**
Liabilities of disposal groups	–	–	–	–	28	–	**28**	**–**
Subordinated capital	–	–	2,818	1,671	31	77	**2,849**	**1,748**
Total	**8,471**	**11,154**	**66,351**	**77,395**	**164,024**	**139,122**	**238,846**	**227,671**

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

The maximum default risk for loans and receivables in the “fair value option” category was EUR 88 million as at the reporting date (FY 2020: EUR 81 million). The rating-related change in the fair value of these financial assets was EUR 0 million in the reporting year (FY 2020: EUR 3 million), and EUR 4 million (FY 2020: EUR 4 million) since designation.

The rating-related changes in fair value are calculated as the difference between the changes in the fair value of financial assets and the changes in the fair value of financial instruments measured on the basis of a risk-free yield curve. Only parameters observable on the market (prices of high-quality bonds) are used when determining rating-related changes in the fair value.

For financial liabilities in the fair value option category, there have been EUR 10 million (FY 2020: EUR 36 million) in rating-related changes in fair value booked to the revaluation surplus within other comprehensive income since designation. Due to the derecognition of financial liabilities in the reporting year, a reclassification was made within equity from the revaluation surplus to retained earnings in the amount of EUR 2 million (FY 2020: EUR –1 million). The difference between the carrying amount of the financial liabilities in the “fair value option” category and the redemption amount at maturity was EUR 455 million as at the reporting date (FY 2020: EUR 671 million).

The rating-related changes in the fair value of the financial liabilities are calculated as the sum of the monthly changes in the fair value in the reporting period or from designation, taking into account the residual maturities of the liabilities and adjusted for portfolio changes. The monthly changes are calculated as the difference between the fair values, which – while retaining all other market parameters – are calculated on the one hand with the credit spread at the end of each month and on the other with the credit spread at the end of the previous month. Only parameters observable on the market are used when calculating rating-related changes in the fair value; estimates are not employed.

The BayernLB Group held financial liabilities designated to the "fair value option" category primarily in connection with structured issues and liabilities with embedded derivatives. The BayernLB Group recognises credit rating-driven fair value changes in other comprehensive income rather than through profit or loss, as there are currently no reporting or measurement inconsistencies (see note 6 for more details). The determination as to whether this would give rise to or exacerbate a reporting or measurement inconsistency is to be made in the new product process, i.e. upon initial recognition of the financial instrument, and the choice maintained in subsequent periods. The determination is based on an analysis of whether the change in the fair value of a financial liability resulting from a change in its credit risk will be offset by the change in the fair value of another financial instrument (based on the change in its default risk). Such offsetting must be based on an economic relationship between the two financial instruments, including but not limited to contractual linkage.

(68) Hedging relationships (hedge accounting)

Derivative financial instruments are used for risk management purposes to hedge recognised financial assets and recognised financial liabilities to which hedge accounting can be applied under certain circumstances. Hedge accounting in the BayernLB Group is based on the decisions by Risk Management in Trading. Further information on the risk strategy and the management and monitoring of risks can be found in the risk report in the combined management report.

At present, only fair value hedges come under hedge accounting. This involves financial assets or financial liabilities (or a portion of them) recognised on the balance sheet, or a portfolio or group of financial instruments, being hedged against changes in fair value resulting from interest rate or currency risk which could affect the earnings for the period. Hedges must be proven to have a high prospective and, in the case of a portfolio fair value hedge in accordance with IAS 39, a high retrospective effectiveness. If this is not the case, the hedge must be terminated. The BayernLB Group measures effectiveness largely using a regression analysis and the critical term match method.

Hedging interest rate risks

Hedge accounting for interest rate risks is conducted in the BayernLB Group in the form of micro fair value hedges in accordance with IFRS 9 and portfolio fair value hedges in accordance with IAS 39. In its portfolio hedge accounting, BayernLB uses the percentage method and the bottom-layer method.

This involved the use of hedged items subject to interest rate risk. The entire interest rate risk is generally hedged. This means that most of the changes in fair value are covered by hedges. Interest rate derivatives are used as hedging instruments.

The changes in the value of the hedged items and the hedging instruments cancel each other out. Possible reasons for ineffective hedges during the term of the hedge include:

- The factors determining the value between a hedged item and a hedging instrument not being perfectly matched
- A multi-curve effect arising from the measurement of a hedged item and hedging instrument with different yield curves

As part of a portfolio fair value hedge based on the percentage method, interest rate risk is managed using interest rate swaps and a dynamic hedging strategy is employed. The pre-defined hedging period is one month. After this period ends, the respective hedges are recombined or adjusted, which in the latter case is primarily based on the variations on the hedged-items side. To determine the hedge ratio, the terms of the hedged items and hedging instruments are taken into account so that interest rate sensitivities are calculated for both sides and placed in relation to each other. The interest rate swaps are designated in full as hedging instruments.

Under the bottom-layer method, a portfolio fair value hedge is a dynamic hedging strategy in which a bottom layer is determined as a hedged item for each portfolio, corresponding to the amount to be hedged. Interest rate swaps are used as hedging instruments. The pre-defined hedging period is one month. An adjustment is made when the bottom layer has to be adjusted.

Hedging instruments for foreign currency risks

The BayernLB Group hedges currency risks using group fair value hedges in accordance with IFRS 9, where the bottom layer of a whole population of hedged items is designated. Currency swaps are used as hedging instruments. They are designated as group hedges by currency. The currency basis spread is separated from the currency swap and exempted from being designated as a hedging instrument. The entire spot rate-related change in the value of the bottom layer is hedged per currency.

The changes in the value of the hedged items and the hedging instruments cancel each other out. A hedge can become ineffective during its term if the gains or losses from the measurement of the rate from both variable legs of the currency swap do not offset the corresponding measurement gains or losses of the hedged items measured only at the spot rate.

Hedging instruments

			Carrying amount			
	Nominal value		Assets		Liabilities	
EUR million	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Interest rate risks	36,596	24,686	453	670	945	1,144
Currency risks	3,388	4,397	55	206	129	33
Total	**39,984**	**29,083**	**509**	**876**	**1,073**	**1,178**

The hedging instruments are shown in the balance sheet under “positive fair values of derivative financial instruments (hedge accounting)” and “negative fair values of derivative financial instruments (hedge accounting)”.

Hedging instruments by maturity

	Nominal value			
	Interest rate risks		Currency risks	
EUR million	2021	2020	2021	2020
Residual maturities				
Up to 3 months	1,062	687	91	392
Between 3 months and 1 year	2,116	2,920	601	763
Between 1 year and 5 years	11,075	11,723	1,736	1,675
More than 5 years	22,343	9,357	959	1,567
Total	**36,596**	**24,686**	**3,388**	**4,397**

The average price or rate of the instruments used to hedge interest rate risks was 1.39 percent (FY 2020: 1.73 percent). This does not include hedging instruments in dynamic hedges. The average price of instruments used to hedge GBP currency risks was EUR/GBP 0.88 (FY 2020: EUR/GBP 0.88) and for USD currency risks it was EUR/USD 1.17 (FY 2020: EUR/USD 1.16). The instruments to hedge CHF currency risks fell due in the reporting year. In financial year 2020, the average price was EUR/CHF 1.14.

Hedged items

	Carrying amount[1]		Fair value hedge adjustments in the carrying amount[2]	
EUR million	2021	2020	2021	2020
Assets				
Interest rate risks	31,341	28,307	291	1,208
Loans and advances to banks	104	108	(3)	–
Loans and advances to customers	16,982	15,929	287	836
Financial investments	10,019	11,596	7	372
Various[3]	4,237	675	–	–
Total	**31,341**	**28,307**	**291**	**1,208**
Liabilities				
Interest rate risks	10,801	13,566	195	1,007
Liabilities to banks	459	432	26	37
Liabilities to customers	2,942	3,440	144	565
Securitised liabilities	6,602	8,891	8	316
Subordinated capital	798	803	18	90
Total	**10,801**	**13,566**	**195**	**1,007**

1 Not including deductions of loss allowances for loans and advances to banks and/or loans and advances to customers in the "financial assets measured at amortised cost" category.
2 Not including fair value hedge adjustments for hedged items for which fair value hedge accounting in the form of portfolio hedges was used.
3 Bottom layer designated in the portfolio fair value hedge (bottom layer method) which covers the financial instruments in the loans and advance to banks and loans and advances to customers line items in the balance sheet.

Currency risks are also hedged using group fair value hedges, where the bottom layer of a population of hedged items recognised in loans and advances to banks, loans and advances to customers and financial investments is designated. Their nominal value was EUR 3,388 million as at the reporting date (FY 2020: EUR 4,397 million).

The fair value hedge adjustment[1] remaining on the balance sheet from terminated hedges comprised:

EUR million	2021	2020
Assets		
Interest rate risks	7	11
Loans and advances to customers	6	11
Total	**7**	**11**
Liabilities		
Interest rate risks	163	194
Liabilities to banks	29	46
Liabilities to customers	112	118
Securitised liabilities	22	30
Total	**163**	**194**

1 Not including fair value hedge adjustments for hedged items for which fair value hedge accounting in the form of portfolio hedges was used.

In addition, as at the reporting date there was a portfolio hedge adjustment asset of EUR 231 million (FY 2020: EUR 1,014 million) for hedged items for which fair value hedge accounting in the form of portfolio hedges was used. Of this, EUR 233 million (FY 2020: EUR 1,008 million) related to hedges still existing as at the reporting date and EUR -1 million (FY 2020: EUR 6 million) to hedges that had been terminated.

Hedge ineffectiveness

	Change in value of the hedging instruments		Change in value of hedged items		Hedge ineffectiveness	
EUR million	2021	2020	2021	2020	2021	2020
Interest rate risks	**684**	**(429)**	**(706)**	**440**	**(22)**	**11**
Gains or losses on hedge accounting	684	(429)	(706)	440	(22)	11
Micro fair value hedges	30	12	(49)	(4)	(19)	8
Portfolio fair value hedges	654	(441)	(657)	444	(3)	3
Currency risks	**(243)**	**302**	**245**	**(302)**	**2**	**(1)**
Gains or losses on hedge accounting	(243)	302	245	(302)	2	(1)
Group fair value hedges	(243)	302	245	(302)	2	(1)
Total	**441**	**(127)**	**(461)**	**138**	**(20)**	**11**

Hedging costs

The following table shows the changes in the fair value of currency swaps arising from currency basis spread fluctuations booked as hedging costs in the revaluation surplus. In the case of these group fair value hedges only period-related hedged items are hedged against changes in fair value arising from currency risk.

EUR million	2021	2020
As at 1 Jan	**(12)**	**(8)**
Hedging costs recognised through other comprehensive income	(5)	(4)
As at 31 Dec	**(17)**	**(12)**

Refer to the statement of comprehensive income for a breakdown of other comprehensive income in accordance with IAS 1.

(69) Net profit or loss from financial instruments

The net profit or loss on financial instruments in each category incorporates the gains or losses from measurement and realisation.

EUR million	2021	2020
Financial assets and financial liabilities measured at fair value through profit or loss	**201**	**109**
Financial assets mandatorily measured at fair value through profit or loss/held-for-trading financial liabilities[1]	196	123
Gains or losses on fair value measurement	162	88
Gains or losses on financial investments	34	34
Fair value option	5	(13)
Gains or losses on fair value measurement	29	(27)
Change in the revaluation surplus[2]	(24)	13
Financial assets measured at amortised cost	**(961)**	**431**
Net interest income	–	(1)
Risk provisions	(43)	(135)
Gains or losses on hedge accounting[3]	(925)	581
Gains or losses on derecognised financial assets	6	(14)
Financial assets measured at fair value through other comprehensive income	**(480)**	**192**
Financial assets mandatorily measured at fair value through other comprehensive income	(480)	192
Risk provisions	3	(3)
Gains or losses on hedge accounting[3]	(170)	45
Gains or losses on financial investments	12	34
Change in the revaluation surplus[4]	(324)	116
Financial liabilities measured at amortised cost	**383**	**(185)**
Gains or losses on hedge accounting[3]	389	(186)
Other income and expenses	(6)	2
Derivative financial instruments in hedges (hedge accounting)	**684**	**(429)**
Gains or losses on hedge accounting[3]	684	(429)

1 Includes current income from financial instruments held for trading purposes (except for derivatives in economic hedges) and gains or losses on foreign currency translation.

2 Rating-related changes in the fair value of financial liabilities recognised through other comprehensive income.

3 Not including group fair value hedges.

4 Gains or losses on fair value measurement recognised through other comprehensive income.

The BayernLB Group also hedges currency risks using group fair value hedges, where the bottom layer of a whole population of hedged items in the "financial assets measured at amortised cost" and "financial assets measured at fair value through other comprehensive income" measurement categories is designated. The measurement gains or losses on these hedged items recognised in gains or losses on hedge accounting stood at EUR 245 million (FY 2020: EUR -302 million) in the reporting year.

The measurement gains or losses on hedging instruments in group fair value hedges that are shown in gains or losses on hedge accounting stood at stood at EUR -243 million (FY 2020: EUR 302 million) in the reporting year). Refer to note 68 for information on the fair value changes from currency basis spread fluctuations recognised in the revaluation surplus.

(70) Offsetting of financial instruments

When conducting derivatives transactions and securities repurchase transactions, the BayernLB Group regularly concludes bilateral netting agreements in the form of master agreements with business partners. Among the standard master agreements used are the ISDA Master Agreement for Financial Derivatives, the German Master Agreement for Financial Derivatives Transactions and the Global Master Repurchase Agreement for securities repurchase transactions. Agreements granting rights of set-off include the clearing conditions of Eurex Clearing AG, LCH.Clearnet Limited, European Commodity Clearing AG, and the client clearing agreements for indirect clearing. The netting agreements provide for conditional rights of set-off in the form of close-out netting for receivables and liabilities covered by these agreements, i.e. only if previously defined conditions (e.g. cancellation of the master agreement, default or insolvency) occur can the legal right of set-off be enforced.

Besides the master agreements for financial derivatives, collateral agreements are concluded with business partners to safeguard the net claim or liability left after offsetting. The main ones used are the Credit Support Annex to the ISDA Master Agreement and the collateral addendum to the German Master Agreement for Financial Derivatives Transactions. The master agreements for securities repurchase transactions and the derivatives clearing agreements contain similar collateral rules. Collateral agreements usually grant the protection buyer a position of ownership in the form of a title transfer collateral arrangement with an unrestricted right of disposal over the collateral, which is normally cash or securities collateral. Collateral agreements with no or a limited right of disposal are rare. Bilateral master agreements therefore largely provide for the realisation of collateral through offsetting, in that the fair value of the transferred security takes account of the calculation of the settlement payments at the termination of the contract.

The tables below give information on recognised financial instruments offset in accordance with IAS 32.42 and recognised financial instruments with a legally enforceable right of set-off or which are subject to a similar agreement. The “Set-off amount” column shows the amounts offset in accordance with IAS 32.42. These relate to transactions with central counterparties and bilateral repurchase agreements. The “Effect of netting agreements” column shows the amounts relating to financial instruments subject to a netting agreement, but not offset on the balance sheet as the criteria under IAS 32.42 were not met. The “Collateral” column shows the fair value of received or pledged financial collateral.

Offsetting of financial assets and financial liabilities as at 31 December 2021 – assets

EUR million	Gross carrying amount	Set-off amount	Net carrying amount recognised	Effect of netting agreements	Collateral	Net amount
Derivatives transactions	**14,166**	**(6,474)**	**7,693**	**(4,936)**	**(1,185)**	**1,571**
Assets held for trading/positive fair values from derivative financial instruments (hedge accounting)	14,166	(6,474)	7,693	(4,936)	(1,185)	1,571
Non-current assets or disposal groups classified as held for sale	–	–	–	–	–	–
Securities repurchase transactions	**3,361**	**–**	**3,361**	**(3)**	**(2,928)**	**430**
Loans and advances to banks	3,351	–	3,351	(3)	(2,918)	430
Loans and advances to customers	10	–	10	–	(10)	–
Total	**17,527**	**(6,474)**	**11,054**	**(4,939)**	**(4,113)**	**2,002**

Offsetting of financial assets and financial liabilities as at 31 December 2021 – liabilities

EUR million	Gross carrying amount	Set-off amount	Net carrying amount recognised	Effect of netting agreements	Collateral	Net amount
Derivatives transactions	**14,851**	**(6,351)**	**8,500**	**(4,936)**	**(1,546)**	**2,018**
Liabilities held for trading/negative fair values from derivative financial instruments (hedge accounting)	14,851	(6,351)	8,500	(4,936)	(1,546)	2,018
Liabilities of disposal groups	–	–	–	–	–	–
Securities repurchase transactions	**20**	**–**	**20**	**(3)**	**(16)**	**–**
Liabilities to banks	20	–	20	(3)	(16)	–
Liabilities to customers	–	–	–	–	–	–
Total	**14,871**	**(6,351)**	**8,519**	**(4,939)**	**(1,562)**	**2,018**

Offsetting of financial assets and financial liabilities as at 31 December 2020 – assets

EUR million	Gross carrying amount	Set-off amount	Net carrying amount recognised	Effect of netting agreements	Collateral	Net amount
Derivatives transactions	**22,262**	**(12,306)**	**9,956**	**(5,868)**	**(1,679)**	**2,409**
Assets held for trading/positive fair values from derivative financial instruments (hedge accounting)	22,236	(12,306)	9,930	(5,864)	(1,679)	2,387
Non-current assets or disposal groups classified as held for sale	26	–	26	(4)	–	22
Securities repurchase transactions	**4,036**	**–**	**4,036**	**–**	**(4,013)**	**23**
Loans and advances to banks	4,036	–	4,036	–	(4,013)	23
Loans and advances to customers	–	–	–	–	–	–
Total	**26,299**	**(12,306)**	**13,992**	**(5,868)**	**(5,692)**	**2,432**

Offsetting of financial assets and financial liabilities as at 31 December 2020 – liabilities

EUR million	Gross carrying amount	Set-off amount	Net carrying amount recognised	Effect of netting agreements	Collateral	Net amount
Derivatives transactions	**23,017**	**(13,481)**	**9,536**	**(5,868)**	**(1,787)**	**1,880**
Liabilities held for trading/negative fair values from derivative financial instruments (hedge accounting)	23,011	(13,481)	9,530	(5,864)	(1,787)	1,879
Liabilities of disposal groups	6	–	6	(4)	–	1
Securities repurchase transactions	**463**	**–**	**463**	**–**	**(462)**	**–**
Liabilities to banks	463	–	463	–	(462)	–
Liabilities to customers	–	–	–	–	–	–
Total	**23,479**	**(13,481)**	**9,998**	**(5,868)**	**(2,250)**	**1,880**

(71) Derivatives transactions

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

	Nominal value		Positive fair value		Negative fair value	
EUR million	2021	2020	2021	2020	2021	2020
Interest rate risks	**430,271**	**495,663**	**11,770**	**20,140**	**11,688**	**20,791**
Interest rate swaps	344,750	405,732	10,857	18,750	10,368	18,583
Forward rate agreements	46,950	50,265	3	7	3	7
Interest rate options	18,084	18,314	814	1,262	1,155	1,873
Call options	6,298	6,865	594	981	124	174
Put options	11,786	11,449	219	281	1,031	1,699
Caps, floors	13,465	13,800	94	122	58	69
Exchange-traded contracts	5,506	6,504	–	–	–	–
Other interest-based forward transactions	1,515	1,048	2	–	103	258
Currency risks	**112,583**	**104,890**	**1,945**	**1,920**	**2,028**	**1,730**
Forward exchange deals	92,188	83,806	1,338	1,396	1,248	1,262
Currency swaps/cross-currency swaps	16,798	18,001	580	485	738	418
Foreign exchange options	1,101	1,246	7	20	5	22
Call options	622	730	7	20	–	–
Put options	479	516	–	–	5	21
Other currency-based forward transactions	2,496	1,837	19	20	36	28
Equity and other price risks	**5,462**	**6,087**	**428**	**188**	**1,075**	**349**
Equity forward transactions	276	214	5	–	8	51
Equity/index options	300	331	9	3	3	2
Call options	264	295	9	3	–	–
Put options	36	36	–	–	3	2
Exchange-traded contracts	585	2,916	–	–	1	8
Other forward transactions	4,300	2,625	414	185	1,064	288
Credit derivative risks	**324**	**310**	**–**	**3**	**8**	**6**
Protection buyer	324	310	–	3	8	6
Total	**548,639**	**606,950**	**14,142**	**22,252**	**14,799**	**22,876**

Derivatives transactions by maturity

	Nominal value							
	Interest rate risks		Currency risks		Equity and other price risks		Credit derivative risks	
EUR million	2021	2020	2021	2020	2021	2020	2021	2020
Residual maturities								
Up to 3 months	19,553	27,338	43,007	44,752	2,973	2,234	–	–
Between 3 months and 1 year	88,293	94,818	24,702	27,587	2,044	2,462	–	–
Between 1 year and 5 years	138,247	184,416	34,322	21,982	445	1,390	324	310
More than 5 years	184,179	189,091	10,552	10,569	–	–	–	–
Total	**430,271**	**495,663**	**112,583**	**104,890**	**5,462**	**6,087**	**324**	**310**

Derivatives transactions by counterparty

	Nominal value		Positive fair value		Negative fair value	
EUR million	2021	2020	2021	2020	2021	2020
OECD banks	434,498	352,982	10,964	9,723	11,298	11,018
Non-OECD banks	23	41	–	–	–	–
Public-sector entities within the OECD	6,746	7,785	491	715	328	536
Other counterparties[1]	107,372	246,142	2,687	11,814	3,173	11,322
Total	**548,639**	**606,950**	**14,142**	**22,252**	**14,799**	**22,876**

Derivatives for trading purposes

	Nominal value		Positive fair value		Negative fair value	
EUR million	2021	2020	2021	2020	2021	2020
Interest rate derivatives	338,631	349,538	8,180	14,343	8,039	14,256
Currency derivatives	104,093	96,151	1,619	1,639	1,836	1,669
Equity derivatives	350	3,718	59	72	62	139
Credit derivatives	320	310	–	3	8	6
Total	**443,394**	**449,718**	**9,858**	**16,056**	**9,944**	**16,070**

1 Includes exchange-traded contracts.

(72) Transfer of financial assets

The following transactions were executed at standard market terms and conditions.

Transferred financial assets that are not derecognised in their entirety

As at the reporting date the volume of financial assets transferred as collateral that are not derecognised was EUR 66,873 million (FY 2020: EUR 65,130 million).

These include genuine securities repurchase agreements where the BayernLB Group sold securities with a repurchase obligation. As the risks (interest rate, currency, equity and other price risks and credit risks) and rewards (particularly capital gains and current income) are largely retained by the BayernLB Group, the financial assets are not derecognised. The obligation of the lender to return the payment received as collateral for the transferred security is recognised as a financial liability. The lender has an unrestricted right of disposal over the securities once they are delivered.

The BayernLB Group also lends on funds received from development institutions for specific purposes on their own terms through savings banks or directly to end-borrowers. The loans and advances to savings banks and end-borrowers are recognised as assets and the liabilities to development institutions as liabilities. The loans and advances to savings banks and end-borrowers and any pledged collateral are assigned as collateral to the development institutions and may be realised by them in the event of loss. The BayernLB Group retains default risk in respect of the loans and advances to the savings banks and end-borrowers.

The BayernLB Group has also pledged collateral for funding, largely for tender operations with the European Central Bank. Collateral has also been pledged to the European Investment Bank and for transactions on other exchanges and clearing systems. The financial assets transferred as collateral for the corresponding (contingent) liabilities are not derecognised, as the risks and rewards are largely retained by the BayernLB Group.

The carrying amount of transferred financial collateral relates to the following items:

EUR million	**2021**	**2020**
Loans and advances to banks	18,988	20,171
Loans and advances to customers	33,258	30,097
Assets held for trading	300	403
of which:		
Collateral received which may be sold or pledged on	47	23
Financial investments	14,327	14,460
of which:		
Collateral received which may be sold or pledged on	811	221
Total	**66,873**	**65,130**

The transferred financial assets are matched against liabilities of EUR 48,836 million (FY 2020: EUR 48,008 million).

The assets in the cover pool are managed in accordance with the German Pfandbrief Act (Pfandbriefgesetz). As at the reporting date, the volume of the cover funds was EUR 48,244 million (FY 2020: EUR 47,487 million) for an outstanding volume of mortgage-backed Pfandbriefs and public Pfandbriefs of EUR 34,639 million (FY 2020: EUR 30,096 million).

The BayernLB Group also pledged collateral of EUR 250 million (FY 2020: EUR 187 million) for the utilisation of irrevocable payment obligations in connection with the bank levy and deposit guarantee scheme. Of this amount, cash collateral of EUR 79 million (FY 2020: EUR 66 million) was deposited for the bank levy and EUR 52 million (FY 2020: EUR 33 million) for the statutory deposit guarantee scheme which DKB belongs to. Securities collateral of EUR 118 million

(FY 2020: EUR 89 million) was transferred for the bank-specific guarantee scheme BayernLB belongs to (see note 82).

Transferred financial assets that are derecognised in their entirety

As at the reporting date there was no material continuing involvement in transferred financial assets that are derecognised in their entirety.

Notes to the cash flow statement

(73) Notes on items in the cash flow statement

The cash flow statement shows the cash flows of the financial year classified into operating activities, investing activities and financing activities.

The "cash and cash equivalents" line item corresponds to the "cash reserves" item in the balance sheet and comprises cash and deposits with central banks, including the corresponding exchange rate gain of EUR 13 million (FY 2020: loss of EUR 59 million). Cash and cash equivalents are not subject to any drawing restrictions.

Cash flows from operating activities comprise payments from loans and advances to banks and to customers, from securities (not including financial investments), derivatives, and other assets. Payments from liabilities to banks/customers, securitised liabilities, and from other liabilities also fall under this category. Likewise included are interest and dividend payments from operating activities.

Cash flows from investing activities include payments for: financial investments; investment property; property, plant and equipment; and intangible assets. The impact from changes to the scope of consolidation is also reported under this line item.

Distributions to company owners and minority shareholders, changes in non-controlling interests and changes in subordinated capital are part of cash flow from financing activities. To improve transparency, the non-cash changes were reported through a transitional calculation in the subordinated capital line item, in which the changes from currency translation were shown separately. The previous year's figures were restated accordingly.

	Subordinated capital	
EUR million	2021	2020
As at 1 Jan	**1,685**	**2,017**
Changes in cash flow from financing activities	998	(418)[1]
Non-cash changes:		
Currency-related changes	8	(9)[2]
Fair value changes	(48)	40
Other changes	45	(35)[2]
As at 31 Dec	**2,689**	**1,685**

1 Adjusted as per IAS 8.42 (see note 2).
2 Adjusted due to changed presentation.

For the changes in equity due to payments to company owners and minority shareholders, refer to the statement of changes in equity.

Supplementary disclosures

(74) Subordinated assets

Subordinated assets are recognised in the following line items on the balance sheet:

EUR million	2021	2020
Loans and advances to banks	15	28
Loans and advances to customers	123	119
Financial investments	8	8
Total	**147**	**155**

(75) Assets and liabilities in foreign currency

EUR million	2021	2020
Foreign currency assets	**17,824**	**19,255**
CAD	378	410
CHF	1,043	897
GBP	3,731	4,771
HKD	5	8
JPY	18	59
USD	11,921	12,421
Other currencies	727	690
Foreign currency liabilities	**14,657**	**13,556**
CAD	155	89
CHF	237	175
GBP	2,105	2,298
HKD	3	5
JPY	64	132
USD	11,516	10,523
Other currencies	576	334

(76) Default risk

The impairment rules of IFRS 9 follow an approach in which not just incurred losses but also expected losses must be accounted for using the expected credit loss model.

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

The following approaches are used to determine the loss allowances:

- General approach
- Approach for purchased or originated credit-impaired financial assets
- Simplified approach

General approach

Under the general approach, loss allowances are determined pursuant to the principle of a deterioration in creditworthiness in the stage model. In essence, this is a relative credit risk model, according to which a significant increase in the default risk as at the reporting date compared with initial recognition requires higher risk provisions to be made. The loss allowances are broken down accordingly as follows:

- Loss allowances measured in the amount of the 12-month expected credit losses for financial instruments which have not experienced a significant increase in credit risk since initial recognition and are not in default (Stage 1),
- Loss allowances measured in the amount of the lifetime expected credit losses for financial instruments for which the default risk has increased significantly since they have been recognised 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 defined by default criteria as at the reporting date, but not at the time of purchase or origination (Stage 3)

Determining a significant increase in the default risk

On initial recognition, the respective financial instrument is assigned to Stage 1. A significant increase in default risk in the BayernLB Group is determined on the basis of qualitative criteria and the change in the rating, which is calculated based on the Bank's credit risk processes. The rating takes account here of both the creditworthiness-relevant information for the next 12 months and full remaining term of the financial instrument. As at the respective reporting date, the financial instrument's rating is compared here with the rating expected as at the actual reporting date upon recognition on the balance sheet. If the (negative) deviation exceeds the statistically expected value of the change in default risk determined for the respective reporting date at the time of addition the change in default risk is classified as significant (expected downgrade). The statistically expected change in default risk (rating significance thresholds) is calculated as a function of the current term of the financial instrument.

The main inputs for determining a significant increase in default risk are the customer-specific expected change in default risk (PD profile per rating module), which is calculated using the rating, and the associated rating migration matrix. The rating migration matrix indicates the probability of a change in the rating. The PD profile gives information on the probability that a business partner will not meet its financial obligations at a specific point in the future, and on probably of a financial instrument defaulting, over its entire term. In determining the rating and therefore also the PD profile, various forward-looking information, in particular macroeconomic developments, are taken into account. The Bank also consider environmental, social and governance risks (ESG risks). For example, ESG risk drivers are analysed using a separate tool (ESG assessment), If this provides indications of elevated risk in respect of the (ESC) issues being investigated, e.g. due to climate and environmental risks, the Bank examines whether they are adequately reflected in the credit rating.

In addition to the relative criterion for determining a significant increase in the default risk, the BayernLB Group also applies the qualitative criterion in the form of 30-day payment arrears, a deterioration in the form of support since initial recognition and the existence of “restructuring and workout”. The BayernLB Group does not apply the rebuttal of the assumption that there is a significant increase in the default risk in the event of 30-day payment arrears.

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

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

If a financial asset is credit-impaired as defined by default criteria as at the reporting date, it is reclassified to Stage 3. To determine whether a financial asset is credit-impaired, the BayernLB Group implemented the following quantitative and qualitative default criteria in particular:

- Payment arrears/overdraft > 90 days: 90-day payment arrears by the obligor in respect of a substantial amount of the contractually agreed payments
- Improbable repayment: Significant doubt as to the creditworthiness of the obligor
- Retail banking: Improbable repayment from a transfer
- Restructuring: inevitable restructuring as a result of a crisis resulting in losses
- Loss allowance or writedown: A loss allowance or a partial or full writedown due to a significant deterioration in credit quality
- Sale of receivables: Sale of receivables at a considerable, credit-related economic loss
- Insolvency: Application for the insolvency of the borrower or comparable protective measures
- Termination: Termination of the credit agreement or settlement of a maturing loan due to creditworthiness.
- Default due to a transfer event

If at least one criterion is met, the credit analysts determine if there is an adverse effect on expected future cash flows by assessing the documents evidencing the credit quality of the respective financial instrument or business partner.

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

As soon as the default criterion is no longer met, the financial instrument is no longer recognised at Stage 3, taking into account a good conduct period. The minimum term for a good conduct period is based on the respective default criterion and is 366 days if the reason for default is a restructuring and 92 days in the case of all other default criteria.

Determining the loss allowance

When determining the expected credit losses of a financial instrument in Stage 1 and Stage 2, the following parameters are multiplicatively linked:

- Probability of default (PD): This represents the probability that a business partner can no longer meet its financial obligations, with respect to the next 12 months (12-month PD) or over the contractual term of the obligation (lifetime PD). Multi-year PD is determined on the basis of historical observations, which are based on cross-institutional data histories of the rating procedures used and forward-looking information. In particular, macroeconomic developments based on BayernLB's economic forecasts are also included.
- Exposure at default (EAD): this estimates the outstanding exposure at the time of default and is modelled on the basis of product-specific ancillary agreements (e.g. rights of termination and their probability of exercise, which is determined on the basis of historical practice). In addition to the current drawings, expected future drawings are also taken into account for commitments. The drawings in the year prior to default are recognised via the credit conversion factor (CCF) calculated on the basis of historical drawings and the remaining open line. Forward-looking information is also considered here too.
- Loss given default (LGD): this shows the expected loss in the event of default, with a distinction being made between an LGD for the secured and unsecured parts of the EAD. In the case of the unsecured part of the EAD, the maturity component is modelled on the basis of the forecast change in the collateral's fair value (collateral value over time). The estimate is based on observed historical values over time and forward-looking information (especially economic forecasts).

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

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

In the case of Stage 3 financial instruments, the loss allowance is recognised as the difference between amortised cost and the present value of expected cash flows. When determining expected cash flows, various scenarios (i.e. at least two) normally need to be defined and weighted with the expected probability of occurrence. The expected cash flow is discounted using the effective interest rate at the time of initial recognition or an approximation thereof.

Utilisations/writedowns

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

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

Procedure for purchased or originated credit-impaired financial assets

This method is used for purchased or originated credit-impaired financial assets (POCI). The BayernLB Group assumes that creditworthiness is impaired if the counterparty is assigned to a (non-performing) default category and the financial instrument was received with a big discount. In these cases, the cumulative changes in the lifetime expected credit losses since initial recognition must be recorded. To determine the expected credit losses, the risk-adjusted effective interest rate is used as the discount rate for calculating present value.

Simplified approach

The simplified approach is used in the BayernLB Group for trade receivables, regardless of whether they contain a significant financing component. The loss allowances are always measured in the amount of the lifetime expected credit losses.

Loss allowances and gross carrying amounts/exposure

The following table shows the loss allowances and gross carrying amounts/exposure of financial instruments.

Loss allowances as at 31 December 2021

EUR million	Stage 1 2021	Stage 2 2021	Stage 3 2021	POCI 2021	Simplified approach 2021	Total 2021
Cash reserves	–	–	–	–	–	**–**
Loans and advances to banks	4	5	6	–	–	**15**
Loans and advances to customers	176	262	605	59	–	**1,102**
Financial investments	2	1	–	–	–	**3**
Non-current assets or disposal groups classified as held for sale	–	–	5	–	–	**5**
Other assets	–	–	–	–	–	**–**
Financial guarantees/credit commitments	29	63	24	2	–	**119**
Total	**211**	**331**	**640**	**61**	**–**	**1,244**

Loss allowances as at 31 December 2020

EUR million	Stage 1 2020	Stage 2 2020	Stage 3 2020	POCI 2020	Simplified approach 2020	Total 2020
Cash reserves	–	–	–	–	–	**–**
Loans and advances to banks	1	4	6	–	–	**12**
Loans and advances to customers	154	295	575	50	–	**1,074**
Financial investments	3	3	–	–	–	**5**
Non-current assets or disposal groups classified as held for sale	–	–	–	–	–	**–**
Other assets	–	–	–	–	–	**–**
Financial guarantees/credit commitments	26	56	30	1	–	**113**
Total	**184**	**357**	**611**	**51**	**–**	**1,204**

The total volume of non-discounted expected credit losses as at first-time recognition of purchased or originated credit-impaired financial instruments was EUR 27 million in the reporting year (FY 2020: EUR 1 million).

For information on the changes in loss allowances, refer to notes 43, 51, 58 and 63.

Gross carrying amounts/exposure as at 31 December 2021

EUR million	Stage 1 2021	Stage 2 2021	Stage 3 2021	POCI 2021	Simplified approach 2021	Total 2021
Cash reserves	17,542	–	–	–	–	**17,542**
Loans and advances to banks	51,133	5,129	7	–	-	**56,268**
Loans and advances to customers	145,574	11,348	1,492	156	–	**158,571**
Financial investments	17,737	1,094	–	–	–	**18,831**
Non-current assets or disposal groups classified as held for sale	49	–	21	–	–	**70**
Other assets	22	–	–	–	44	**66**
Financial guarantees/credit commitments	50,641	8,561	365	2	–	**59,570**
Total	**282,698**	**26,133**	**1,885**	**159**	**44**	**310,918**

Gross carrying amounts/exposure as at 31 December 2021

EUR million	Stage 1 2020	Stage 2 2020	Stage 3 2020	POCI 2020	Simplified approach 2020	Total 2020
Cash reserves	9,342	–	–	–	–	**9,342**
Loans and advances to banks	50,734	5,437	7	–	–	**56,177**
Loans and advances to customers	136,584	13,379	1,317	134	–	**151,414**
Financial investments	18,744	1,583	–	–	–	**20,327**
Non-current assets or disposal groups classified as held for sale	–	–	–	–	–	**–**
Other assets	25[1]	–	–	–	38	**63**
Financial guarantees/credit commitments	50,134	8,419	270	13	–	**58,836**
Total	**265,562**	**28,817**	**1,594**	**147**	**38**	**296,158**

[1] *As of financial year 2021, the Bank discloses financial assets reported in other assets in respect of which the loss allowance was determined using the general approach. The previous year's figures were restated accordingly.*

For information on the changes in gross carrying amounts and the exposure, refer to notes 43, 46, 51, 58, 60 and 63.

Gross carrying amount/exposure by rating category as at 31 December 2021

EUR million	Stage 1 2021	Stage 2 2021	Stage 3 2021	POCI 2021	Simplified approach 2021	Total 2021
Rating categories 0–7	200,523	12,939	–	9	3	**213,473**
Rating categories 8–11	58,535	5,361	–	13	–	**63,908**
Rating categories 12–17	19,806	6,343	–	10	–	**26,159**
Rating categories 18–21	158	1,488	–	3	–	**1,649**
Rating categories 22–24	-	-	1,885	123	–	**2,008**
Unrated	3,676	2	–	–	41	**3,720**
Total	**282,698**	**26,133**	**1,885**	**159**	**44**	**310,918**

Gross carrying amount/exposure by rating category as at 31 December 2021

EUR million	Stage 1 2020	Stage 2 2020	Stage 3 2020	POCI 2020	Simplified approach 2020	Total 2020
Rating categories 0–7	184,092[1]	13,238	–	8	16	**197,354**
Rating categories 8–11	56,942	6,192	–	6	–	**63,140**
Rating categories 12–17	20,912	7,250	–	9	–	**28,170**
Rating categories 18–21	156	1,931	–	4	–	**2,091**
Rating categories 22–24	1	–	1,594	121	–	**1,715**
Unrated	3,459[1]	206	–	1	22	**3,688**
Total	**265,562**	**28,817**	**1,594**	**147**	**38**	**296,158**

[1] As of financial year 2021, the Bank discloses financial assets reported in other assets in respect of which the loss allowance was determined using the general approach. The previous year's figures were restated accordingly.

Impact of the coronavirus pandemic

Due to the impact of still ongoing coronavirus pandemic, the regular review of the macroeconomic scenarios for the next few years determined that it was necessary to make changes to the post-model adjustment that had been considered in previous financial statements. This was based on the baseline scenario and global economic crisis scenario described in the consolidated financial statements of 2020. The expansive inflation scenario considered in the half-yearly financial statements is no longer shown separately as the expectation have partially materialised and are now largely reflected in the baseline scenario. The central parameters underlying the scenarios are the changes in gross domestic product (GDP), consumer prices, the unemployment rate and the leading stock market indices in Germany, Europe and the USA; the changes in yields on long-dated government bonds in Germany and Europe are also taken into account.

The baseline scenario reflects the currently expected economic trends upon which the pandemic has a major bearing. The economy is increasingly decoupling from the effects of the pandemic. The underlying expectations used in the consolidated financial statements for 2020 were largely confirmed. Adjustments were mainly made to the chronological profile of the recovery in Europe and the state of the US economy. Based on current expectations, the recovery in the wake of the economic slump caused by the pandemic in 2020 will play out over three phases. Following the current phase of steep GDP growth and inflation rates, a transitional phase will set in over several years before a new “normal” is reached from 2025. This period will be characterised by lower

GDP growth rates and slightly higher inflation than before the pandemic struck. The assumption of a temporary increase in inflation has thus been confirmed so that the Fed and ECB will only slowly unwind their ultra-loose monetary policy and a very pronounced increase in long-term yields will not take place, in spite of inflation hovering above the 2 percent target in 2021 and 2022. Fiscal policy will initially remain expansive. The change in direction will occur only from 2023 when the stimulus to the economy caused by the lifting of the coronavirus restrictions ceases and the backlog of stalled consumer spending and capital expenditure clears. Public debt will remain elevated. Only Germany will return to a level of 60 percent of GDP in 2026. Starting with the USA, long-term yields will steadily rise until 2025 so that almost all major yields will be once again back in positive territory again. As the short end of the yield curve will be kept anchored with the slow ending of the central banks' low interest rate policy, the yield curves will steepen until 2024 when the short end will begin to flatten. At the same time, the increase at the long end and subsequent flattening of the curve will be more pronounced in the USA than in the eurozone. Spreads in the euro periphery are likely to narrow over the forecast horizon thanks to progress made in the communitisation of national debts. Euro credit spreads will widen only moderately against a backdrop of a scaling down of net purchases by the ECB and in the absence of any major credit events, as the economic environment will support this trend. From 2022, stock markets will initially lose some of their upwards momentum and correct in 2024 due to a more hawkish monetary policy and topping out of growth. Real estate prices will continue to track northwards, even in segments knocked back by the pandemic, due to interest rate rises keeping within acceptable bounds. Except for a short-lived countermovement in 2024, the US dollar will continue to weaken against the euro. The probability of this scenario occurring has been adjusted to 65 percent compared with the consolidated financial statements for 2020 (FY 2020: 55 percent). The increased inflation expectations from the expansive inflation scenario, which was presented separately in the half-yearly financial statements for 2021 materialised to a partial extent. Due to a strengthening in global risk factors compared with the half-yearly financial statements for 2021, the weighting of the baseline scenario remained unchanged overall at 55 percent.

The global economic crisis scenario takes the assumption that the coronavirus pandemic cannot be contained, leading to a recession. Already heavily weakened by the coronavirus pandemic, the economy has come under serious pressure and moved off its expected growth path owing to a resistant virus variant and a new widespread lockdown. A persistent economic shock is the result. In any case, the existing supply chain problems, especially in respect of semi-conductors and economic nationalism, for example in the USA ("Buy American") and in a self-isolating China are worsening, with both affecting the German car industry in particular. Second-round effects will cause the crisis to reach the financial sector. The eurozone economy will slide into a two-year recession, which will then give way to a very sluggish recovery phase. GDP growth in the USA will still be above zero but will not touch the 2 percent barrier in 2024-2026. The limited elbow room for monetary and fiscal policy in many regions will see the crisis persist for an unusually long time. Unemployment will rise steadily until 2026, partly on account of the increase in the minimum wage to EUR 12, which was agreed in the negotiations on forming a new government and is a firm part of policy. If a deep economic crisis erupts (worldwide) along with the job cuts that will go with it, higher unemployment is in store, especially in Germany. Central banks will respond at the beginning of the shock with an additional, broad-based easing of monetary policy, further cuts to interest rates and a significant expansion/relaunch of quantitative easing (QE). In many industrialised countries, key interest rates will remain negative or close to zero total over the entire planning horizon. On the fiscal policy front, more strongly expansive measures will be taken, leading to a huge increase in deficits and debt ratios. The big increase in issues of government bonds will be largely bought up by central banks. Combined with interest-rate cuts, the yield curves of issuers with good credit ratings will sink to new record lows as a result. Long-term yields will fall back well into negative territory and do not approach zero until 2025. In this risk-off environment and with the eurozone once again in a fragile position, the euro will initially lose ground against the US dollar before regaining its poise after a time lag and climbing steeply in response to the firmly dovish policy in the USA. Commodity prices will take a further tumble. Stock markets will remain weak and not start posting modest gains until 2024. Risk premiums on government bonds of countries on the periphery of the eurozone and on corporate bonds in the eurozone will widen markedly despite the recovery fund and bigger QE purchases by the ECB. For the global economic crisis scenario, the Bank has assumed a probability of occurrence of 45 percent (FY 2020 and 30 June 2021: 35 percent). The delta variant has been pushing infection rates up significantly compared with the summer, especially in Europe, and giving rise to increasing numbers of breakthrough infections. The consequences have been tighter restrictions on economic life, new lockdowns and disruptions to supply chains. Vaccination rates have plummeted in many industrialised nations. The Omicron variant has also now arrived on the scene, a highly infectious strain that can probably evade in part protection from a vaccination or past infection. As a result of this development, the global recovery is now subject to a high degree of uncertainty. The risk of a global economic crisis has also markedly increased compared with summer.

The following, significant parameters were used for the baseline and global economic crisis scenarios as at 31 December 2021: the changes in GDP, 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 assumption, the largest impact for the calculation of the post-model adjustment will be on the first two years. This is mainly due to the BayernLB Group's portfolio structure and it becoming increasingly harder to forecast future years with certainty.

Assumptions as at the consolidated financial statements for 2020:

Annual average (baseline scenario/ global economic crisis)		2021	2022	2023	2024	2025
Real GDP growth (%)	Germany	3.9/-0.6	1.9/-0.6	1.6/0.6	1.4/0.9	1.3/1.3
Price rise (consumer prices) (%)		2.2/0.7	1.7/-0.3	1.8/0.3	1.9/0.6	1.9/1.2
Unemployment rate (%)		6.5/7.3	6.0/7.6	5.5/7.5	5.2/7.3	5.2/7.3
Leading stock market index (%) - year-end price index		4.9/-19.7	2.9/-13.9	1.9/7.6	0.4/6.6	2.2/7.5
Real GDP growth (%)	Eurozone	3.9/-0.6	1.9/-0.6	1.5/0.5	1.4/0.9	1.3/1.3
Price rise (consumer prices) (%)		1.4/-0.1	1.5/-0.5	1.8/0.3	1.8/0.5	1.8/1.1
Unemployment rate (%)		8.3/9.9	7.7/10.2	7.5/10.3	7.5/10.5	7.5/10.5
Leading stock market index (%) - year-end price index		5.4/-17.5	5.1/-12.6	2.2/7.2	0.5/6.5	2.1/7.4
Real GDP growth (%)	USA	3.0/-1.5	2.0/-0.5	1.8/0.8	1.7/1.2	1.8/1.8
Price rise (consumer prices) (%)		1.5/0.0	1.6/-0.4	1.7/0.2	1.8/0.5	1.9/1.2
Unemployment rate (%)		7.0/9.6	6.0/10.0	5.0/9.6	4.5/9.3	4.5/9.3
Leading stock market index (%) - year-end price index[1]		4.6/-21.2	5.3/-8.8	2.8/9.4	2.2/7.4	2.7/7.6
Capital market interest rates (as at year end) - yields on government bonds (10Y)	Germany Eurozone	(0.1)/-1	0.2/-0.9	0.5/-0.6	0.6/-0.4	0.8/-0.2

1 Baseline scenario adjusted pursuant to IAS 8.42.

Assumptions as at the Group half-yearly financial report for 2021:

Annual average (baseline scenario/ global economic crisis/expansive inflation		2021	2022	2023	2024	2025
Real GDP growth (%)	Germany	3.1/-1.4/3.1	3.1/0.6/2.0	1.7/0.7/1.7	1.4/0.9/1.4	1.3/1.3/1.3
Price rise (consumer prices) (%)		2.1/0.6/4.0	2.2/0.2/4.0	1.9/0.4/1.9	1.9/0.6/1.9	1.9/1.2/1.9
Unemployment rate (%)		6.5/7.6/6.5	6.0/7.7/6.3	5.5/7.5/5.5	5.2/7.3/5.2	5.2/7.3/5.2
Leading stock market index (%) - year-end price index		8.0/-21.2/10.9	3.8/-15.3/3.6	2.8/9.4/2.8	-5.7/5.4/-5.7	4.4/4.8/4.4
Real GDP growth (%)	Eurozone	3.9/-0.6/3.9	3.5/0.9/2.5	1.8/0.8/1.8	1.5/1.0/1.5	1.4/1.4/1.4
Price rise (consumer prices) (%)		1.5/0.0/4.0	1.5/-0.5/4.0	1.9/0.4/1.9	1.9/0.6/1.9	1.9/1.2/1.9
Unemployment rate (%)		8.3/9.9/8.3	7.7/10.2/8.0	7.4/10.2/7.4	7.4/10.4/7.4	7.4/10.4/7.4
Leading stock market index (%) - year-end price index		9.2/-19.5/11.2	3.1/-14.3/3.8	2.5/8.8/2.5	-4.4/5.2/-4.4	4.6/4.7/4.6
Real GDP growth (%)	USA	5.0/0.5/5.0	3.0/0.5/1.8	2.5/1.5/2.5	2.0/1.5/2.0	1.8/1.8/1.8
Price rise (consumer prices) (%)		2.5/1.0/4.0	2.4/0.4/4.0	2.2/0.7/2.2	2.1/0.8/2.1	2.0/1.3/2.0
Unemployment rate (%)		6.2/8.8/5.8	5.4/9.4/4.8	5.0/9.6/5.0	4.5/9.3/4.5	4.0/8.8/4.0
Leading stock market index (%) - year-end price index		9.2/-22.0/10.2	3.7/-13.8/3.4	3.1/9.5/3.1	-4.1/5.8/-4.1	4.8/5.2/4.8
Capital market interest rates (as at year end) - yields on government bonds (10Y)	Germany Eurozone	-0.2/-1/1.7	0.2/-0.9/2.5	0.6/-0.6/0.6	0.9/-0.4/0.9	1.1/-0.2/1.1

Assumptions as at the consolidated financial statements for 2021:

Annual average (baseline scenario/ global economic crisis/expansive inflation		2021	2022	2023	2024	2025
Real GDP growth (%)	Germany	3.1/-1.4/3.1	3.1/0.6/2.0	1.7/0.7/1.7	1.4/0.9/1.4	1.3/1.3/1.3
Price rise (consumer prices) (%)		2.1/0.6/4.0	2.2/0.2/4.0	1.9/0.4/1.9	1.9/0.6/1.9	1.9/1.2/1.9
Unemployment rate (%)		6.5/7.6/6.5	6.0/7.7/6.3	5.5/7.5/5.5	5.2/7.3/5.2	5.2/7.3/5.2
Leading stock market index (%) - year-end price index		8.0/-21.2/10.9	3.8/-15.3/3.6	2.8/9.4/2.8	-5.7/5.4/-5.7	4.4/4.8/4.4
Real GDP growth (%)	Eurozone	3.9/-0.6/3.9	3.5/0.9/2.5	1.8/0.8/1.8	1.5/1.0/1.5	1.4/1.4/1.4
Price rise (consumer prices) (%)		1.5/0.0/4.0	1.5/-0.5/4.0	1.9/0.4/1.9	1.9/0.6/1.9	1.9/1.2/1.9
Unemployment rate (%)		8.3/9.9/8.3	7.7/10.2/8.0	7.4/10.2/7.4	7.4/10.4/7.4	7.4/10.4/7.4
Leading stock market index (%) - year-end price index		9.2/-19.5/11.2	3.1/-14.3/3.8	2.5/8.8/2.5	-4.4/5.2/-4.4	4.6/4.7/4.6
Real GDP growth (%)	USA	5.0/0.5/5.0	3.0/0.5/1.8	2.5/1.5/2.5	2.0/1.5/2.0	1.8/1.8/1.8
Price rise (consumer prices) (%)		2.5/1.0/4.0	2.4/0.4/4.0	2.2/0.7/2.2	2.1/0.8/2.1	2.0/1.3/2.0
Unemployment rate (%)		6.2/8.8/5.8	5.4/9.4/4.8	5.0/9.6/5.0	4.5/9.3/4.5	4.0/8.8/4.0
Leading stock market index (%) - year-end price index		9.2/-22.0/10.2	3.7/-13.8/3.4	3.1/9.5/3.1	-4.1/5.8/-4.1	4.8/5.2/4.8
Capital market interest rates (as at year end) - yields on government bonds (10Y)	Germany Eurozone	-0.2/-1/1.7	0.2/-0.9/2.5	0.6/-0.6/0.6	0.9/-0.4/0.9	1.1/-0.2/1.1

Depending on the scenario and sub-portfolio and based on the assumptions shown, it is anticipated the impacts on the key parameters, such as rating, loss ratio/loss given default (LGD) and collateral values will vary in strength. The effects are initially calculated largely 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 and aviation sub-portfolios and within the real estate portfolio in the case of hotels and shopping centres In addition, expert-based adjustments were made for the first time for the basic resources portfolio and in particular for the steel industry and for the automotive and logistics portfolio. Compared with the consolidated financial statements for 2020, the situation has not markedly changed for the cruise industry. Cruiseline companies have gradually resumed their operations since July 2021. The cash flows generated from this have not been significant, so that they are still experience a marked shortfall in cash flow. The ongoing crisis affecting the shipbuilding sectors is also existential. In the aviation industry, the recovery in passenger number continued into the second half of 2021 thanks to progress made in vaccinating the population and the gradual lifting of restrictions. However, there is once again huge uncertainty about what lies around the corner, especially as a result of the jump in new coronavirus infections, the spreading of the Omicron variant and the potential setbacks that this could bring for the effectiveness of vaccines. In the case of hotels and shopping centres, the negative effects compared with previous assumptions have lagged one year and are generally persisting for longer. Due to the steel industry's dependence on the state of the economy, new orders have plunged and buyers have delayed their decisions on investing. Besides the coronavirus pandemic, the automotive industry is still suffering from supply chain bottlenecks, especially in the case of semi-conductors and the problems arising from economic nationalism. The disruption to supply chains is heavily braking the recovery in the car industry and having negative repercussions on the sectors.

Consequently, the BayernLB Group took account as at 31 December 2021 of the impact of the expected credit losses by setting up risk provisions of EUR 356 million (FY 2020: EUR 325 million) in the form of a post-model adjustment. As at 31 December 2021, these risk provisions included around 45 percent for the Corporates & Markets segment (FY 2020: around 30 percent) and around 35 percent for the DKB segment (FY 2020: around 30 percent). The risk provisions of EUR 356 million include an expert-based management adjustment of EUR 70 million (FY 2020: EUR 35 million), which takes into account the still extreme (and in some cases higher) uncertainty about the current situation with regard to future economic growth. In the Corporates & Markets segment, this applies in particular as a result of potential defaults/company insolvencies and the overshadowing impact of state support measures. In the Real Estate segment, this applies due to risks from joint ventures in projects.

Assuming a probability of occurrence of 100 percent and excluding the expert-based management adjustment, this would result in a post-model adjustment of around EUR 59 million in the baseline scenario and around EUR 564 million in the global economic crisis scenario as at 31 December 2021.

A weighting of 55 percent was applied to the baseline scenario and a weighting of 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 -50.5 million or EUR +50.5 million, respectively.

The support measures granted to borrowers to cope with the coronavirus pandemic, such as payment moratoriums, are described in the risk report.

The macroeconomic scenarios took account of the circumstances present as at the reporting date. The Ukraine crisis and potential secondary effects were not considered as they occurred after the reporting date. For more information about the Ukraine crisis, refer to the management report.

Non-significant modifications

For financial instruments for which the contractually agreed cash flows were modified in the reporting year and whose loss allowance was measured in the amount of the lifetime expected credit losses, the amortised cost before modification amounted to EUR 376 million (FY 2020: EUR 854 million).

The gross carrying amount of financial instruments that were modified when the loss allowance was measured in the amount of the lifetime expected credit losses, and for which the loss allowance was adjusted in the amount of the 12-month expected credit losses in the reporting year, was EUR 32 million (FY 2020: EUR 116 million) as at the reporting date.

Maximum default risk

The following table shows the maximum default risk as at the reporting date for all financial instruments to which the impairment rules pursuant to IFRS 9 are applied. Collateral received or other loan collateral is not taken into account.

EUR million	2021	2020
Cash reserves	17,542	9,342
Loans and advances to banks	56,250	56,166
Loans and advances to customers	157,756	151,177
Financial investments	18,948	20,905
Non-current assets or disposal groups classified as held for sale	65	
Other assets	66	63[1]
Financial guarantees/credit commitments	59,570	58,836
Total	**310,198**	**296,488**

1 As of financial year 2021, the Bank discloses financial assets reported in other assets in respect of which the loss allowance was determined using the general approach. The previous year's figures were restated accordingly.

The BayernLB Group holds collateral to mitigate default risks. The principles for accepting and valuing collateral are embedded in the Bank's collateral policy.

The main types of collateral are real estate liens, which predominantly relate to domestic real estate properties, and guarantees. Guarantees include in particular standby letters of credit, directly enforceable guarantees and export guarantees. The main guarantors are monolines, the public sector and financial institutions, most of which have an investment grade credit rating. Liens are also accepted as collateral, in particular in the form of financial collateral, and transfers of title for collateral purposes and assignments.

Collateral is recognised on the basis of the liquidation value, which corresponds to the expected proceeds of collateral within an orderly realisation. The liquidation value is calculated by taking into account the fair value of the collateral and an expected recovery rate specific to each type of collateral. For guarantees, the liquidation value is calculated on the basis of the recovery rate derived from the credit rating of the respective collateral provider and the size of the guaranteed loan amount.

In addition, the BayernLB Group holds securities as collateral in genuine repurchase agreements (reverse repo transactions). Only liquid marketable securities in currencies usually traded are accepted. The securities are measured at their fair value. Discounts for potential fluctuations in value are taken into account. Both concentration and correlation risk limits have been put in place and are regularly monitored.

In the case of credit-impaired financial assets, the default risk was reduced by collateral received and other loan collateral amounting to EUR 718 million (FY 2020: EUR 598 million). The collateral is broken down as follows:

EUR million	2021	2020
Loans and advances to customers	618	515
Financial guarantees/credit commitments	99	84
Total	**718**	**598**

As at the reporting date, BayernLB had financial instruments for which no loss allowances were made, as they were covered by collateral. Their gross carrying amount related to the following balance sheet line items:

EUR million	2021	2020
Loans and advances to banks	266	27
Loans and advances to customers	33,939	36,072
Financial guarantees/credit commitments	2,449	2,185
Total	**36,654**	**38,285**

The following table shows the maximum default risk as at the reporting date for all financial instruments to which the impairment rules pursuant to IFRS 9 are not applied. Collateral received or other loan collateral is not taken into account.

EUR million	2021	2020
Loans and advances to customers	131	126
Assets held for trading	8,587	11,780
Positive fair values from derivative financial instruments (hedge accounting)	509	876
Financial investments	505	485
Non-current assets or disposal groups classified as held for sale	–	26
Total	**9,732**	**13,294**

Derivatives transactions are often hedged. Collateral is principally in the form of cash in euros. In the case of cash collateral in foreign currencies and collateral in the form of securities, discounts are made to take account of fluctuations in value.

Foreclosure proceedings on written down financial instruments

In the case of financial instruments that were written down in the reporting year but still subject to foreclosure proceedings, the contractual amount outstanding stood at EUR 3 million (FY 2020: EUR 4 million) as at the reporting date.

(77) Collateral received

Certain assets that have been pledged as collateral through securities repurchase transactions may be sold on or repledged even if the collateral provider has not defaulted. As at the reporting date, their fair value was EUR 6,807 million (FY 2020: EUR 10,355 million).

EUR 3,786 million (FY 2020: EUR 7,092 million) of this collateral was either sold on or repledged. An obligation to return this collateral exists.

These transactions were executed at standard market terms and conditions.

As part of its Pfandbrief business, BayernLB purchases municipal claims that are legally eligible as cover funds from the Savings Banks Association. In accordance with the terms, the economic ownership remains with the transferring bank, which continues to recognise the receivable from the respective municipalities in its balance sheet. BayernLB had no obligations to be recognised in the balance sheet as at the reporting date.

(78) Revenue from contracts with customers

The BayernLB Group recognises revenue from contracts with customers in the form of commission and fees from a wide range of services. As a rule, commissions and fees from one-off services are collected at specific points in time and from recurring services over time. Revenue from performance obligations fulfilled at specific points in time is recognised at the time of the transfer of control over the asset (essentially when the service is rendered), and revenue from performance obligations settled over time is recognised in accordance with the progress made. This is determined on the basis of the contract, according to which progress is generally even throughout the performance period. The amount of revenue recognised corresponds to the promised consideration contractually agreed by the customer for the transfer of the services. As a rule, the promised consideration can be clearly allocated to the individual performance obligations contained in the contract.

Depending on the contract, payment in advance or in arrears for the services is agreed with the customer.

In the BayernLB Group, commissions and fees are mainly recognised for the following services:

- *Securities business*
  In the securities business, revenue is generated in particular from securities custody and custody management, execution and settlement of spot and forward transactions, and the placement of Schuldschein note loans. As a rule, revenue from one-off services, such as the settlement of securities transactions, is recognised at a point in time and from recurring services, such as securities custody, over time.

- *Credit business*
  In the credit business, revenue is primarily received from the processing and administration of (syndicated) loans and the provision of guarantee loans. As a rule, one-off processing and syndicate fees are booked at a specific point in time, while revenues from recurring services, such as acting as an agent in a banking syndicate (e.g. as a collateral manager) and the provision of guarantee facilities, are booked over time. BayernLB Group primarily acts as an agent for subsidised loans.

- *Payments*

  In the case of payments, revenue is mainly produced from account management, the processing of transfers, and the collection and redemption of direct debits. As a rule, one-off revenue, such as fees for bank transfers and direct debits, is booked at a point in time, while revenue from recurring services, such as account management, is booked over time.

- *Documentary business*

  In the case of documentary business, revenue is primarily generated from the settlement of payments in international trade using letters of credit. As a rule, revenue from one-off services, such as the opening and processing of letters of credit, is recognised at a point in time, while revenue from recurring services, such as credit confirmations, is recognised over time.

- *Credit card business*

  In the credit card business, income is mainly generated from the issue of credit cards and services associated with credit cards, in particular settlement. As a rule, one-off fees, such as foreign usage fees and cash service fees, are booked at a point in time, while recurring charges, such as cardholder fees, are booked over time. The BayernLB Group primarily acts as an agent when brokering insurance benefits and other ancillary services, and revenue is recognised on a net basis in such cases.

- *Fund business*

  In the fund business, proceeds are primarily received from fund structuring and management, portfolio and asset management, and investor support. As a rule, one-off revenue, such as transaction fees, is recognised at a point in time, while revenue from recurring services, such as fund management, is recognised over time.

- *Trust transactions*

  In the trust transactions business, revenue is mainly generated from the granting and administration of trust loans. As a rule, revenue from one-off administrative cost contributions is recognised at a point in time and from recurring administrative cost contributions over time. In the trust transaction business, the BayernLB Group primarily acts as an agent, and revenue is recognised on a net basis in such cases.

The BayernLB Group makes use of the practical expedient under IFRS 15.63 and refrains from adjusting the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between when the entity transfers a promised service to the customer and when the customer pays for that service will be one year or less.

Breakdown of revenues

Revenue from contracts with customers booked to net commission income is broken down as follows:

EUR million	2021	2020
Commission income	**818**	**741**
Securities business	120	114
Credit business	185	188
Payments	60	44
Documentary business	7	7
Credit card business	172	165
Fund business	223	175
Trust transactions	16	16
Other	36	33
Commission expenses	**(356)**	**(340)**
Securities business	(70)	(65)
Broker fees	(6)	(7)
Credit business	(9)	(9)
Payments	(56)	(59)
Documentary business	(1)	–
Credit card business	(116)	(126)
Fund business	(94)	(68)
Other	(4)	(6)
Total	**462**	**401**

In the reporting year, revenue from contracts with customers of EUR 8 million (FY 2020: EUR 8 million) and related expenses of EUR 1 million (FY 2020: EUR 2 million) for various services, in particular IT and financial services, were recognised in other income and expenses.

The segment report (see note 27) shows net commission income and other income and expenses for each business segment of the BayernLB Group. This is presented in each case as a net figure consisting of commission income, commission expenses, other income and other expenses, and includes the revenue recognised from contracts with customers in accordance with IFRS 15.

Contract balances

The following table shows the opening and closing balances of receivables and contract liabilities from contracts with customers.

EUR million	2021	2020
Loans and advances	56	58
Contract liabilities	2	2

A receivable is recognised when invoiced by the BayernLB Group. Contract liabilities are shown in the case of payments received in advance and recognised in instalments over the period during which the service is rendered.

In the reporting year, revenue in the amount of EUR 2 million (FY 2020: EUR 0 million) was recognised that was included in the contract liability balance at the beginning of the period.

Transaction price allocated to remaining performance obligations

The BayernLB Group has made use of the practical expedient under IFRS 15.121 to refrain from disclosing the transaction price allocated to the remaining performance obligations for contracts with an original expected duration of one year or less and for contracts from which revenue can be recognised for simplification purposes in accordance with IFRS 15.B16 in the amount to which the entity has a right to invoice.

Capitalised costs

The BayernLB Group makes use of the practical expedient under IFRS 15.94 and recognises the incremental costs of obtaining a contract with a customer as an expense when incurred if the amortisation period will be one year or less.

(79) Leasing

The BayernLB Group as lessee

BayernLB Group's existing leasing activities mainly involve the leasing of office and parking spaces, vehicles, IT devices and other assets. The leases provide the Bank with flexibility it would not have if it had purchased the underlying assets, including the option to extend or terminate and, where applicable, to replace leased assets on a regular basis.

In the reporting year, one Group company concluded a lease of over 15 years for an office building complex in Berlin. This company will set up its future head office here. The lease is expected to begin in 2025. Future lease payments from this non-cancellable lease will amount to EUR 4 million in 2025 and then EUR 15 million for each of the following years.

Right-of-use assets

EUR million	2021	2020
Property, plant and equipment	124	150
Total	**124**	**150**

Breakdown of the carrying amount of the right-of-use assets recognised under property, plant and equipment by class of underlying assets

EUR million	2021	2020
Property	121	145
Furniture and office equipment	2	2
Other assets	1	2
Total	**124**	**150**

Additions to right-of-use assets stood at EUR 7 million in the reporting year (FY 2020: EUR 35 million).

Breakdown of the depreciation amount of the right-of-use assets by class of underlying assets

EUR million	2021	2020
Property[1]	(24)	(24)
Furniture and office equipment	(2)	(1)
Other assets	(1)	(1)
Total	**(26)**	**(26)**

1 Not including investment property.

Lease liabilities

EUR million	2021	2020
Other liabilities	126	152
Total	**126**	**152**

Interest expenses for lease liabilities amounted to EUR 0 million in the reporting year (FY 2020: EUR 1 million).

No lease liabilities were recognised for short-term leases or for leases where the underlying asset is of low value. Instead, lease payments associated with these leases were recognised as expenses. In the reporting year, the costs for short-term leases stood at EUR 0 million (FY 2020: EUR 1 million), while for leases where the underlying asset is of low value the costs were EUR 1 million (FY 2020: EUR 2 million). The total cash outflow for leases amounted to EUR 26 million in the reporting year (FY 2020: EUR 27 million).

The BayernLB Group as lessor

In the reporting year the BayernLB Group was a lessor in respect of operating leases. The leased property was real estate.

Breakdown of lease payments by maturity

EUR million	2021	2020
Residual maturities		
Up to 1 year	2	3
Between 1 year and 2 years	2	3
Between 2 years and 3 years	2	3
Between 3 years and 4 years	2	3
Between 4 years and 5 years	2	3
More than 5 years	10	15
Total	**21**	**31**

The total cash outflow for leases amounted to EUR 4 million in the reporting year (FY 2020: EUR 4 million)

(80) Trust transactions

EUR million	2021	2020
Assets held in trust	**5,744**	**5,552**
Loans and advances to banks	418	304
Loans and advances to customers	5,325	5,248
Liabilities held in trust	**5,744**	**5,552**
Liabilities to banks	436	315
Liabilities to customers	5,307	5,237

(81) Contingent assets, contingent liabilities and other commitments

EUR million	2021	2020
Contingent liabilities	**11,742**	**11,373**
Liabilities from guarantees and indemnity agreements	11,741	11,373[1]
Other contingent liabilities	1	1
Other commitments	**29,224**	**28,945**
Irrevocable credit commitments	29,224	28,945[1]
Total	**40,966**	**40,319**

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

Contingent liabilities and other commitments are for the most part potential liabilities arising from the occurrence of an uncertain future event whose settlement amount and date cannot be reliably estimated.

EUR 8,943 million (FY 2020: EUR 8,888 million) of contingent liabilities and EUR 13,259 million (FY 2020: EUR 15,122 million) of other commitments are due after more than 12 months.

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

In December 2021, BayernLB announced that the resolution of HETA Asset Resolution AG (HETA) will be ended in accordance with the Austrian Federal Act on the Restructuring and Resolution of Banks (BaSAG) and a liquidation process for HETA will be initiated under the Austrian Companies Act. BayernLB is expecting liquidation proceeds from this process based on HETA's winding down plan up to 2030.

(82) Other financial obligations

Other financial obligations arise principally from agency, rental, leasing, usage, service, maintenance, consulting and marketing agreements.

As at the end of the reporting period, there were call commitments for capital not fully paid up of EUR 6 million (FY 2020: EUR 6 million) and uncalled liabilities from German limited partnership (Kommanditgesellschaft) interests of EUR 15 million (FY 2020: EUR 15 million). Liabilities to subsidiaries not incorporated in the consolidated financial statements totalled EUR 20 million (FY 2020: EUR 20 million).

As at the reporting date, the BayernLB Group had EUR 250 million (FY 2020: EUR 187 million) of irrevocable payment obligations in connection with the bank levy and deposit guarantee scheme. Cash collateral of EUR 132 million (FY 2020: EUR 98 million) and securities collateral of EUR 118 million (FY 2020: EUR 89 million) were provided for these obligations (see note 72).

The annually calculated target volume of funds for the deposit guarantee scheme must be achieved by 3 July 2024 in accordance with the German Deposit Guarantee Act. But due to BayernLB's decoupling from DKB with respect to contributions in financial year 2021 (rescission of letter of comfort, termination of control and profit and loss transfer agreement), BayernLB already achieved its target volume in the reporting year. It is therefore currently expected that BayernLB will not need to make any further contribution up to 2021.

BayernLB had indicated that it would reimburse the deposit insurance fund run by the Association of German Public Banks, VÖB, e. V. for all payments made pursuant to the statutes on behalf of DKB to cover proven defaults as the fund is unable to enforce its rights of recourse against DKB. As a result of the aforementioned decoupling, this declaration in financial year 2021 was revoked with immediate effect, resulting in the extinguishing of the associated obligations.

(83) Letters of comfort

Expiry of the letter of comfort for Deutsche Kreditbank Aktiengesellschaft as at 30 November 2021 and 19 August 2021

BayernLB rescinded and cancelled its letter of comfort to DKB with effect from the end of 30 November 2021. BayernLB rescinded the letter of comfort to the creditors of DKB with whom no contractual relationship with DKB yet existed as at the end of 19 August 2021, with effect from 19 August 2021. As of 20 August 2021, new customers of DKB are unable to call on the letter of comfort. BayernLB also accordingly rescinds Investments in large limited companies and cancels all letters of comfort in favour of DKB that were published in the past in its annual reports or communicated through a different channel.

Expiry of the letter of comfort for Banque LBLux S.A. (since renamed Banque LBLux S.A. in Liquidation), Luxembourg as at 1 May 2015

BayernLB previously issued a letter of comfort for Banque LBLux S.A. (since renamed Banque LBLux S.A. in Liquidation), Luxembourg. This letter of comfort was rescinded with effect from the end of 30 April 2015. As a result, the letter of comfort will in particular no longer cover liabilities of Banque LBLux S.A. (since renamed Banque LBLux S.A. in Liquidation) that were created after 30 April 2015, and all previously issued letters were also rescinded.

(84) Shareholdings

Name and location of the investee	Invest-ment	Percent-age held	Equity/ fund assets in EUR k	Earnings in EUR k
Consolidated subsidiaries				
BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich[1]	Direct	100.0	18,754	–
Deutsche Kreditbank Aktiengesellschaft, Berlin	Direct	100.0	3,835,913	–
Subsidiaries included in the Deutsche Kreditbank Aktiengesellschaft sub-group:				
Bayern Card-Services GmbH - S-Finanzgruppe, Munich	Indirect	50.1	30,583	6,252
DKB Finance GmbH, Berlin	Indirect	100.0	17,623	–
DKB Grund GmbH, Berlin	Indirect	100.0	100	–
DKB Service GmbH, Potsdam	Indirect	100.0	7,100	–
FMP Forderungsmanagement Potsdam GmbH, Potsdam	Indirect	100.0	12,150	–
MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin	Indirect	100.0	3,299	189
PROGES EINS GmbH, Berlin	Indirect	100.0	1,480	–
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich[1]	Direct	100.0	45,455	–
Subsidiaries included in the Real I.S. AG Gesellschaft für Immobilien Assetmanagement sub-group:				–
Real I.S. Investment GmbH, Munich	Indirect	100.0	4,500	–
Consolidated structured entities				
DKB Nachhaltigkeitsfonds EUROPA AL, L - Luxembourg	Indirect	75.0	96,940	30,106
DKB Nachhaltigkeitsfonds Klimaschutz AL, L - Luxembourg	Indirect	48.0	93,800	30,396
DKB Nachhaltigkeitsfonds SDG AL, L - Luxembourg	Indirect	61.6	62,954	18,430
Non-consolidated subsidiaries				
Banque LBLux S.A. i.L., L - Luxembourg	Direct	100.0	37,045	(5,642)
Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich	Indirect	94.5	(2,687)	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH & Co. Objekt Fürth KG, Munich	Indirect	100.0	–	–
Bavaria Immobilien-Beteiligungs-Gesellschaft mbH, Munich	Indirect	100.0	18	4
Bayerische Landesbank Europa-Immobilien-Beteiligungs-GmbH, Munich	Indirect	100.0	109	–
Bayerische Landesbank Immobilien-Beteiligungs-Gesellschaft mbH & Co. KG, Munich	Direct	100.0	50,846	4,207
Bayerische Landesbank Immobilien-Beteiligungs-Verwaltungsgesellschaft mbH, Munich	Direct	100.0	68	4
Bayern Bankett Gastronomie GmbH, Munich[1]	Direct	100.0	514	–
Bayern Corporate Services GmbH, Munich	Indirect	100.0	205	–
Bayern Facility Management GmbH, Munich[1]	Direct	100.0	2,560	–
Bayernfonds Immobilien Concept GmbH i.L., Munich	Indirect	100.0	5	(13)
Bayernfonds Immobiliengesellschaft mbH, Munich	Direct + indirect	100.0	6,705	47
Bayernfonds Kambera GmbH, Munich	Indirect	100.0	25	–
Bayernfonds Opalus GmbH, Munich	Indirect	100.0	25	–
BayernImmo 2019 Joint Venture Verwaltungs GmbH, Munich	Indirect	100.0	25	–
BayernImmo 2. Joint Venture Verwaltungs GmbH, Munich	Indirect	100.0	12	(2)
BayernInvest Luxembourg S.A., L - Munsbach	Indirect	100.0	1,998	161

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
BayernLB Capital Partner GmbH, Munich	Direct	100.0	1,431	27
BayernLB Capital Partner Verwaltungs-GmbH, Munich	Direct	100.0	50	1
BayernLB DP GmbH, Munich[2]	Direct	100.0		
BayernLB Mittelstandsfonds GmbH & Co. Unternehmensbeteiligungs KG i.L., Munich	Direct + indirect	100.0	4,975	(8,994)
BayernLB Private Equity GmbH i.L., Munich	Direct	100.0	1,760	(228)
BayTech Venture Capital II GmbH & Co. KG i.L., Munich	Indirect	100.0	179	266
BayTech Venture Capital Initiatoren GmbH & Co. KG i.L., Munich	Indirect	46.8	33	(3)
Berchtesgaden International Resort Betriebs GmbH, Munich[1]	Direct	100.0	9,368	–
BGV IV Verwaltungs GmbH, Munich	Indirect	100.0	42	(4)
BGV V Verwaltungs GmbH, Munich	Indirect	100.0	46	6
BGV VI Verwaltungs GmbH, Munich	Indirect	100.0	45	11
BGV VII Europa Verwaltungs GmbH, Munich	Indirect	100.0	41	6
BLB-Beteiligungsgesellschaft Sigma mbH, Munich[1]	Direct	100.0	971	–
BLB-VG22-Beteiligungsgesellschaft mbH, Munich	Direct	100.0	535	36
DKB BayernImmo Beteiligungs GmbH & Co. KG, Munich	Indirect	100.0	7,465	1,744
DKB Campus GmbH, Berlin	Indirect	100.0	450	–
DKB Code Factory GmbH, Berlin	Indirect	100.0	800	–
DKB Immobilien Beteiligungs GmbH, Potsdam	Indirect	100.0	2,216	207
DKB STIFTUNG Jugenddörfer gemeinnützige GmbH, Fürth[3]		100.0	99	(318)
DKB Stiftung Liebenberg gGmbH, Löwenberger Land OT Liebenberg[3]		100.0	472	292
DKB Stiftung Schloss Liebenberg GmbH, Fürth[3]		100.0	66	281
DKB Wohnen GmbH, Berlin	Indirect	100.0	25	–
DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin	Indirect	100.0	2,500	–
GbR Olympisches Dorf, Potsdam	Indirect	100.0	1,080	1,080
German Centre for Industry and Trade Shanghai Co. Ltd., PRC - Shanghai	Indirect	100.0	38,622	1,525
German Centre for Industry and Trade Taicang Co. Ltd., PRC - Taicang	Indirect	100.0	2,445	(214)
German Centre Limited, BVI - Tortola	Direct	100.0	26,151	1,417
gewerbegrund AIRPORT GmbH Beteiligungsgesellschaft, Munich	Indirect	100.0	50	(3)
gewerbegrund Bauträger GmbH & Co. Objekt IGG KG, Munich	Indirect	100.0	1	66
gewerbegrund Projektentwicklungsgesellschaft (gpe) mbH, Munich	Direct	100.0	13,030	11,280
Global Format GmbH & Co. KG, Munich	Direct	52.4	2,199	35
Global Format Verwaltungsgesellschaft mbH, Munich	Indirect	100.0	33	1
LB Immobilienbewertungsgesellschaft mbH, Munich[1]	Direct	100.0	827	–
LB-RE S.A., L - Luxembourg	Indirect	100.0	5,029	(95)

Name and location of the investee	Invest-ment	Percent-age held	Equity/ fund assets in EUR k	Earnings in EUR k
Oberhachinger Bauland GmbH, Wohnbau- und Erschließungsgesellschaft, Munich	Indirect	100,0	(4)	5
Potsdamer Immobiliengesellschaft mbH, Potsdam	Indirect	100,0	92	(48)
PROGES DREI GmbH, Berlin	Indirect	100.0	1,234	(27)
PROGES ENERGY GmbH, Berlin	Indirect	100.0	1,027	106
PROGES Sparingberg GmbH, Berlin	Indirect	100.0	616	(26)
PROGES VIER GmbH, Berlin	Indirect	100.0	232	(158)
PROGES ZWEI GmbH, Berlin	Indirect	100.0	3,105	155
Real I.S. Australia 10 STC Pty. Ltd., AUS - Sydney	Indirect	100.0	–	–
Real I.S. Australia 10 Subtrust, AUS - Sydney	Indirect	100.0	21,513	336
Real I.S. Australia 10 TC Pty. Ltd., AUS - Sydney	Indirect	100.0	–	–
Real I.S. Australia 10 Trust, AUS - Sydney	Indirect	100.0	21,126	(309)
Real I.S. Australia Pty. Ltd., AUS - Sydney	Indirect	100.0	769	110
Real I.S. Australien 10 GmbH & Co. KG, Munich	Indirect	100.0	21,509	(1,023)
Real I.S. Beteiligungs GmbH, Munich	Indirect	100.0	104	6
Real I.S. Finanz GmbH, Munich[1]	Direct	100.0	25	–
Real I.S. Fonds Service GmbH, Munich[1]	Direct	100.0	168	(9)
Real I.S. France SAS, F - Paris	Indirect	100.0	2,369	912
Real I.S. Fund Management GmbH, Munich	Indirect	100.0	80	5
Real I.S. Gesellschaft für Immobilienmanagement mbH & Co. KG, Munich	Indirect	100.0	5,937	56
Real I.S. Gesellschaft für Immobilienmanagement und Verwaltung mbH, Munich	Indirect	100.0	59	3
Real I.S. GREF Verwaltungs GmbH, Munich	Indirect	100.0	12	(4)
Real I.S. Management Hamburg GmbH, Munich	Indirect	100.0	29	–
Real I.S. Management SA, L - Munsbach	Indirect	100.0	365	43
Real I.S. Property Management GmbH, Munich[2]	Indirect	100.0		
Real I.S. SMART Verwaltungs GmbH, Munich	Indirect	100.0	10	(5)
SEPA/Real I.S. Objekt Bruchsal Rathausgalerie Verwaltungs-GmbH i.L., Munich	Indirect	100.0	38	(2)
TEGES Grundstücks-Vermietungsgesellschaft mbH, Berlin	Indirect	100.0	26	1
TEGES Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Berlin KG, Berlin	Indirect	94.0	(6,028)	344
TFD und BGV VI Verwaltungs GmbH, Munich	Indirect	100.0	9	(4)
TFD und RFS Verwaltungs GmbH, Munich	Indirect	100.0	11	(5)
TFD Verwaltungs GmbH, Munich	Indirect	100.0	13	(2)
Joint ventures not measured at equity				
ABG Allgemeine Bauträger- und Gewerbeimmobiliengesellschaft mbH, Munich	Indirect	50.0	61	–
AKG ImmoPlus GmbH, Berlin	Indirect	50.0	835	276
BayernImmo 1. Joint Venture Verwaltungs GmbH, Munich	Indirect	50.0	13	(2)
BayernImmo 2019. Joint Venture GmbH & Co. KG, Munich	Indirect	50.0	19,615	600
BayernImmo Böhmisches Viertel Beteiligungs GmbH & Co. KG, Munich	Indirect	50.0	12,091	(62)
CommuniGate Kommunikationsservice GmbH, Passau	Indirect	50.0	4,870	998
Einkaufs-Center Györ Verwaltungs G.m.b.H., Hamburg	Indirect	50.0	29	2
German Centre for Industry and Trade India Holding-GmbH i.L., Munich	Direct	50.0	30	(13)

Name and location of the investee	Invest-ment	Percent-age held	Equity/ fund assets in EUR k	Earnings in EUR k
GHM MPP Reserve GmbH, Regenstauf	Indirect	50.0	346	(3)
GHM MPP Verwaltungs GmbH, Regenstauf	Indirect	50.0	21	2
MTI Main-Taunus Immobilien GmbH, Bad Homburg v.d.H.	Indirect	50.0	53	(3)
S-Karten-Service-Management GmbH - Saarbrücken - München, Munich	Indirect	50.0	100	(1)
Associates not measured at equity				
Bayerngrund Grundstücksbeschaffungs- und -erschließungs-Gesellschaft mit beschränkter Haftung, Munich	Direct	50.0	7,092	(166)
Bayern Mezzaninekapital Fonds II GmbH & Co. KG Unternehmensbeteiligungsgesellschaft, Munich	Direct	40.0	3,286	(693)
Bayern Mezzaninekapital Verwaltungs GmbH, Munich	Direct	49.0	53	1
GHM Holding GmbH, Regenstauf	Indirect	40.0	17,170	(10)
RSU Rating Service Unit GmbH & Co. KG, Munich	Direct	20.0	9,693	632
Unconsolidated structured entities				
Baserepo No. 1 S.A., L - Luxembourg[4]			31	–
BayernInvest ESG Corporate Bond Klimaschutz Fonds, Munich[2]	Direct	54.4		
BayernInvest Euro Corporates Non-Fin Fonds, Munich	Direct	31.2	48,430	(56)
BayernInvest Real I.S. 3-Fonds, Munich	Indirect	27.9	32,046	164
DKB Stiftung für gesellschaftliches Engagement, Löwenberger Land OT Liebenberg[4]			16,136	(298)
EK-Fonds der BayernInvest, Munich	Indirect	100.0	20,342	46
ESG High Yield EURO Fonds, Luxembourg	Direct	18.6	67,843	4
Rosata GmbH & Co. Objekt Hammergarten KG, Bad Homburg v.d.H.[4]			–	2,381
Other investees				
AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main	Direct	7.2	261,565	8,372
BayBG Bayerische Beteiligungsgesellschaft mbH, Munich	Direct	12.9	244,646	2,274
Bayerische Garantiegesellschaft mbH für mittelständische Beteiligungen, Munich	Direct	8.2	57,390	2,016
Bayernfonds Asia-Pacific Growth GmbH & Co. KG, Munich	Indirect	0.1	8,437	336
Bayernfonds Immobilien City-Investitionen Objekte Erfurt und Jena KG, Munich	Indirect	5.1	20,054	656
Bayernfonds Immobilien Dresden Bürozentrum Falkenbrunnen KG, Munich	Indirect	–	18,003	1,012
Bayernfonds Immobilien Fachmarktzentrum Erfurt, Leipziger Straße KG, Munich	Indirect	0.2	3,032	508
Bayernfonds Immobilien Jena Gewerbepark KG, Munich	Indirect	0.1	9,034	558
Bayernfonds Immobilienverwaltung Austria Objekt Bischofshofen KG i.L., Munich	Indirect	–	–	(298)
Bayernfonds Immobilienverwaltung Austria Objekte Salzburg und Wien KG, Munich	Indirect	0.1	–	(83)
Bayernfonds Immobilienverwaltung GmbH & Co. Australien 8 KG, Munich	Indirect	–	78,820	3,021
Bayernfonds Immobilienverwaltung GmbH & Co. Australien 9 KG, Munich	Indirect	–	75,435	2,384

Name and location of the investee	Investment	Percentage held	Equity/ fund assets in EUR k	Earnings in EUR k
Bayernfonds Immobilienverwaltung GmbH & Co. Hamburg Steindamm KG, Munich	Indirect	0.3	15,773	885
Bayernfonds Immobilienverwaltung GmbH & Co. Kambera KG, Munich	Indirect	–	132,429	9,691
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt Hamburg 3 KG, Munich	Indirect	5.3	20,850	347
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt Hamburg I KG, Munich	Indirect	0.3	7,059	–
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt München KG, Munich	Indirect	0.3	8,377	(294)
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt München Landsberger Straße KG, Munich	Indirect	0.3	20,442	1,154
Bayernfonds Immobilienverwaltung GmbH & Co. Objekt München Ungerer Straße KG, Munich	Indirect	0.3	11,556	271
Bayernfonds Immobilienverwaltung GmbH & Co. Opalus KG, Munich	Indirect	–	270	6,538
Bayernfonds Immobilienverwaltung GmbH & Co. Regensburg KG, Munich	Indirect	0.3	27,981	1,295
Bayernfonds Immobilienverwaltung GmbH & Co. Ungarn Objekt Györ KG, Munich	Indirect	0.2	9,678	1,381
Bayernfonds Immobilienverwaltung Objekt Berlin Schönhauser Allee Arcaden KG, Munich	Indirect	5.7	(424)	1,949
Bayernfonds Immobilienverwaltung Objekt Düsseldorf Bonneshof GmbH & Co. KG, Munich	Indirect	0.3	21,628	814
Bayernfonds Immobilienverwaltung Objekte München, Berlin, Wiesbaden KG, Munich	Indirect	–	9,041	(64)
Bayernfonds Immobilienverwaltung Objekt Wiesbaden, Hagenauer Straße 42, 44 und 46 KG, Munich	Indirect	5.1	11,635	(222)
Bayernfonds Pacific Growth GmbH & Co. KG, Munich	Indirect	–	15,470	328
BGV Bayerische Grundvermögen III SICAV-FIS, L - Luxembourg	Indirect	–	96,373	9,953
BGV Holding GmbH & Co. KG, Munich	Indirect	–	7,267	(6,993)
BGV III Feeder 1 S.C.S. SICAV-FIS, L - Luxembourg	Indirect	0.1	60,736	6,616
BGV IV PARIS 1 SCI, F - Paris	Indirect	–	5,886	109
BGV V LYON 1 SCI, F - Paris	Indirect	–	17,969	(910)
BGV V Paris 1 SCI , F - Paris	Indirect	–	2,272	(71)
BGV V PARIS 2 SCI, F - Paris	Indirect	–	20,756	(994)

Name and location of the investee	Invest-ment	Percent-age held	Equity/ fund assets in EUR k	Earnings in EUR k
BGV V ST GENEVIEVE 1 SCI, F - Paris	Indirect	–	3,399	(1,077)
BGV VI FAUBOURG SCI, F - Paris	Indirect	–	21,030	924
BGV VI Servon SCI, F - Paris	Indirect	–	13,301	(829)
CLS Group Holdings AG, CH - Zurich	Direct	0.7	530,175	(2,700)
Deutsche WertpapierService Bank AG, Frankfurt am Main	Direct	3.7	258,792	47,356
DKB Wohnimmobilien Beteiligungs GmbH & Co. KG, Potsdam	Indirect	5.1	36,746	2,854
Fondsbörse Deutschland Beteiligungsmakler AG, Hamburg	Indirect	12.5	4,439	885
Galintis GmbH & Co. KG, Frankfurt am Main	Direct	15.9	533,113	(202)
GbR Datenkonsortium OpRisk, Bonn[2,5]	Direct	-		
GESO Gesellschaft für Sensorik, Geotechnischen Umweltschutz und mathematische Modellierung mbH i.I., Jena	Indirect	43.1	(353)	–
GLB GmbH & Co. OHG, Frankfurt am Main	Direct	6.3	2,777	(61)
GLB-Verwaltungs-GmbH, Frankfurt am Main	Direct	6.2	60	2
JFA Verwaltung GmbH, Leipzig	Indirect	10.7	(12,982)	(122)
KGAL GmbH & Co. KG, Grünwald	Direct	3.4	83,732	21,435
Kreditgarantiegemeinschaft des bayerischen Gartenbaus GmbH, Munich	Direct	6.1	649	–
Kreditgarantiegemeinschaft des bayerischen Handwerks GmbH, Munich	Direct	9.9	4,846	–
Kreditgarantiegemeinschaft des Hotel- und Gaststättengewerbes in Bayern GmbH, Munich	Direct	6.9	4,359	–
Kreditgarantiegemeinschaft für den Handel in Bayern GmbH, Munich	Direct	5.8	6,317	–
LEG Wohnpark am Olympischen Dorf Grundstücksgesellschaft b.R., Berlin	Indirect	7.5	2,443	127
MVP Fund II GmbH & Co. KG, Munich	Direct	10.0	51,783	(1,521)
Neue Novel Ferm Verwaltungs GmbH, Berlin	Indirect	49.0	7	(2)
Novel Ferm Brennerei Dettmannsdorf GmbH & Co. KG, Berlin	Indirect	49.0	3,959	(12)
PARIS EDEN MONCEAU SCI, F - Paris	Indirect	–	47,824	(587)
RAC 2 N.V., B - Woluwe-Saint-Pierre	Indirect	–	5,920	(92)
Real Exchange AG, Hamburg	Indirect	15.0	489	(562)
Real I.S. Grundvermögen GmbH & Co. geschlossene Investment-KG, Munich	Indirect	5.4	87,886	5,448
Real I.S. Institutional Real Estate 1 GmbH & Co. geschlossene Investment-KG, Munich	Indirect	–	65,301	2,355
Real I.S. Westbahnhof Wien GmbH & Co. geschlossene Investment-KG, Munich	Indirect	–	68,604	2,902
S CountryDesk GmbH, Cologne[6]	Direct	2.5	704	140
SIZ GmbH, Bonn	Direct	5.0	6,551	610
Sophia Euro Lab S.A.S. i.L., F - Sophia Antipolis Cedex	Indirect	32.3	(195)	(33)
SOUTH CITY OFFICE FONSNY S.A., B - Watermael-Boitsfort	Indirect	–	26,489	859
Swiss Fintech AG, CH - Zurich	Indirect	3.8	10,724	(5,301)
TAG Wohnungsgesellschaft Berlin-Brandenburg mbH, Potsdam	Indirect	5.2	22,968	4,292
THE GREEN CORNER S.A., B - Woluwe-Saint-Pierre	Indirect	-	5,602	(279)

Name and location of the investee	Invest-ment	Percent-age held	Equity/ fund assets in EUR k	Earnings in EUR k
True Sale International GmbH, Frankfurt am Main	Direct	7.7	4,624	(240)
Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	10,689	(1.174)
Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich	Direct	100.0	27,878	3.416
Visa Inc., USA - San Francisco	Direct + Indirect	–	32,463,080	10,632,179

1 A profit and loss transfer agreement has been concluded with the company.
2 Approved annual accounts are not available yet.
3 Control through a structured entity of the BayernLB Group.
4 Structured entity under IFRS 10 with no equity interests held by the BayernLB Group.
5 Share of voting rights: the BayernLB Group 11.1 percent, third parties 88.9 percent.
6 Share of voting rights: the BayernLB Group 2.6 percent, third parties 97.4 percent.

Investments in large limited companies (including credit institutions and investment companies) exceeding 5 percent of the voting rights

Name and location of the investee
AKA Ausfuhrkredit Gesellschaft mbH, Frankfurt am Main
BayBG Bayerische Beteiligungsgesellschaft mbH, Munich
Bayerische Garantiegesellschaft mbH für mittelständische Beteiligungen, Munich
Bayern Card-Services GmbH - S-Finanzgruppe, Munich
Bayern Facility Management GmbH, Munich
BayernInvest Kapitalverwaltungsgesellschaft mbH, Munich
BayernInvest Luxembourg S.A., L - Munsbach
Deutsche Kreditbank Aktiengesellschaft, Berlin
DKB Service GmbH, Potsdam
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich
Real I.S. Investment GmbH, Munich

Companies for which BayernLB or a consolidated subsidiary acts as a partner with unlimited liability

Name and domicile of the companies
ABAKUS GbR, Hannover
GbR Datenkonsortium OpRisk, Bonn
GLB GmbH & Co. OHG, Frankfurt am Main

(85) Unconsolidated structured entities

The BayernLB Group maintains business relationships with structured entities. These are contractual and non-contractual business relationships with entities which are structured so that they are not controlled by voting or comparable rights, with voting rights relating only to administrative tasks. The structured entity's relevant activities are directed by means of contractual arrangements.

Some of the main features common to structured entities are:
- restricted activities
- a narrow and precisely defined purpose
- insufficient equity to fund their own activities

- funding in the form of multiple instruments contractually linked to investors that pool together credit or other risks (tranches)

The BayernLB Group’s interests in unconsolidated structured entities include debt or equity instruments, liquidity facilities, guarantees and various derivative instruments through which the BayernLB Group absorbs risks from unconsolidated structured entities.

Securitisation vehicles

The BayernLB Group’s business activities with securitisation vehicles is mainly in the form of securitisations structured for customers (customer transactions) with the ABCP programme Corelux S.A., Luxembourg that was set up exclusively for this purpose. The securitisation vehicle Corelux S.A. purchases trade and leasing receivables from the BayernLB Group’s core customers and funds them by issuing asset-backed securities and through credit facilities from BayernLB. This financing had a weighted average term of three years (FY 2020: two years). The value of the unconsolidated securitisation vehicles with which the BayernLB Group has business relationships is based on the sum of their assets and was EUR 1,626 million (FY 2020: EUR 5,136 million).

Investment funds

The BayernLB Group invests in funds launched by its investment companies Real I.S. and BayernInvest. As a member of the Savings Banks Finance Group, Real I.S. is the BayernLB Group’s asset manager and fund service provider for real estate. It invests to a limited extent in equity instruments, for example, in its capacity as a managing limited partner. In certain cases it extends loans to the investment company’s special funds. BayernInvest is the centre of expertise for institutional asset management within the BayernLB Group and a master investment company. Equity interests in certain special funds exist to an insignificant extent. These investments are usually secured by the fund’s underlying pool of assets. The weighted average term of funding for investment funds was 9 years (FY 2020: nine years). The value of the investment funds with which the BayernLB Group has business relationships is based on their fund assets and was EUR 341,003 million (FY 2020: EUR 381,013 million).

Other financing

The BayernLB Group lends to structured entities which may hold a wide variety of assets. In all cases these loans are secured by these assets. This includes commercial real estate, property, project and leasing financing, as well as fund-based financing of commercial real estate. This financing had a weighted average term of eight years (FY 2020: nine years). The size of the structured entities in the form of other financing is based on the sum of their assets and was EUR 9,096 million (FY 2020: EUR 8,894 million).

Assets and liabilities from interests in unconsolidated structured entities recognised on the balance sheet

	Securitisation vehicles		Investment funds		Other financing		Total	
EUR million	2021	2020	2021	2020	2021	2020	2021	2020
Assets								
Loans and advances to customers	618	900	3,969	3,662	2,289	1,564	**6,876**	**6,126**
Risk provisions	–	–	5	16	51	19	**56**	**35**
Assets held for trading	–	181	19	16	24	38	**43**	**235**
Financial investments	11	75	40	38	239	195	**290**	**308**
Other assets	–	–	38	35	–	–	**38**	**35**
Liabilities								
Liabilities to customers	22	102	3,173	5,070	97	110	**3,292**	**5,283**
Liabilities held for trading	1	–	7	38	1	2	**8**	**39**
Provisions	–	–	–	–	3	3	**3**	**3**

Contingent liabilities and other liabilities from interests in unconsolidated structured entities

	Securitisation vehicles		Investment funds		Other financing		Total	
EUR million	2021	2020	2021	2020	2021	2020	2021	2020
Contingent liabilities	–	–	166	15	–	3	**166**	**18**
Other commitments	1,022	962	48	351	231	328	**1,301**	**1,641**

The maximum risk of loss the BayernLB Group is exposed to from its business activities with structured entities depends on the carrying amount of receivables from the credit business, assets held for trading and financial investments on their balance sheets. These carrying amounts do not reflect the BayernLB Group's economic risk as they do not take account of collateral or hedges.

The maximum risk of loss of off-balance sheet transactions is reflected by their nominal value. The nominal values do not represent the economic risk as they do not take account of the impact of collateralisation or securitisation, or the probability of losses that could arise.

Gains or losses on interests in unconsolidated structured entities

EUR million	Securitisation vehicles 2021	Securitisation vehicles 2020	Investment funds 2021	Investment funds 2020	Other financing 2021	Other financing 2020	Total 2021	Total 2020
Net interest income	15	18	116	88	43	51	**174**	**157**
Risk provisions	1	–	14	(6)	2	(25)	**17**	**(31)**
Net commission income	5	4	221	177	1	3	**227**	**184**
Gains or losses on fair value measurement	–	2	39	(43)	33	(82)	**72**	**(124)**
Gains or losses on hedge accounting	–	–	(13)	2	–	–	**(13)**	**2**
Gains or losses on derecognised financial assets	–	–	–	–	–	4	**–**	**4**
Gains or losses on financial investments	–	–	(1)	–	–	–	(1)	–
Other income and expenses	–	–	1	1	–	–	**1**	**1**

(86) Capital management

The aim of capital management is to preserve capital over the long term.

Capital management is based on a Group-wide planning process that incorporates strategic, risk-based and regulatory factors into a multi-year operational plan (economic and normative perspective of the ICAAP). In the Group planning process, regulatory capital is distributed to each planning unit based on the risk-weighted assets (RWAs) component. The planning units (Group units) are the defined business areas and divisions of BayernLB, as well as BayernLabo and DKB. RWAs are allocated to the Group units through a top-down distribution approved by the Board of Management of BayernLB, combined with an internally assumed capital ratio.
Capital management deals with, among other things, the planning and development of regulatory capital ratios, the type and amount of the capital base and the allocation of RWAs, and entails ongoing monitoring of changes.
In addition to the Capital Requirements Regulations (CRR), BayernLB is subject to the European Central Bank's supervisory review and evaluation process (SREP). Due to the SREP findings, BayernLB was assigned a total capital ratio of 10.0 percent on a consolidated basis.

The SREP capital ratio is used in BayernLB's capital management. It is used to determine the planned capital ratio set in the planning process; monitored on an ongoing basis and regularly reported to management.

Management structure

The Board of Management of BayernLB is updated monthly in a Group management report covering a range of issues. This report includes information on performance, capital, liquidity and risk trends. As a component of the integrated reporting, the Group management report provides an initial impression of the current situation with key figures and ratios. Additional detailed information focused on the four key areas is then presented and commented on. Decisions and

recommended capital management actions are also prepared for approval by the Board of Management taking account of framework conditions such as directives from the Bank's owners and regulatory or EU requirements.
The Capital Board also provides detailed information on the performance of RWAs. The Capital Board comprises senior management from risk control and financial controlling, the Group strategy and key business areas. It monitors and manages RWA trends across the Group, particularly RWA plan utilisation at segment level.

Key banking regulatory data

The BayernLB Group’s supervisory capital is calculated on the basis of CRR and CRD in their current version.

Pursuant to article 72 of the CRR, own funds comprise Common Equity Tier 1 and Tier 2 capital. BayernLB currently does not have any additional Tier 1 capital. Common Equity Tier 1 capital comprises subscribed capital plus reserves, the capital contribution of BayernLabo and various supervisory adjustments and deductions. The T2 capital consists primarily of subordinated liabilities and IRB provisions in excess of the expected losses.

Banking supervisory capital of the BayernLB Group (as per consolidated financial statements)

EUR million	2021	2020
Total RWAs	**63,315**	**64,974**
Own funds	**13,657**	**11,993**
of which:		
Tier 1 capital	10,966	10,302
Common Equity Tier 1 capital (CET1 capital)	10,966	10,301

Banking supervisory ratios of the BayernLB Group (as per consolidated financial statements)

in %	2021	2020
Total capital ratio	21.6	18.5
Common Equity Tier 1 (CET1) capital ratio	17.3	15.9

The BayernLB Group complied at all times with the external capital requirements under Art. 92 para. 1 CRR, sections 10c to 10i KWG and the minimum requirements under SREP in the reporting year.

(87) Administrative bodies of BayernLB

Supervisory Board

Dr Wolf Schumacher
Chairman of the BayernLB Supervisory Board
Munich

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

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

Dr Roland Fleck
Managing Director
NürnbergMesse GmbH
Nuremberg

Dr Ute Geipel-Faber
Independent management consultant
Munich

Dr Kurt Gribl
Former Lord Mayor
Augsburg

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

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

Dr. Jörg Schneider
Lawyer
Munich

Henning Sohn
since 1 September 2021
Member of the BayernLB Supervisory Board
since 1 August 2021
Chairman of the General Staff Council
BayernLB
Munich

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

Christian Wiglinghaus
until 31 August 2021
Member of the BayernLB Supervisory Board
until 31 July 2021
Chairman of the General Staff Council
BayernLB

Board of Management (including allocation of responsibilities as from 1 May 2021)

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
since 1 April 2021
Real Estate & Savings Banks/
Financial Institutions
Bayerische Landesbodenkreditanstalt[45]
Real I.S. AG Gesellschaft für Immobilien
Assetmanagement
BayernInvest Kapitalverwaltungs-
gesellschaft mbH

Johannes Anschott
since 1 April 2021
Corporates & Markets

Dr Edgar Zoller
until 30 April 2021
Deputy Chairman until 30 April 2021

Michael Bücker
until 31 March 2021

45 *Dependent institution of the Bank.*

(88) 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.

The list of shareholdings gives an overview of BayernLB's investees (see note 84).

Relationships with the Free State of Bavaria

EUR million	2021	2020
Loans and advances	1,970	2,822
Assets held for trading	9	41
Financial investments	177	179
Liabilities	613	517
Securitised liabilities	15	15
Liabilities held for trading	8	8
Liabilities held in trust	5,116	5,018
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	2021	2020
Loans and advances to customers	552	535
Assets held for trading	15	66
Liabilities to banks	3,822	3,687
Liabilities to customers	178	125
Securitised liabilities	93	103
Assets held in trust	484	444
Contingent liabilities	8	8
Other commitments	191	128

Relationships with the Association of Bavarian Savings Banks

EUR million	2021	2020
Liabilities	37	30
Other liabilities	7	7

Relationships with investees

EUR million	2021	2020
Loans and advances to customers	**105**	**107**
Non-consolidated subsidiaries	74	75
Joint ventures	5	4
Associates	26	28
Risk provisions	**13**	**12**
Non-consolidated subsidiaries	13	12
Financial investments	**29**	**76**
Non-consolidated subsidiaries	29	76
Other assets	**7**	**5**
Non-consolidated subsidiaries	7	5
Liabilities to customers	**192**	**151**
Non-consolidated subsidiaries	153	128
Joint ventures	18	4
Associates	22	18
Provisions	**2**	**4**
Non-consolidated subsidiaries	2	4
Other liabilities	**2**	**1**
Non-consolidated subsidiaries	2	1
Contingent liabilities	**4**	**4**
Non-consolidated subsidiaries	1	1
Associates	3	4
Other commitments	**–**	**4**
Non-consolidated subsidiaries	–	4

An expense of EUR 2 million (FY 2020: EUR 3 million) was recognised for non-recoverable or doubtful receivables in the reporting year.

In the reporting year, no capital contributions were made to unconsolidated entities, joint ventures or associates and none of these investees repaid capital (FY 2020: EUR 3 million).

Relationships with other related parties

EUR million	2021	2020
Liabilities to customers	1,193	1,230

There were liabilities to benefit plans.

The contribution to the plan assets of Versorgungskasse I BayernLB Gesellschaft mit beschränkter Haftung, Munich, in the amount of EUR 2 million (FY 2020: EUR 2 million) and the plan assets of the BayernLB Treuhandverein e.V., Munich in the amount of EUR 7 million (FY 2020: EUR 2,427 million) were recognised through other comprehensive income as a reduction in pension provisions. In the reporting year, staff costs of EUR 4 million (FY 2020: EUR 5 million) arose for the contribution to the plan assets of Versorgungskasse II BayernLB Gesellschaft mit beschränkter Haftung, Munich.

Relationships with members of the BayernLB Board of Management and Supervisory Board and their close family members

EUR million	2021	2020
Members of the BayernLB Board of Management		
Deposits	1	2
Loans	2	1
Members of the BayernLB Supervisory Board		
Deposits	–	1

Remuneration of members of the BayernLB Board of Management and Supervisory Board

EUR k	2021	2020
Members of the BayernLB Board of Management	**6,806**	**6,723**
Short-term benefits	5,625	4,803
Post-employment benefits	1,181	1,920
Defined benefit plan costs	866	1,605
Defined contribution plan costs	315	315
Members of the BayernLB Supervisory Board	**1,024**	**991**
Short-term benefits	1,024	991
Former members of the BayernLB Board of Management and their surviving dependants	**15,276**	**5,658**
Pension provisions established for members of the BayernLB Board of Management [2]	**13,787**	**28,858**
Pension provisions established for former members of the BayernLB Board of Management and their surviving dependants [2]	**132,752**	**143,897**

1 *Pension obligations of EUR 13,697,000 (FY 2020: EUR 28,668.000) were offset in the balance sheet against claims from reinsurance (EUR 15,040,000 (FY 2020: EUR 30,697,000)).*

2 *Pension obligations of EUR 27,205,000 (FY 2020: EUR 15,624.000) were offset in the balance sheet against claims from reinsurance (EUR 30,449,000 (FY 2020: EUR 18,239,000)).*

(89) External auditor's fees

The external auditor's fees recognised as an expense in the reporting year comprise:

EUR k	2021	2020
Financial statements audit services	(7,981)	(7,244)
Other assurance services	(901)	(1,109)
Tax consultancy services	(100)	(23)
Other services	(657)	(466)
Total	**(9,640)**	**(8,842)**

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft audited BayernLB's consolidated financial statements as at 31 December 2021 and also audited its subsidiaries' annual financial statements.

The audit services included in particular the auditing of BayernLB's annual financial statements and consolidated financial statements and the annual financial statements of the other Group companies, including statutory amendments and key audit areas agreed with the Supervisory Board. The review of the half-yearly financial statements was also included in the auditing mandate. Other assurance services included the auditing process pursuant to section 89 of the German Securities Trading Act (WpHG), issuing comfort letters pursuant to IDW PS 910 and other certifications as required under supervisory law. Other services included in particular supplying its auditing expertise during the implementation of statutory and regulatory requirements.

(90) Human resources

Average headcounts for the reporting year were:

	2021	2020
Full-time employees (not including trainees)	**6,226**	**6,069**
Female	2,556	2,470
Male	3,670	3,599
Part-time employees (not including trainees)[1]	**2,142**	**2,241**
Female	1,667	1,726
Male	475	515
Trainees[2]	**71**	**83**
Female	23	32
Male	47	51
Total	**8,439**	**8,393**

1 Part-time headcount equated to 1,483 full-time employees (FY 2020: 1,560).
2 Includes students on a work/study programme.

(91) Events after the reporting period

Russian troops started their invasion of Ukraine on 24 February 2022. Since then, the attacks by Russia have become increasingly severe and destructive. Starting from 23 February 2022 in response to the continuous attacks by Russian military forces in the Ukraine, the EU, in coordination with the US, UK, Canada and other partner countries, has agreed hard-hitting economic and financial sanctions against Russia in several tranches. These new sanctions supplement and extend existing EU sanctions in place since 2014. The political situation is unclear and constantly changing. BayernLB has evaluated the impact that these developments, including mitigating measures, might have on the Group. BayernLB is closely monitoring developments in connection with the Russia-Ukraine ward and is adequately prepared for any deterioration in the current situation. Based on these estimates, BayernLB did not identify any significant uncertainties with respect to events or conditions that, collectively or in isolation, could give rise to significant doubts as to the ability of BayernLB to continue as a going concern. Due to these conditions, the forecasts for financial year 2022 are subject to significant uncertainty.

Responsibility statement by the Board of Management

To the best of our knowledge and in accordance with the applicable reporting principles for financial reporting and generally accepted accounting standards, the consolidated financial statements give a true and fair view of the financial performance and financial position of the Group, and the management report of the Group, which is combined with the management report of Bayerische Landesbank, Munich, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, 14 March 2022

Bayerische Landesbank
The Board of Management

Stephan Winkelmeier   Marcus Kramer   Dr Markus Wiegelmann

Gero Bergmann   Johannes Anschott

The following copy of the auditor's report also includes a "Report on the audit of the electronic renderings of the financial statements and the management report prepared for disclosure purposes in accordance with § 317 Abs. 3b HGB" ("Separate report on ESEF conformity"). The subject matter (ESEF documents to be audited) to which the separate report on ESEF conformity relates is not attached. The audited ESEF documents can be inspected in or retrieved from the Federal Gazette.

Independent auditor's report

To Bayerische Landesbank Anstalt öffentlichen Rechts, Munich

Report on the audit of the consolidated financial statements and of the Group management report

Audit Opinions

We have audited the consolidated financial statements of Bayerische Landesbank Anstalt öffentlichen Rechts, Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Bayerische Landesbank Anstalt öffentlichen Rechts, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2021.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2021, and of its financial performance for the financial year from 1 January to 31 December 2021, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Risk provisions in the customer lending business

❷ Pension provisions

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue

② Audit approach and findings

③ Reference to further information

Hereinafter we present the key audit matters:

❶ Risk provisions in the customer lending business

① In the Company's consolidated financial statements loan receivables amounting to € 159.0 billion (59.6 % of the balance sheet total) are reported under the "Loans to customers" balance sheet item. The associated risk provisions amount to € 1,101.4 million and are reported in a separate line item. In addition, financial guarantees and loan commitments exist in the amount of € 59.6 billion with associated loan loss provisions amounting to € 118.5 million. The Group calculates risk provisions in accordance with the applicable provisions of IFRS 9 using a three-stage model based on the expected credit loss system. For financial instruments at levels 1 and 2, mathematical-statistical methods are used; for financial instruments at level 3, expected credit losses are determined on the basis of estimates of future cash flows at the level of the individual financial instrument. The measurement of the expected credit loss is determined in particular by the estimates of the executive directors with regard to the level allocation as well as certain parameters such as the exposure at default, the probability of default and the loss given default and - in the case of level 3 cases - by assessments of the future cash flows taking into account existing collateral, among other things also against the background of the expected effects of the ongoing Corona pandemic on the customer lending business. When calculating the risk provision, risk factors were taken into account within the framework of so-called post-model adjustments, insofar as they were not already included in the calculation parameters of the models. These serve to take into account the existing uncertainties as a result of the Corona pandemic and the expectations of the executive directors that have not yet been taken into account in the models. The calculation of risk provisions is, on the one hand, of great importance for the Group's assets, liabilities and financial performance in terms of amount and, on the other hand, is associated with considerable judgement. The estimation of the aforementioned parameters as well as the consideration of forward-looking macroeconomic information have, also against the background of the Corona pandemic, a significant influence on the recognition and amount of risk provisions. With this background, this matter was of particular significance during our audit.

② As part of our audit, we initially assessed the appropriateness of the design of the controls in the relevant internal control system and tested the controls' effectiveness taking into account our understanding of the business organisation, the IT systems in place and the measurement models used. Moreover, we evaluated the measurement of the customer loans, including the appropriateness of estimated values, on the basis of sample testing of loan exposures. For this purpose, we assessed, among other things, the available documentation with respect to the economic circumstances as well as the recoverability of the related collaterals. In the case of property collaterals for which we were provided with valuation reports, we obtained an understanding of the underlying starting data, the valuation parameters applied and the assumptions made, critically assessed them and evaluated whether they were within a reasonable range. With the support of our financial mathematics specialists, we examined the models used to determine risk provisions for suitability and functionality. In addition, we examined the assumptions and the derivation of the parameters used for the allocation of levels and for determining the expected credit loss. In particular, we evaluated the assessment of the executive directors with regard to the effects of the Corona pandemic on the economic situation of the borrowers and the recoverability of the corresponding collateral, and assessed their consideration in the valuation of the loans and advances to customers. We questioned the necessity of the formation of post-model adjustments and assessed the determination of their amount. Based on the audit procedures we performed, we were able to satisfy ourselves overall of the justifiability of the assumptions made by the executive directors in the impairment test of the loan portfolio as well as of the appropriateness of the controls implemented.

③ The information of the executive directors of the Company on risk provisions in the customer lending business are contained in the numbers (6), (9), (29), (43), (58) and (76) of the notes to the consolidated financial statements.

❷ Pension provisions

① There are various pension plans with active, former and retired employees of the Group with vested entitlements, which are reported under the balance sheet item provisions at the balance sheet date with a total of € 0.9 billion. The pension provisions consist of obligations from defined benefit plans amounting to € 4.3 billion and plan assets amounting to € 3.4 billion. The amount of the provision is determined on the basis of actuarial reports commissioned by the Company using the projected unit credit method, taking into account existing plan assets. For the calculation the pension obligations are based in particular on assumptions regarding the long-term salary and pension trends, fluctuation, the development of pensions in the statutory pension insurance, inflation and biometric probability. The discount rate must be determined by reference to market yields on high-quality corporate bonds with matching currencies and consistent maturities. This usually requires the data to be extrapolated, since sufficient long-term corporate bonds do not exist. During the financial year, the Company contributed further assets to the established trust BayernLB Treuhand e.V.. These qualify as plan assets and are therefore deducted from the obligations from defined benefit plans. The plan assets are measured at fair value, which in turn involves making estimates that are subject to estimation uncertainties. From our point of view, these matters were of particular significance in the context of our audit because the recognition and measurement of this significant item in terms of its amount are based to a large extent on estimates and assumptions made by the Company's executive directors.

② As part of our audit we evaluated the actuarial expert reports obtained and the professional qualifications of the external experts. We also examined the specific features of the actuarial calculations and assessed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based on for accuracy and appropriateness, respectively, in addition to other procedures. On this basis, we examined the calculation of provisions and the presentation in the balance sheet and notes to the consolidated financial statements. We have evaluated whether the assets held by Treuhandverein BayernLB Treuhand e.V. fulfil the requirements for recognition as plan assets. For the audit of the market values of the plan assets, we inspected and assessed asset statements.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

③ The information of the executive directors of the Company on the pension provisions are contained in the numbers (21) and (58) of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises

- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB
- all remaining parts of the annual report - excluding cross-references to external information - with the exception of the audited consolidated financial statements, the audited group management report and our auditor’s report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB

Assurance Opinion

We have performed assurance work in accordance with § 317 Abs. 3a HGB to obtain reasonable assurance as to whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the electronic file„BayernLB_KA+LB_ESEF2021-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format

("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the electronic file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2021 contained in the "Report on the Audit of the Consolidated Financial Statements and on the Group Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the electronic file identified above.

Basis for the Assurance Opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the electronic file identified above in accordance with § 317 Abs. 3a HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering, of Financial Statements and Management Reports, Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB (IDW AsS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described in the "Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic renderings of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. [number] 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Assurance Work on the ESEF Documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.

- Obtain an understanding of internal control relevant to the assurance work on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version in force at the date of the consolidated financial statements on the technical specification for this electronic file.

- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.

- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the date of the consolidated financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 26 March 2021. We were engaged by the supervisory board on 18 June 2021. We have been the group auditor of the Bayerische Landesbank Anstalt öffentlichen Rechts, Munich, without interruption since the financial year 2019.

We declare that the audit opinions expressed in this auditor’s report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

REFERENCE TO ANOTHER MATTER – USE OF THE AUDITOR’S REPORT

Our auditor’s report must always be read together with the audited consolidated financial statements and the audited group management report as well as the assured ESEF documents. The consolidated financial statements and the group management report converted to the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic renderings of the audited consolidated financial statements and the audited group management report and do not take their place. In particular, the “Report on the Assurance on the Electronic Rendering of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes in Accordance with § 317 Abs. 3a HGB” and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Sven Hauke.

Munich, 14 March 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Sven Hauke	Anne Witt
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Country by country reporting pursuant to section 26a para. 1 sentence 2 of the German Banking Act (KWG) as at 31 Dec 2021

This report shows revenues, number of employees, profit/loss before taxes, taxes on profit/loss and state aid received for the reporting year by country on an unconsolidated basis. It covers the companies fully included in the IFRS consolidated financial statements.

The revenue shown is profit/loss before taxes, without accounting for risk provisions, administrative expenses, expenses for the bank levy and deposit guarantee scheme and gains or losses on restructuring as reported in the consolidated financial statements. Taxes on profit/loss include current income taxes reported in the consolidated financial statements. The number of employees is shown in full-time equivalent positions.

Country	Revenue EUR million	Number of employees	Profit/loss before taxes EUR million	Taxes on profit or loss EUR million	State aid received EUR million
Germany	1,661	7,663	(54)	(134)	0
United Kingdom	16	43	2	2	0
Italy	(1)	13	1	0	0
France	0	16	2	0	0
Spain	0	2	0	0	0
Netherlands	1	6	0	0	0
USA	57	78	19	0	0

Name of foreign branch/ investee	Type of business	Location	Country
Foreign branch offices of Bayerische Landesbank			
BayernLB London	Financial institution	London	United Kingdom
BayernLB Milan	Financial institution	Milan	Italy
BayernLB Paris	Financial institution	Paris	France
BayernLB New York	Financial institution	New York	USA
Foreign branches of Real I.S. AG			
Real I.S. France	Asset management company	Paris	France
Real I.S. Spain	Asset management company	Madrid	Spain
Real I.S. Netherlands	Asset management company	Amsterdam	Netherlands

Supplementary information

Financial measures not calculated in accordance with IFRS

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

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

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

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

Return on equity (RoE)

The RoE shown is calculated on the basis of internal management information from the ratio of profit before taxes to the average regulatory capital (Group)/the average allocated economic capital (at segment level). At Group level, the average Common Equity Tier 1/CET1 capital available over the financial year has been used for this purpose. For all management levels below this, the average economic capital employed in the financial year is derived from the average risk-weighted assets (RWAs) of the underlying individual transactions as specified by the regulatory authorities. The allocated amount corresponds to 14.0 percent (31 December 2019: 14.0 percent) of the average risk-weighted assets specified by the regulatory authorities arising from the individual transactions entered into by the respective segment in the reporting period concerned. Economic capital is reconciled to regulatory capital in the column headed Consolidation.

RoE reconciliation calculation (as at 31 December 2021)

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Profit/loss before taxes	**271**	**87**	**369**	**89**	**(1)**	**816**
Average risk-weighted assets (RWAs)	12,133	22,927	24,510	5,326	–	64,895
Target CET1 ratio (%)	14.0	14.0	14.0	14.0	–	
Average economic/regulatory capital	**1,699**	**3,210**	**3,431**	**746**	**1,193**	**10,279**
Return on equity (RoE) (%)	**16.0**	**2.7**	**10.8**	**-[1]**	**–**	**7.9**

[1] The utility of key indicator RoE is very limited in the case of the Central Areas & Others sub-segment due to its specific characteristics. For this reason, the Bank will no longer report this figure from financial year 2021. The previous year's figure was restated accordingly.

RoE reconciliation calculation (as at 31 December 2020)

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Profit/loss before taxes	**186[1]**	**(51)[1]**	**264**	**(206)[1,2]**	**4**	**197**
Average risk-weighted assets (RWAs)	12,048	24,424	24,714	5,247	–	66,434
Target CET1 ratio (%)	14.0	14.0	14.0	14.0	–	–
Average economic/regulatory capital	**1,687**	**3,419**	**3,460**	**735**	**726**	**10,027**
Return on equity (RoE) (%)	**11.0[1]**	**(1.5)[1]**	**7.6**	**–**	**–**	**2.0**

1 Adjusted as per IFRS 8.29.
2 Adjusted as per IAS 8.42.

Cost/income ratio (CIR)

The CIR is the ratio of administrative expenses and gross profit comprising net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on derecognised financial assets, gains or losses on financial investments and other income and expenses. The CIR is calculated using the figures reported in the respective consolidated financial statements.

CIR reconciliation calculation (as at 31 December 2021)

EUR million	Real Estate & Savings Banks/Fi-nancial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolid-ation	Group
Administrative expenses	**(402)**	**(283)**	**(689)**	**(148)**	**2**	**(1,520)**
Net interest income	363	315	1,023	153	11	**1,866**
Net commission income	271	80	53	(24)	–	**380**
Gains or losses on fair value measurement	57	38	51	59	(16)	**190**
Gains or losses on hedge accounting	–	1	(3)	(17)	–	**(20)**
Gains or losses on derecognised financial assets	–	1	4	0	–	**6**
Gains or losses on financial investments	–	2	5	39	–	**46**
Other income and expenses	13	(6)	1	101	–	**108**
Gross earnings	**705**	**431**	**1,134**	**311**	**(4)**	**2,577**
Cost/income ratio (CIR) (%)	**57.0**	**65.8**	**60.8**	**-**[1]	**–**	**59.0**

1 The utility of key indicator CIR is very limited in the case of the Central Areas & Others sub-segment due to its specific characteristics. For this reason, the Bank will no longer report this figure from financial year 2021. The previous year's figure was restated accordingly.

CIR reconciliation calculation (as at 31 December 2020)

EUR million	Real Estate & Savings Banks/Financial Institutions	Corporates & Markets	DKB	Central Areas & Others	Consolidation	Group
Administrative expenses	**(418)**	**(327)**	**(653)**	**(127)**	**4**	**(1,520)**
Net interest income	335[1]	301[1]	956	150[1]	31	**1,772**
Net commission income	240	105	12	(27)	1	**331**
Gains or losses on fair value measurement	67	59	19	(56)	(28)	**62**
Gains or losses on hedge accounting	–	2	3	5	–	**11**
Gains or losses on derecognised financial assets	–	(19)	5	–	–	**(14)**
Gains or losses on financial investments	2	(2)	37	31	–	**68**
Other income and expenses	13	-	24	45[2]	(4)	**77**
Gross earnings	**656[1]**	**446[1]**	**1,057**	**148[1,2]**	**–**	**2,304**
Cost/income ratio (CIR) (%)	**63.7[1]**	**73.4[1]**	**61.8**	**–**	**–**	**66.0**

1 Adjusted as per IFRS 8.29.
2 Adjusted as per IAS 8.42.

Combined separate non-financial report of the BayernLB Group for 2021

Combined separate non-financial report of the BayernLB Group for 2021

Preliminary note

For a detailed description of the segments, please see the section entitled "Foundations of the BayernLB Group – Business model and Group strategy" in the combined management report.

For a description of the Bank's strategic direction and transformation process "Fokus 2024" (including its clear strategic focus on sustainability and the handling of the Covid-19 pandemic), please also see the "Foundations of the BayernLB Group – Business model and Group strategy" section in the combined management report.

For information on regulatory developments with respect to climate and environmental risks and their implementation, refer to the "Regulatory developments" section (risk report) and the "Regulatory environment" section (report on expected developments and opportunities) in the combined management report.

GRI
102-1 to 102-10
102-14
102-15
102-19
102-29
403-7

To meet the requirements of sections 315b and 315c in conjunction with sections 289b to 289e of the German Commercial Code (HGB) and the EU Taxonomy Regulation (Regulation (EU) 2020/852), the separate non-financial report of the parent company Bayerische Landesbank, Munich (BayernLB or Bank) is presented below with the separate non-financial report of the BayernLB Group (hereinafter shortened to "non-financial report [NFR]"). The information in the report always relates to both BayernLB and the Group, unless expressly stated otherwise. Due to the importance of Deutsche Kreditbank (DKB) in the Group, information on DKB is disclosed separately in the tables and charts below.

The NFR deals with the following topics:

- A description of the material content of BayernLB's NFR
- BayernLB's various systems to manage non-financial aspects:
  - Reputational risk, sustainability and environmental management system and internal guidelines/solutions for a sustainable banking business
  - Human resources management system
  - Compliance management system
- The disclosure of relevant figures pursuant to the EU Taxonomy Regulation

The NFR's content is based on the specific materiality approach taken under HGB, which is not equivalent to the understanding of materiality under the current Global Reporting Initiative (GRI) Standards or other frameworks.[46] For this reason, only certain GRI standards (see margin note) were referred to when preparing the BayernLB Group's NFR and therefore full use has not been made of any particular framework. Commercial law requires information to be provided so that an understanding can be gained of business operations, business performance, the company's

46 *BayernLB reports in detail on all topics identified as material for the Bank under GRI in its Sustainability Report (according to GRI) (www.bayernlb.com/csr), while DKB provides this information in its sustainability report pursuant to the German Sustainability Code (DNK) (www.dkb.de/nachhaltigkeit). DKB also collects non-notifiable information and data (among other things) on equality and employee health, and voluntarily reports on this in its annual report. All references to information not in the combined management report do not form part of the non-financial report.*

situation and the impact of its activities, especially on non-financial aspects, i.e. environmental, employee and social issues, respect for human rights and the fight against corruption and bribery.

BayernLB uses the net method when calculating risks that must be reported under HGB. Having considered mitigation measures, the Bank did not from its findings identify any risks that very probably have or will have a severe negative impact on the aspects that must be reported. The respective risks of the individual aspects are addressed, where relevant, in the separate sections of the report. References to related figures in the annual financial statements of the BayernLB Group are stated in the text of the non-financial report under the relevant issue.

GRI 102-15 102-29 102-31

This report marks the first time that information on reporting pursuant to Article 8 of the EU Taxonomy Regulation has been disclosed and included in the external audit. More changes to (voluntary and mandatory) sustainability reporting will be made in the coming years, not least because of rapidly changing regulatory and market requirements. The interdisciplinary ESG project “Sustainability” was launched in 2021 to implement these changes.

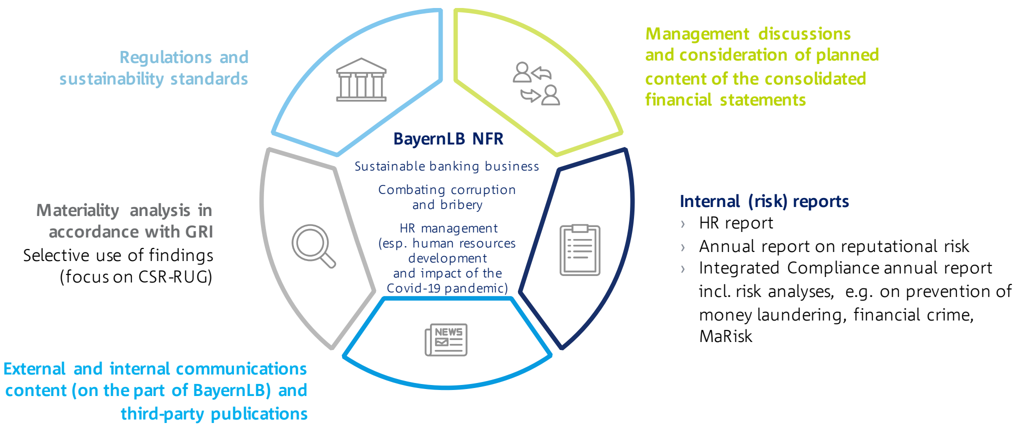
GRI 102-15 102-40 102-42 102-43 102-44 102-46 102-47

Materiality analysis

BayernLB’s Sustainability Executive Unit regularly conducts a materiality analysis pursuant to GRI standards in order to identify for their reports relevant topics related to non-financial aspects. It determines the most material overlapping topics for BayernLB and its stakeholders.

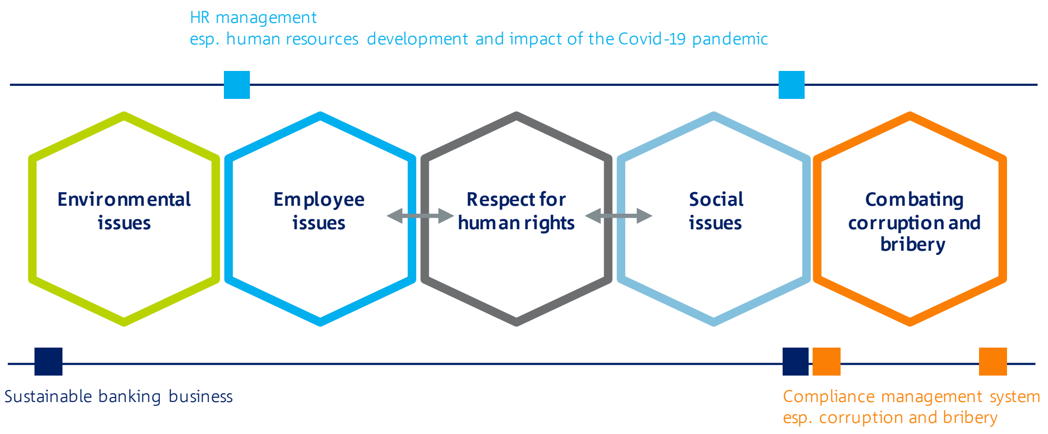
BayernLB initially determined material content in accordance with HGB and therefore for its NFR in 2017, and has revised and updated this for every reporting year since. As part of this process, it has especially considered current regulations, planned content in the management report/annual financial statements, internal management meetings and reviews that have been conducted, the analysis of internal (risk) reports, internal and external communications content from BayernLB and publications of third parties. The Bank has also included the results of the materiality analysis under GRI on a selective basis.

Materiality analysis for 2021 under HGB



This analysis found that the topics that were material for BayernLB in 2021 (as in 2020) were "sustainable banking business", "combating corruption and bribery" and "human resources management (especially human resources development and the impact of the Covid-19 pandemic)". The following graphic assigns these topics to each of the non-financial aspects.

Mapping HGB minimum aspects to material BayernLB topics



The following overview lists those topics which are assigned to the non-financial aspects and described in greater detail later on in this report (material for BayernLB under HGB). It also shows which topics are not material under HGB from BayernLB's perspective. BayernLB provides a transparent report on these in other publications.

Assignment of topics that are (not) material for BayernLB under HGB to non-financial aspects

Non-financial aspects	Material for BayernLB pursuant to section 289c HGB	Non-material for BayernLB pursuant to section 289c HGB
Environmental issues	• Correlation to impact of products and services • Avoidance of (reputational) risks and negative impact on the environment by observing environmental standards in financing • Promotion of environmentally responsible developments → *Further information in "Sustainable banking business"*	• Impact of a company's activities on the environment (e.g. through water and energy consumption) → *Information on this topic in BayernLB's and DKB's certified environmental statements* • Guarantee of high (environmental rights) standards from suppliers and external service providers by focusing on regional purchasing wherever possible and obtaining sustainability agreements → *Information on this topic in BayernLB's Sustainability Report and DKB's Sustainability Report*
Employee issues	• Qualitative and quantitative development of human resources • Attracting and retaining qualified personnel • Equipping staff with the necessary skills and qualifications • Health management and occupational safety → *Further information in "Human resources management"* • Compliance with fundamental labour laws in financing through compliance with World Bank standards and ILO core labour standards → *Further information in "Sustainable banking business"*	• Guarantee of high (labour) standards on the part of suppliers and external service providers by focusing on regional purchasing wherever possible and obtaining sustainability agreements → *Information on this topic in BayernLB's Sustainability Report and DKB's Sustainability Report*
Social issues	• Protection of local communities/ indigenous peoples in financing through compliance with World Bank standards • Contribution to safeguarding and improving living conditions including municipal and regional level through financing particularly in the areas of municipal development and housing, social affairs and health, and energy supply → *Further information in "Sustainable banking business" and closely linked to the minimum aspect "respect for human rights"*	• Social commitment and corporate citizenship → *Information on this topic in BayernLB's Sustainability Report and on the homepage* • Guarantee of high (social) standards from suppliers and external service providers by focusing on regional purchasing wherever possible and obtaining sustainability agreements → *Information on this topic in BayernLB's Sustainability Report and DKB's Sustainability Report*

Respect for human rights	• Protection of local communities/ indigenous peoples in financing (in emerging and developing countries in particular) through compliance with World Bank standard → *Further information in "Sustainable banking business" and closely linked to the minimum aspect "Social issues"* • Infringement of employees' right of assembly → *Further information in "Human resources management" and closely linked to the minimum aspect "Employee issues"*	• Guarantee of high (human rights) standards from suppliers and external service providers by focusing on regional purchasing wherever possible and obtaining sustainability agreements → *Information on this topic in BayernLB's Sustainability Report and DKB's Sustainability Report*
Combating corruption and bribery	• Compliance with legal and supervisory requirements with regard to the combating of corruption and bribery to avoid sanctions and loss of reputation • Monitoring these risks in Purchasing → *Further information in "Compliance management system", in particular "Corruption and bribery"*	

The BayernLB Group's ratings

GRI
102-43
102-44

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

As at 31 December 2021 both the BayernLB Group and DKB continued to hold the Prime rating from ISS ESG. DKB's B-rating in the "Financials/Public & Regional Banks" sector corresponds to the Rank 1 decile and a classification as an "Industry Leader". All (other) sustainability ratings are published and constantly updated on the homepages of BayernLB and its subsidiaries.

Managing non-financial aspects

Systems for managing non-financial aspects

Within the BayernLB Group, various units manage the above-mentioned aspects in accordance with HGB. The main units in charge of these matters, such as Reputational Risk Management, Sustainability Management, Human Resources and Compliance, are shown here, along with the requirements for the banking business.

The various management components are intertwined. For example, Sustainability Management coordinates the Sustainability Report (according to GRI), which reports on a number of areas including compliance, reputational risk and human resources. Sustainability Management also uses Reputational Risk and Compliance Management policies.

The Group is managed using sets of indicators based on IFRS accounting (see “Foundations of the BayernLB Group – Group management” in the combined management report). The Bank is currently preparing a management approach based on non-financial performance indicators, which it will implement in stages.

GRI
102-2
102-11
102-15
102-16
102-17
201-2
412
FS 1 to FS 9

Sustainable banking business: internal requirements, financial solutions and disclosures pursuant to Article 8 of the EU Taxonomy Regulation

A sustainable banking business and the corresponding financial solutions at BayernLB cover the following areas:

- Financing companies and projects to address societal challenges such as climate change and the energy transition
- Offering sustainable investment products for retail and institutional investors

- Complying with environmental, social and ethical standards in financing and capital market transactions

The goal of creating sustainable banking products has been defined in both BayernLB's Code of Conduct and in the Sustainability Policy adopted by the Board of Management. Since 2020, it has also been set out in BayernLB's Mission Statement and in the Group Sustainability Strategy (see the "Sustainable products and services" section).

Code of Conduct

We are actively and thoroughly committed to the challenges of sustainable development and heed our responsibility by taking ecological, economic and social aspects into account along the entire value chain. [...]

We also consider sustainability issues when looking at (business) transactions. Our actions, as well as our business relationships and transactions, are always guided by ethical principles and sustainability aspects. We ensure that these are compatible with the relevant international environmental, ethical and social standards we have signed up to.

Sustainability Policy

Because we integrate social and environmental aspects into our financing and capital market products, both we and our customers weigh the risks and opportunities that come with such global challenges as climate change and dwindling resources and thus make an active contribution to sustainable development. In addition to setting and continuously improving basic social and ecological standards for our financing and capital market transactions, we set out to serve companies and projects that explicitly tackle these global challenges through, for instance, renewable energy.

The Group strategy on sustainability was specified for the BayernLB Bank[47] in September 2021. Among other things, it aims to significantly increase the share of ESG-compliant financing compared with the figures for 2020 by 2023 and achieve a climate-neutral portfolio before 2050. The Sustainability Programme, published in December 2021, put the corresponding goals into operation. BayernLB also published its Group-wide Guiding Principles for Transformation externally for the first time in December. These set out its position on important current challenges and formulate its corporate values, overarching ethics, environmental and social standards and its stance on controversial issues and sectors (including armaments, coal, nuclear power, oil & gas, forest, foodstuffs, gambling). DKB also reviewed the key strategic cornerstones of its Sustainability Strategy, which it will publish in early 2022.

These aforementioned guidelines ensure that BayernLB takes sufficient account of the non-financial aspects that are material for it in its banking products and services.

The information contained in the Guiding Principles for Transformation goes into more detail than the disclosures that have been included in the NFR in recent years and the report will therefore refer to the Guiding Principles for Transformation from now on.

47 The BayernLB Bank comprises the BayernLB core Bank and Bayerische Landesbodenkreditanstalt (BayernLabo).

The risks related to non-financial aspects material for BayernLB that mainly arise in the business relationships, products and services are thus minimised by the full range of measures described in this section. This functioning risk management system covers risks related to all HGB aspects material for BayernLB.

Sustainable products and services

BayernLB seizes opportunities for actively promoting environmentally responsible developments such as the climate-friendly restructuring of the energy supply or social projects by means of suitable products and services, thereby opening up business potential. Each Group company's specific contribution in this regard is based on its own business model.

The following overview shows BayernLB's Mission Statement and the goals derived from it pursued by the units at the BayernLB Bank, DKB, BayernInvest and Real I.S., as well as selected initiatives and examples of products from the reporting year.

BayernLB Bank – "Financing progress" ***Committed to sustainability***	
Goals	• Significantly increase portfolio share of ESG-compliant financing by 2023 • Continue the climate protection strategy and long-term climate neutrality in business operations • Climate-neutral portfolio before 2050
Initiatives (from 2021)	• Publication of a new Sustainability Strategy and Sustainability Programme for 2021 et seq. and definition of suitable KPIs • Introduction of the ESG assessment for enhanced identification of sustainability risks and applications of funding for certain non-financial aspects (e.g. by taking account of the EU Taxonomy Regulation); performing a "zero measurement" as the basis for setting sustainability targets in new business for 2022 and setting a level of ambition for the restructuring of the portfolio for 2022 onwards • Launch of the interdisciplinary ESG project "Sustainability" to implement the regulatory and market requirements in the Group • Expanding sales of ESG products in the market areas by means of the Sustainable Finance Initiative - supporting (potential) customers by providing funding for the transformation of their business models, processes and products within the framework of decarbonisation - refining the product and service range - expanding BayernLB's positioning as a centre of expertise for sustainable finance - establishing a sustainable financing framework for the issuance of green bonds and green commercial papers • Revision of the armaments and coal policy and publication of the Guiding Principles for Transformation on sustainability standards and policies • Joining the Partnership for Carbon Accounting Financials (PCAF) • Signing the UN Global Compact (UN GC) and Principles for Responsible Banking (PRB)

Examples of products (from 2021)	• Corporate Schuldschein notes loans, e.g.: - joint lead arranger for ESG-linked SSD by DIC Asset AG (EUR 250 million, term 3, 5, 7, 10 years) - sole lead arranger for ESG-linked SSD by MP Holding GmbH (EUR 29 million, term 3, 5, 7 years) - joint lead arranger for ESG-linked SSD by VION Financial Services B.V. (EUR 75 million, term 3, 5, 7 years) - joint lead arranger for Green Schuldschein by Encevo S.A. (EUR 200 million, term 7, 10, 15 years) • Green and social bonds, joint lead manager e.g. for: - BayernLB green bond issues (EUR 500 million, term 7 years; EUR 500 million, 10.5nc5.5; EUR 500 million, 11nc6) - DKB green bond issue (EUR 500 million, term 5 years) - BayernLabo social bond issue (EUR 500 million, term 15 years) - Green bond issues by BPCE SFH Bank (EUR 1.5 billion, term 9.5 years) and MünchenerHyp (EUR 500 million, term 8 years) • Sustainable funds: exclusive distributor for the renewable energy funds "Encavis Infrastructure Fund II (EIF II)" – EUR 480 million and "Encavis Infrastructure Fund IV (EIF IV)" – target volume EUR 500 million • Promotion of housing in the Free State of Bavaria; municipal loans and own development programmes in areas such as barrier-free access and energy-efficiency improvements for buildings (BayernLabo[1])

1 Body charged with implementing government housing policy, a municipal and development bank for the Free State of Bavaria (see "Foundations of the BayernLB Group – Business model and Group strategy" section in the combined management report)

DKB – "Das kann Bank" – #geldverbesserer ***Ethically and financially strong with "blue sustainability"***	
Goals	• Increase the portfolio share that contributes to SDG to 85 percent and increase the volume of sustainable financing/products to at least EUR 80 billion by 2030 • Further strengthen the Bank's position as the most sustainable of Germany's top 20 banks
Initiatives (from 2021)	• Renewal of the green bond programme, which is based on the EU taxonomy • Supporting the Green Recovery Alliance • Signatory of UN GC
Examples of products (from 2021)	• DKB sustainability funds: Above-average growth in all categories, solid foundation for further growth with over 8,200 savings plans and an annual savings volume of over EUR 10.5 million • Crowdfunding platform: funding of sustainable projects/smaller-scale measures with the help of private investors (e.g. regenerative energy or social infrastructure)

BayernInvest – “We make sustainability profitable. And profitability sustainable.” ***100% ESG integration in the investment process and gradual build-up of the product and reporting landscape for asset management and investment company services***	
Goals	• Operational climate neutrality by 2022 • All discretionary mandates in line with the Paris Agreement climate targets by 2025 • Market leader in ESG/CO_2 reporting • Annual reporting in accordance with the German Sustainability Code (DNK), TCFD and as part of PRI membership • Improvement of data quality and quantity for sustainability-related publications • Base investment strategy on social and governance issues in addition to climate issues • Sustainability regulations (Disclosure Regulation (OffenlegungsVO), SFDR, MIFID II) play a crucial role in product development, communications with customers and reporting
Initiatives (from 2021)	• BayernInvest transformation programme “Impact 2022“ • Renewal of CDP membership • Supporting the Green Recovery Alliance • TCFD supporter • Signatory of UN GC
Examples of products (from 2021)	• Sustainability advisory services aimed at improving the portfolio quality and aligning it with regulatory requirements • BayernInvest Subordinated Bond-Fonds awarded 1st place in the Sustainable Performance Awards – Rentenfonds Europa 1 year SRI 2+3 and BayernInvest Multi Asset Sustainable-Fonds awarded 2nd place in the Sustainable Performance Awards – balanced funds Europe 5 years 2+3 categories • Innovative reporting formats for sustainability figures on the PRI, ESG distributions and SDGs

Real I.S. – “Where real estate meets the future” ***We want to create added value for society and the environment***	
Goals	• Climate neutrality of Real I.S. (as a company excluding the real estate portfolio) by 2030 and climate neutrality of the real estate portfolio by 2050 (in accordance with the Paris climate pathway) • Increase the proportion of ESG-compliant products
Initiatives (from 2021)	• Signatory of the Principles for Responsible Investment (PRI) and UN GC to emphasise our commitment to responsible investment and acting responsibly • Involvement in the development of the ECORE ESG assessment standard for real estate • Boosting internal expertise in sustainability via a training programme for all employees and function-specific in-depth training for the competent functional units
Examples of products (from 2021)	• Since 10 March 2021 the open-ended retail real estate fund REALISINVEST EUROPA issued by Real I.S. has been an ESG strategy product (pursuant to Art. 8 SRDR) • Two new special AIF ESG funds issued (Modern Living and BGV IX Europa)

The following overview shows the volumes of the sustainable products listed:

Product area (volumes)	BayernLB Group FY 2021	Of which BayernLB FY 2021	Of which DKB FY 2021	BayernLB Group FY 2020	Of which BayernLB FY 2020	Of which DKB FY 2020
Sustainability instruments issued or arranged by the BayernLB Group[3]	EUR 4.5 bn[1]	EUR 4.0 bn[1]	EUR 0.5 bn	EUR 1.8 bn[2]	EUR 1.8 bn[2]	-
New subsidised loans business (e.g. the relevant KfW programmes) targeting ecological applications (including through the increased use of renewable energy/energy-saving measures)	EUR 3.1 bn	EUR 0.7 bn	EUR 2.4 bn	EUR 2.0 bn	EUR 0.3 bn	EUR 1.7 bn

1 Including arranged sustainability instruments in the amount of EUR 2 billion

2 Including arranged sustainability instruments amounting to approx. EUR 1.6 billion

3 Excluding green commercial papers

In 2021, the BayernLB Group issued or arranged a total volume of EUR 4.5 billion in sustainable bonds, which was an increase on the previous year. The Group's social and green bonds are reported separately in accordance with the Green & Social Bond Principles. The product range is being expanded, based on the corresponding Bond Frameworks.

Disclosures pursuant to Article 8 of the EU Taxonomy Regulation as at 31 December 2021

The EU Taxonomy Regulation (Regulation (EU) 2020/852), one of the key measures in the European Commission's action plan for sustainable growth, came into effect on 12 July 2020. The objective of this action plan is to reorient capital flows towards ecologically sustainable activities. The EU Taxonomy Regulation is supplemented by the Delegated Act on climate taxonomy (C(2021) 2800 final) and the Delegated Act on the disclosure obligations of the EU Taxonomy Regulation (C(2021) 4987 final). The BayernLB Group is implementing the disclosure requirements arising from the EU Taxonomy Regulation.

This will mean that the companies concerned will disclose in their non-financial reporting information on how and to what extent their activities are associated with environmentally sustainable economic activities that can be classified as ecologically sustainable. Further information on the business strategy, product design processes and customers in relation to sustainability will be provided in other sections of the non-financial report and/or the management report.

Credit institutions will initially benefit from a facilitation measure in financial years 2021 and 2022 with regard to their reporting obligations. Only the proportion of the transaction that is taxonomy-eligible (eligible asset ratio, ratio no. 1), supplemented by non-financial and revenue-based ratios, will initially need to be reported to classify the total assets eligible for taxonomy. From the reporting date of 31 December 2023 it will be necessary to disclose further information, including the proportion of a transaction that is taxonomy-compliant (the green asset ratio).

Determining the taxonomy eligibility of a position depends in principle on the type of counterparty, broken down into non-financial undertakings, financial undertakings, local government and private households.

Where the counterparty is a non-financial or financial undertaking, the EU Taxonomy Regulation permits positions to be taken into account to determine the proportion of the transaction that is taxonomy-eligible only if the counterparties are subject to a non-financial reporting obligation (NFRD obligation). The European Commission's FAQs[48] of 20 December 2021 stipulate that the proportion of the transaction that is taxonomy-eligible is to be derived with the help of EU taxonomy ratios published by the aforementioned non-financial or financial undertakings.

As disclosure pursuant to Article 8 of the EU Taxonomy Regulation comes into effect for the first time for the reporting date as at 31 December 2021, no information is available for the aforementioned non-financial or financial undertakings. These positions are therefore weighted as

48 Source: *https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-article-8-report-eligible-activities-assets-faq_en.pdf*

having a taxonomy-eligibility of 0 percent and included in the proportion of positions that are not taxonomy-eligible (ratio no. 2).

The proportion of taxonomy-eligible positions (ratio no. 1) includes loans to private households that are, for instance, secured by residential property and also loans to local government (including those under the federal government's and federal states' development programmes).

Total assets amount to EUR 267.4 billion (denominator of the indicators).

The ratios below, to be disclosed pursuant to Article 8 of the EU Taxonomy Regulation, stood as follows as at 31 December 2021:

No.	Ratios to be disclosed pursuant to Article 8 of the EU Taxonomy Regulation as at 31 December 2021	
1	Share of exposures eligible for taxonomy	6.90%
2	Share of exposures not eligible for taxonomy	19.80%
3	Share of exposures to central governments, central banks and supranational issuers	8.60%
4[1]	Share of derivatives	0.20%
5	Share of exposures to undertakings not obliged to publish according to NFRD	43.70%
6	Share of trading portfolio	3.30%
7	Share of interbank loans that can be called up as required	11.90%

1 Share of derivatives not classified as HFT under IFRS (hedge accounting)

The narrow methodological specifications of the EU taxonomy for determining positions eligible for taxonomy (ratio no. 1), one of these being the restriction to positions vis-à-vis customers subject to an obligation under NFRD, mean that BayernLB's sustainable loans for purposes such as renewable energy and sustainable mobility are not included in ratio 1.

GRI
102-10
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102-17
102-19
102-20
102-29
102-31
102-33
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FS 1
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Reputational risk, sustainability and environmental management

BayernLB has assigned the topics of reputational risk management (including the functions of Central Reputational Risk Management (CRRM)) and sustainability/environmental management to the Sustainability Executive Unit, which reports directly to the Chairman of the Board of Management.

The topic of sustainability has an important place in the transformation of the BayernLB Group's business model. In 2020, the Bank's committees and boards adopted a Mission Statement and Group Strategy and also issued a new set of sustainability guidelines which, in accordance with the uniform Group management requirements, govern the collaboration between the sustainability units in the institutions within the Group (and form part of the Group-wide internal control system).

Reputational risk within the BayernLB Group is managed through an in-house set of rules containing, among other things, a (Group and Bank) strategy, documents and processes, various theme-specific policies and the definition of tasks and competencies for employees, managers and other reputational risk-specific roles.

Definition of reputational risk within the BayernLB Group

Protecting BayernLB's good reputation and thus its management is a joint responsibility of all BayernLB Group

employees. BayernLB's reputation can be affected and possibly impaired by almost everything we do, whether by entering into a transaction or signing an agreement on behalf of BayernLB or by making an ill-considered comment in a social network.

Active reputational risk management covers all processes relating to the identification, assessment/classification, reporting and management of reputational risks and, if necessary, the initiation or monitoring of measures/actions to eliminate or reduce the causes of reputational risks, the monitoring of the implementation of measures, and reporting.

The Sustainability Executive Unit is continuously involved in assessing and managing event- and transaction-based matters so as to manage any given situation under sustainability and reputational risk aspects. Transactions include all types of business activities and relationships along the Group's value chain (set out in an internal Group-wide framework instruction). The Executive Unit must be consulted in all (planned) business activities that (potentially) fall within the scope of current ESG standards and policies related to environmental and social topics and/or which potentially could give rise to social or environmental risks, as well as all events and processes that pose a medium or high reputational risk. To carry out its duties, the Board of Management has delegated it the right to prohibit activities or grant approval but with conditions.

The ESG assessment has been developed at the BayernLB Bank as a tool for assessing sustainability risks and benefits for customers and transactions. This IT-supported tool forms the basis for portfolio management from a sustainability perspective and is being successively expanded, partly on the basis of current regulatory requirements (including the EU Taxonomy Regulation) and business strategy aspects.

It consists of three components (known as modules) with different underlying questions:

- ESG risk: do environmental, social or governance issues arise that have a negative impact on a customer's ability to service its debts, probability of default or creditworthiness?
- ESG impact: what are the demonstrable sustainability benefits of financing?
- RepRisk: does the business give rise to a potential reputational risk, taking ESG risks into account?

The Sustainability Guidelines outline the following ecological, social and governance-related (ESG) topics, which pertain to both business operations and business activities that could give rise to sustainability and reputational risks:

Sustainability Guidelines

- Environmental, e.g.
  - climate and environmental protection, e.g. protection of human habitats and the habitats of plants and animals
  - protection of species and ecosystems such as designated nature conservation areas
  - conservation of natural resources
  - sustainable use of land
  - transition to a circular economy aided by waste prevention and recycling, and to energy-saving production
- Social, e.g.
  - protection of human rights/non-discrimination
  - protection of civil rights, e.g. freedom of speech and the press
  - protection of labour laws and the upholding of fair terms and conditions of employment at organisations and their suppliers and service providers, e.g. with regard to health, job security, diversity and opportunities for career growth and training
  - prohibition of forced labour and exploitative child labour
  - protection of indigenous peoples, e.g. prevention of displacement, forced resettlement and land theft
  - fair treatment of customers, responsibility for products and consumer protection
  - sufficient product safety and health protection
  - reinforcement of the social infrastructure
- Governance (transparent and exemplary organisational leadership), e.g.
  - legal compliance and observance of internal rules regarding organisational leadership and control
  - heeding of embargoes and sanctions
  - heeding of payment transaction restrictions
  - prevention of financial crime, corruption and the financing of terrorism
  - combating money laundering
  - tax compliance
  - facilitation of whistle-blowing
  - data protection and IT security (cyber security)
  - promotion of sustainable and far-sighted company models and customer groups

The Guidelines thus cover the aspects that are material for BayernLB under HGB. The implementation of these requirements is set out in BayernLB's GRI Standards-based Sustainability Report.

The CRRM also conducts a reputational risk inventory every year, both at BayernLB and the relevant Group companies. This means that CRRM's findings relating to the estimation of risks from business activities pursuant to HGB can be incorporated into the non-financial report.

CRRM gave its approval to the matters being examined, in some instances subject to certain conditions. Furthermore, CRRM, Sustainability Management, the Compliance function or the functional unit itself declined to approve certain matters, e.g. due to governance requirements, such as the aforementioned Guiding Principles for Transformation in particular.

There is one single Sustainability Policy for the BayernLB Group, which the Group units DKB and BayernInvest have also each adopted as their own and published. The BayernLB Bank and DKB also have their own Environmental Policy and Environmental Programme. All documentation is published on their respective websites.

To operationalise its Sustainability Policy and Strategy, the BayernLB Bank has implemented a Sustainability Programme which details all goals and measures (including goal attainment deadlines) for each relevant topic area and is a key tool for making further improvements to BayernLB's sustainability performance. The new Sustainability Programme 2021 et seq. was published at the end of 2021, for the first time also integrating the goals and measures from the (now superseded) Environmental Programme.

The Sustainability Executive Unit is responsible for the design of the environmental management system validated in line with the Eco Management and Audit Scheme (EMAS) and certified to international standard ISO 14001, which covers large parts of the Group.

These sustainability activities help reduce the relevant risks, which are classed as low in the case of social and environmental issues with a bearing on the BayernLB Group's business operations.

HR management

Human resources development and policy

GRI 102-16 401

The BayernLB Group's employees play a key role in BayernLB's strategic direction. The foundations of human resources (HR) policy and employee management are defined in various principles and guidelines:

Principles/guidelines	Contents
Chapter in the Code of Conduct	• "Individual rights and protection from discrimination" • "Responsibility for employees"
Policy on cooperative conduct, protection against sexual harassment, bullying and discrimination	• Principles governing interaction between women and men
General Act on Equal Treatment (Allgemeines Gleichstellungsgesetz (AGG))	• Transposition of European guidelines on the implementation of the principle of equal treatment (no discrimination on the grounds of race or ethnic origin, sex, religion or belief, disability, age or sexual identity)

The BayernLB Group's headcount changed over the year as follows:

GRI 102-8 401

Headcount	BayernLB Group FY 2021	Of which BayernLB FY 2021	Of which DKB FY 2021	BayernLB Group FY 2020	Of which BayernLB FY 2020	Of which DKB FY 2020
Number of active employees	8,481	3,108	4,910	8,532	3,317	4,500
Of which women	4,264	1,442	2,630	4,278	1,511	2,425
Of which men	4,217	1,666	2,280	4,254	1,806	2,075
Of which in Germany	8,320	2,955	4,910	8,359	3,150	4,500
Of which abroad	161	153	-	173	167	-
Of which full-time	6,366	2,247	3,761	6,326	2,369	3,425
Of which part-time	2,115	861	1,149	2,206	948	1,075
Average age (in years)	43.7	45.6	42.7	43.5	45.2	42.6

GRI 405

Although the workforce contains almost equal numbers of men and women (see table above), the same is not yet true of management roles. BayernLB has set itself a target to increase the number of women in management positions to 30 percent in the medium term up to 2024 (see Sustainability Programme 2021 et seq.). BayernLB has initiated a number of targeted development measures that are reported on in detail in the (GRI Standards-based) Sustainability Report. These include a mentoring programme in which women act as mentors for other women and the #Fortschrittsfrauen network. In addition, the proportion of female staff in this year's talent programme group is 75 percent.

DKB is also taking steps to further equalise the ratio of women and men in management positions in the company. The DKB network for women in management was also strengthened further in the reporting year. This provides a platform for networking, new incentives and greater visibility in the company. A systematic approach to talent management will also help identify and encourage potential candidates for management positions in a more equitable ratio of women to men.

Management position: female headcount	BayernLB Group FY 2021	BayernLB FY 2021	DKB FY 2021	BayernLB Group FY 2020	BayernLB FY 2020	DKB FY 2020
1st management level[1]	16.0%	0.0%	20.0%	16.0%	0.0%	21.4%
All other management levels	32.6%	26.2%	36.8%	32.5%[2]	24.4%[2]	37.5%

1 1st level management = Board of Management/senior management.
2 Corrected due to referencing error.

GRI 102-22

BayernLB's Supervisory Board comprises eleven members (DKB: 16), two of whom are women (DKB: five). This means that women account for a share of 18.2 percent (DKB: 31.3 percent).

GRI 401 404

A key tool of staff management and development is the development and performance dialogue. This tool promotes an open and constructive development dialogue between managers and employees and ensures they have a common focus. It governs the systematic transformation of the objectives derived from the Bank's business strategy and risk culture to employee level. Based on the objectives agreement reached at the beginning of the year, all employees are given annual feedback in their appraisal on the degree to which they achieved their targets as well as guidance to enable them to determine where they currently stand in terms of their personal development and to reconcile their career and personal development objectives. Individual development planning highlights prospects and areas for development.

GRI 404

With the help of an appropriate further training budget, BayernLB offers a range of training and qualification programmes for this purpose. This helps employees achieve and implement the individually tailored objectives agreed in the development and performance dialogue.

Further training budget

Further training	BayernLB Group FY 2021	Of which BayernLB FY 2021	Of which DKB FY 2021	BayernLB Group FY 2020	Of which BayernLB FY 2020	Of which DKB FY 2020
Training budget[1]	EUR 5.5 m	EUR 1.8 m	EUR 3.4 m	EUR 7.1 m	EUR 2.2 m	EUR 4.3 m

1 BayernLB's further training budget also includes the budget for the foreign branches. DKB's further training budget also includes the budget for DKB Service GmbH.

Health management

GRI 403

The BayernLB Group faces the challenge of maintaining and promoting the health of its staff.

Code of Conduct

It is essential that occupational health and safety and workplace security regulations be observed by all employees. It is one of the management tasks of BayernLB to provide a healthy and hazard-free working environment. [...] In turn, we expect that our employees take a responsible approach to their health and fitness.

The Bank has an integrated health management system. This includes company doctors, nurses and human resources managers specialised in health management. They work closely with the Staff Council, the occupational health and safety expert, BayernLB's sports club and the nutritional specialists for the employee canteen. There is also an occupational safety committee in accordance with occupational safety law, which supports the monitoring of occupational health and safety programmes and also has an advisory role. Representatives from the Staff Council and therefore the workforce sit on the committee. There are no indications of relevant (mainly health-related) risks in the area of health and safety at work.

Health rates

Health	BayernLB Group FY 2021	BayernLB FY 2021	DKB FY 2021	BayernLB Group FY 2020	BayernLB FY 2020	DKB FY 2020
Health rate[1]	96.6%	96.8%	96.4%	96.2%	96.3%	96.2%

1 Ratio of absences due to illness (with and without continued payment of salary, regardless of insurance status) to planned working days.

To prevent typical health problems associated with activities performed mainly while sitting at computer workstations, the health and safety officers pay attention to the ergonomic design of workstations. As part of its healthcare management the Bank also offers its employees opportunities for sports activities and holds regular Health Days, focusing on topics such as exercise and a healthy diet.

As a result of the Covid-19 pandemic, virtual Health Days were held during the reporting year, as were virtual sports courses for the employees. Some initiatives to help employees deal with the challenge of staying healthy while working from home were made available at the start of the pandemic, including webinars on topics such as "How to manage stress while working at home during the pandemic".

BayernLB offers comprehensive support for mental health issues like stress and burn-out, in part by providing extensive information on the intranet and holding seminars for employees and managers. In addition, the Bank has also successfully implemented an operational integration management programme (Betriebliches Eingliederungsmanagement (BEM)) pursuant to section 84 (2) of the Social Security Code (Sozialgesetzbuch (SGB)) IX, in which its employees can request professional support when reintegrating after a long illness.

DKB also takes preventative healthcare and health promotion for its employees seriously. DKB's health management is externally audited every two years and regularly receives top marks, e.g. it was rated as excellent in the 2020 Corporate Health Audit.

GRI
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102-44
401
403

Challenges and opportunities

For more information on the "Fokus 2024" transformation programme, refer to the "Foundations of the BayernLB Group – Business model and Group strategy" section in the combined management report. Details on the reduction of the workforce can be found in the section on the BayernLB Group's business performance in the report on the economic position.

There is also information (including figures) in the notes to the annual financial statements of the BayernLB Group on provisions for restructuring expenses and other obligations, in other words the information here relates to the consolidated financial statements.

In the wake of its strategic realignment, the BayernLB Bank decided at the end of 2019 to substantially reduce the size of the workforce. The NFR 2019 contains detailed information on the initial step to reduce headcount by 400 FTE and an announcement of an increase in the scope. The workforce will accordingly be reduced by around 940 FTEs in total in a socially responsible manner (no redundancies prior to autumn 2022, use of human resources tools mutually agreed with the General Staff Council ,including severance, pre-retirement, partial retirement, early retirement and training to assume other types of tasks) by the end of 2023. Corresponding restructuring provisions were created in the 2021 annual financial statements for a mutually agreed further reduction in headcount (see the information (including figures) in the notes to the 2021 annual financial statements of the BayernLB Group on provisions for restructuring expenses).

These human resources tools continued to be well received by employees in 2021. As at the end of 2021, the reductions in the workforce were still proceeding according to plan at the core Bank. As at the start of the second half of "Fokus 24", around 60 percent of the agreed reduction was either already secured by contract or soon to be so.

As was the case in the previous two reporting years, this is therefore a matter of concern to employees, i.e. a relevant number under HGB are at risk of losing their job. By agreeing the aforementioned wide-ranging provisions with the Staff Council this risk has, however, been mitigated. In particular, the principle of double voluntariness will be applied to the use of any workforce reduction measure. As a result, there continue to be no major risks and none are anticipated.

The "Fokus 2024" transformation programme was implemented hand in hand with robust change measures, for example to safeguard operational stability and keep BayernLB's remaining employees motivated. The whole workforce is involved through regular "pulse checks" to evaluate and assess the individual steps in the transformation process. The findings from this were used to draw up measures to make improvements. The divisions are provided with extensive support in the form of change workshops to help them make changes to their operations as part of the strategy to create a streamlined specialised bank. The particular focus here is on the introduction of a new teamwork model in the Corporates & Markets segment. The Bank is systematically working on and implementing topics with importance for the future, such as expanding digital and agile expertise. Employees and management are being given ongoing training to build up this expertise that will be so critical for the Company's success.

Besides the implementation of the Group-wide "Fokus 2024" transformation programme, one of the main challenges in the year 2021 was managing the effects of the Covid-19 pandemic.

Principally to protect employees' health, both BayernLB and the BayernLB Group moved very quickly at the start of the pandemic to maintain a stable business environment while allowing most of the workforce to work from home. The concept of working from home is not new to the Bank. Employees have been using this arrangement for many years with excellent results, and it has now been expanded as a result of the pandemic. The rules in employment contracts dealing with mobile working were already comprehensive before the pandemic. Upon joining, all new employees must familiarise themselves with the health and safety at work regulations, how to record working hours, how to deal with all issues relating to data protection and the Code of Conduct. They are also given a further grounding in these areas through periodic online training and internal awareness reports.

In March 2020, a cross-divisional working group and a coronavirus business continuity team were set up. Among the measures implemented were the creation of a comprehensive hygiene strategy, the purchase of additional licences for remote access, stress testing of the technical infrastructure to safeguard employees' ability to work from home, assistance for families through the provision of additional support days, and providing an ongoing assessment of the Covid-19 situation. The already existing pandemic planning, including process-related business continuity planning, was updated. Over the whole period, all Group companies kept their employees abreast of developments with reliable, current and transparent information. In collaboration with the occupational health service, vaccination campaigns for employees and their families were also conducted from mid-2021.

Human resources management therefore helps reduce HGB-related risks in the area of employee issues primarily by introducing measures to improve the balance between family and work life, to further equality, and to promote the health, skills and professional and personal further development of the employees. At the same time it is responsible for structuring the salary, bonus and pension systems.

Another risk is that the remuneration system might encourage inappropriate risk conduct in certain circumstances. To manage this particular risk, the BayernLB (Bank/Group) Remuneration Strategy and Guidelines specify in detail the requirements under the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung) stipulating appropriate remuneration and defining them for BayernLB. BayernLB and DKB provide detailed information on this matter in their respective remuneration reports. During the course of the year, at both DKB and BayernLB the relevant documentation demonstrating the suitability of the remuneration system is presented to a compensation committee that meets on several occasions.

GRI 102-35 to 102-39

The Code of Conduct and the works and staff councils in many organisational units and levels are just some of the systems in place to counter the risk of employees' human rights and right of

GRI 402

assembly being infringed. Other risks arise from the national specifics of employment law. These are specifically monitored by the above-mentioned risk instruments.

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102-34

Compliance management system

Compliance with rules, regulations and standards is standard practice for BayernLB and taken very seriously. In order to stay up to date with the constantly evolving requirements and any changes in the risk situation, BayernLB continuously reviews its risk and compliance management system. The Compliance Division has the key tasks of preventing, monitoring and penalising breaches of the rules and promoting a uniform understanding of values and integrity. The goal of the compliance management system is to safeguard and ensure the reliability of BayernLB's market presence, which is based on compliance with statutory and regulatory requirements, and to protect it against illegal activities. Besides fighting money laundering, financial crime and the financing of terrorism, its remit also includes combating corruption and bribery. It also regularly reports to the Board of Management and the Audit Committee of the Supervisory Board on the relevant issues by means of the annual integrated compliance report. The independent Compliance function is considered to be a trustworthy and fair point of contact, both inside and outside the Bank. A whistleblowing system has also been instituted.

Group companies and foreign branch offices each have their own compliance units.

GRI
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Code of Conduct

BayernLB and its employees regard acting lawfully, ethically and responsibly as an elementary and indispensable part of their personal, corporate and social responsibilities.

BayernLB's Code of Conduct is a key component of its compliance culture. It serves as a set of standards for day-to-day activities and lists the most important legal and social requirements, e.g. in relation to inside knowledge, competition law, intellectual property protection, data protection and information security, responsibility for employees, individual rights and protection from discrimination, transparent (internal and external) communication, managing conflicts of interest, sustainability and ethics, social responsibility and the risk and compliance culture. The rules formulated in the Code of Conduct are necessary minimum standards in the BayernLB Group. They apply in dealings with colleagues, customers, suppliers, service providers, business partners, competitors, market participants, shareholders, the public and official bodies.

All BayernLB's business areas, all employees and the members of the Board of Management and Supervisory Board must observe the Code of Conduct. New members of staff are made aware of the Code of Conduct when they take up their position. It is also published on BayernLB's website and serves as a template for the codes of conduct of the Group units.

The Code of Conduct is supplemented by guidelines such as the leadership compass, the Environmental and Sustainability Policies, which are also for the most part publicly available, and by internal regulations, for issues such as equal treatment and managing conflicts of interest, including the "Regulations on accepting and granting benefits (particularly gifts and invitations)". These are implemented in the respective Group units in line with their business model and local needs. DKB and BayernInvest also publish their own Environmental and Sustainability Policies and/or respective guidelines on their websites.

The Code of Conduct is also an important component of BayernLB's "risk culture" principles. The risk culture has equal standing with BayernLB's mission and values and describes how risk awareness and conduct must be implemented in practice at BayernLB.

Managing conflicts of interest

GRI 102-25

Group-wide guidelines are in effect to manage conflicts of interest, and these are applied at the BayernLB Bank and the subsidiaries DKB, BayernInvest and Real I.S., each with its own systems of rules. These bring together the relevant parts of existing detailed regulations. To appropriately deal with (potential) conflicts of interest, a multi-stage procedure is followed that may ultimately mean the Bank not conducting particular transactions or business.

A reporting office has been set up to identify and manage conflicts of interest. It investigates and evaluates conflicts of interest and decides, together with the units concerned, on necessary measures and any consequences. The reporting office also documents key circumstances that can cause a conflict of interest in a conflicts of interest catalogue. A conflict of interest arises when there is a risk that the capacity for professional judgement or action could be compromised by one or more interests.

BayernLB's Corporate Governance Principles and the Statutes of Bayerische Landesbank also provide for the abstention of Board of Management members in respect of decisions affecting them or persons associated with them. Furthermore, at BayernLB all ancillary activities must be approved in writing by the employer based on specific assessment criteria.

In accordance with the "Guidelines for personal transactions" which are embedded in all relevant Group units, employees may not, for example, buy or sell securities they deal with professionally, in line with the prohibitions and rules contained therein. Furthermore, employees' personal transactions may not be in conflict with the interests of customers or the Bank.

In addition to requirements under criminal and tax law that must be observed, the internal instruction "Regulations on accepting and granting benefits (particularly gifts and invitations)" provides employees with a code of conduct and support for dealing with the acceptance and granting of gifts and invitations (see also "Combating corruption and bribery").

Combating corruption and bribery

GRI 205

One of the key objectives of BayernLB's compliance management system is combating corruption, bribery and other criminal offences in all locations and subsidiaries. Compliance with the relevant standards ensures legal or regulatory sanctions and loss of reputation can be avoided. At the BayernLB Group, various measures related to this issue have been implemented.

For example, the written organisational rules enshrine the principle that the Group may not enter into any business relationship with persons who have been legally convicted of corruption or with companies managed by such persons.

The “Regulations on accepting and granting benefits (particularly gifts and invitations)” make it clear that any gifts, invitations or benefits which could limit the personal independence of the recipient or raise doubts among the public about the integrity of BayernLB or the recipient are not permitted. Donations and sponsorships are also subject to clear rules and must be strictly separated from each other. Appropriate measures are set out in the rules for pricing and new lending.

Mandatory, regular training courses for all employees (in accordance with the risk-oriented cycle) deal with the relevant regulations and conduct in the fight against corruption. Examples are used to illustrate how to recognise corruption and conduct/events that are out of the ordinary. The options available under the existing whistleblowing system are also discussed.

New employees and temporary staff are also subjected to an intensive checking process, including submission of a police clearance certificate. All employees are tested on their knowledge of unethical conduct and breach of duty every year.

The Group-wide review and monitoring of all compliance risks is carried out by the respective compliance units. Based on regular risk analyses, these draw up appropriate precautionary measures to combat financial crime, corruption and bribery and report on their effectiveness and any events on an ad hoc basis and annually to the Audit Committee of BayernLB’s Supervisory Board.

All-in-all, so far as the aspect “corruption and bribery” is concerned, no risks were identified in the business activities of the BayernLB Group that are notifiable under HGB. During the reporting period no violations of the law relating to corruption at or by BayernLB were identified by the courts.

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419

MaRisk compliance risk identification

Pursuant to MaRisk, the MaRisk compliance function is responsible for identifying and analysing material legal rules and requirements pertaining to risk where a breach would put the institution’s assets in jeopardy. BayernLB defines compliance risk as follows:

Definition of compliance risk within the BayernLB Group

Compliance risk includes the risk that the Group will incur losses as a result of non-compliance with applicable legal regulations. This does not include breaches of contractual arrangements or internal rules. Compliance risk is characterised as a breach of duty or omission that results in sanctions, particularly in the form of fines or compensation claims. Compliance risk does not include risk of losses as a result of inappropriate conduct when providing banking or financial services (conduct risk).

BayernLB’s MaRisk compliance function conducts a risk analysis no less than once a year to determine the legal rules and regulations that are material to the institution. The function sets out the appropriateness and effectiveness of the rules to ensure compliance with the material legal regulations and requirements in its annual report. When examining risks, legal rules and regulations are also assessed as to whether non-compliance could have a serious adverse impact on the aspects under HGB that are material for BayernLB.

To identify risks both to BayernLB itself and to “third parties” such as the environment, employees or other persons, this risk survey by Group Compliance and the annual risk inventory by Reputational Risk Management mentioned above are therefore used as a basis for the NFR. To classify the size of the damage to “third parties” certain criteria were drawn up that take account of the specific intentions of HGB.

Overarching control mechanisms

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102-23
102-24

Besides the usual control mechanisms for financial institutions (Supervisory Board, Board of Management decisions based on the multi-control principle, etc.), BayernLB as a public-sector institution is subject to the legal supervision of the Bavarian Ministry of Finance and Regional Identity (supervisory authority). The supervisory authority has extensive rights to information and regularly participates in General Meetings and Supervisory Board meetings. It can lay down all necessary regulations to ensure that BayernLB’s business operations meet the laws, articles of incorporation and other statutory requirements.

By law, BayernLB is subject to ad hoc auditing by Bavaria’s supreme audit institution. Such audits may cover compliance with the regulations and principles governing business management, i.e. amongst other things whether management has acted economically and frugally.

All monitoring functions mentioned in the report ensure overall that HGB-relevant matters are given special consideration.

Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting[49]

To Bayerische Landesbank Anstalt des öffentlichen Rechts, München

We have performed a limited assurance engagement on the separate non-financial report of Bayerische Landesbank Anstalt des öffentlichen Rechts, München, (hereinafter the "Company") for the period from 1 January to 31 December 2021 (hereinafter the "Non-financial Report").

Not subject to our assurance engagement are the external sources of documentation or expert opinions mentioned in the Non-financial Report.

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ (Articles) 315c in conjunction with 289c to 289e HGB ("Handelsgesetzbuch": "German Commercial Code") and Article 8 of REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18. June 2020 on establishing a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (hereinafter the "EU Taxonomy Regulation") and the Delegated Acts adopted thereunder, as well as for making their own interpretation of the wording and terms contained in the EU Taxonomy Regulation and the Delegated Acts adopted thereunder, as set out in section "Disclosures pursuant to Article 8 of the EU Taxonomy Regulation as at 31 December 2021" of the Non-financial Report.

This responsibility includes the selection and application of appropriate non-financial reporting methods and making assumptions and estimates about individual non-financial disclosures of the Company that are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal controls as the executive directors consider necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error

The EU Taxonomy Regulation and the Delegated Acts issued thereunder contain wording and terms that are still subject to considerable interpretation uncertainties and for which clarifications have not yet been published in every case. Therefore, the executive directors have disclosed their interpretation of the EU Taxonomy Regulation and the Delegated Acts adopted thereunder in section "Disclosures pursuant to Article 8 of the EU Taxonomy Regulation as at 31 December 2021" of the Non-financial Report. They are responsible for the defensibility of this interpretation. Due to the immanent risk that indeterminate legal terms may be interpreted differently, the legal conformity of the interpretation is subject to uncertainties.

Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

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[49] *PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the Non-financial Report and issued an independent practitioner`s report in German language, which is authoritative. The following text is a translation of the independent practitioner`s report.*

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis - IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Responsibility of the Assurance Practitioner

Our responsibility is to express a conclusion with limited assurance on the Non-financial Report based on our assurance engagement.

We conducted our assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether any matters have come to our attention that cause us to believe that the Company's Non-financial Report, other than the external sources of documentation or expert opinions mentioned in the Non-financial Report, are not prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors disclosed in section "Disclosures pursuant to Article 8 of the EU Taxonomy Regulation as at 31 December 2021" of the Non-financial Report.

In a limited assurance engagement the procedures performed are less extensive than in a reasonable assurance engagement, and accordingly a substantially lower level of assurance is obtained. The selection of the assurance procedures is subject to the professional judgement of the assurance practitioner.

In the course of our assurance engagement, we have, amongst other things, performed the following assurance procedures and other activities:

- Gaining an understanding of the Company's sustainability organization and stakeholder engagement
- Inquiries of the executive directors and relevant employees involved in the preparation of the Non-financial Report about the preparation process, about the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of likely risks of material misstatement in the Non-financial Report
- Analytical procedures on selected disclosures in the Non-financial Report
- Reconciliation of selected disclosures with the corresponding data in the consolidated financial statements and management report
- Evaluation of the presentation of the non-financial information
- Evaluation of the process to identify taxonomy-eligible economic activities and the corresponding disclosures in the Non-financial Report

In determining the disclosures in accordance with Article 8 of the EU Taxonomy Regulation, the executive directors are required to interpret undefined legal terms. Due to the immanent risk that undefined legal terms may be interpreted differently, the legal conformity of their interpretation and, accordingly, our assurance engagement thereon are subject to uncertainties.

Assurance Opinion

Based on the assurance procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the Non-financial Report of the Company for the period from 1 January to 31 December 2021 is not prepared, in all material respects, in accordance with §§ 315c in conjunction with 289c to 289e HGB and the EU Taxonomy Regulation and the Delegated Acts issued thereunder as well as the interpretation by the executive directors disclosed in section “Disclosures pursuant to Article 8 of the EU Taxonomy Regulation as at 31 December 2021” of the Non-financial Report.

We do not express an assurance opinion on the external sources of documentation or expert opinions mentioned in the Non-financial Report.

Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt am Main, 14 March 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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The translation of the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the combined management report and the report by the Supervisory Board of Bayerische Landesbank as well as the auditor's report is for convenience only; the German versions prevail.

Financing progress.

Bayerische Landesbank
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