

08

Disclosure report

as per Part 5 of the Solvency Ordinance (SolvV)
as at 31 December 2008

 Finanzgruppe Bayern

 Bayern LB

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Preliminary remarks

With the publication of the Solvency Ordinance (SolvV) on the capital adequacy of institutions, groups of institutions and financial holding groups as well as Section 26a HGB (new version), the disclosure requirements under Pillar III of the Basel Framework (Basel II) were transposed into national law. Compliance with these disclosure requirements is a prerequisite for the use of certain procedures to determine capital requirements.

Bayerische Landesbank (BayernLB) obtained regulatory approval on 1 January 2007 to use the Internal Ratings Based (IRB) approach to measure capital requirements for credit risks under the foundation IRB approach.

The disclosure report is published as a separate report on the internet in parallel with BayernLB's annual report as an individual bank – prepared under HGB (German Commercial Code) accounting rules – and the BayernLB Group's annual report – prepared under International Financial Reporting Standards (IFRS). This report is based on HGB data, which are the basis for preparing the Solvency Ordinance reports in BayernLB Group.

Under the waiver rule, individual banks may apply for exemption from complying with organisational and procedural conditions of certain capital adequacy rules and disclosure requirements at individual bank level. BayernLB has opted not to apply the waiver rule under Section 2a KWG.

Note: Calculations may result in the figures in the tables being rounded by \pm one unit.

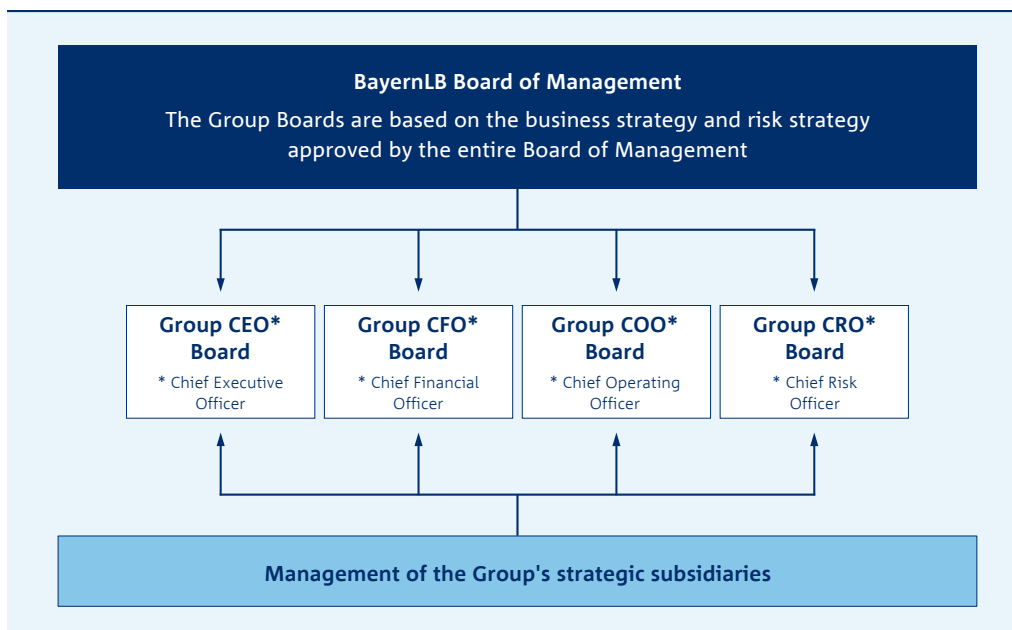
Risk management objectives and principles (Section 322 SolvV)

Organisation and management

Organisation/internal risk monitoring and reporting / internal auditing

BayernLB's Board of Management ("Group Board of Management") is responsible for providing BayernLB Group with a proper business organisation that is capable in particular of ensuring major risks are appropriately managed and monitored at Group level. It issues standards and guidelines that must be observed by all individual institutions within the Group. Standards and guidelines are introduced and implemented by the chief risk officers (CRO) of BayernLB and the Group strategic participations (MKB Bank Zrt. (MKB), Banque LBLux S.A. (LBLux), Landesbank Saar (SaarLB), Deutsche Kreditbank AG (DKB), LB Swiss Privatbank AG (LB(Swiss)) and Hypo Group Alpe Adria (HGAA)), who together comprise the Group CRO Board.

The Group CRO Board also serves as a forum for exchanging information on current market and risk developments, with the aim of drawing up targeted and timely measures to reduce risks.



Operational implementation of risk monitoring within BayernLB is the responsibility of the Risk Office Support Operation and Financial Office Support Operation. The Risk Office's main tasks are to manage and report all risk types at Bank and portfolio level. Its responsibilities include identifying, measuring and continually monitoring credit, investment, country and operational risks. The Financial Office Support Operation took over responsibility for monitoring market price risks, including liquidity risks, for BayernLB on 1 October 2008. The Risk Office Support Operation is responsible for monitoring these risks at Group level.

A system is in place to ensure that the Board of Management and other relevant bodies receive independent and risk-adequate reports on all risk types, including the calculation of risk-bearing capacity.

BayernLB's Board of Management sets the Group risk strategy consistent with the Group business strategy and specifies business objectives and guidelines for each relevant transaction type. The Group Risk Management Principles set out the group-wide framework within which the key risks are to be handled. These are specified in further detail by the Group Risk Guidelines. Each of the boards of management of the banks within the BayernLB Group use them as a basis for setting their own risk strategies and are responsible for their implementation.

The Audit Division audits BayernLB's business operations and reports directly to the Chairman of the Board of Management under Section 22 (3) of BayernLB's Statutes. Its auditing activities are based on a risk-oriented auditing approach and include all activities and processes within or outsourced by BayernLB. It carries out its assigned tasks independently of the activities, processes and functions to be audited, taking account of applicable legal and supervisory requirements (e.g. KWG and MaRisk). As Group auditor, it also supplements the internal auditing units of the subordinated entities within the BayernLB Group.

Credit risk

Definition of credit risk (counterparty risk)

Credit risks are the biggest risk for the BayernLB Group in terms of size.

Credit risks (or counterparty risks) arise from transactions that result in direct or indirect claims for payment against business partners. Any failure by these business partners to meet their payment obligations results in a loss equal to the amount due but not paid, less the value of any realised collateral and reduced by any other realisation proceeds from the unsecured portion. This definition covers not only debtor and guarantee risks from the credit business but also issuer, replacement and settlement risks from the trading business.

Country risks and investment risks are measured, managed and monitored separately.

Framework

The credit risk strategy – which is part of the risk strategy covering all types of risk – is set by the Board of Management on the basis of the risk and business policy for the Bank and Group, taking account of risk-bearing capacity considerations. The operational management of sub-portfolios is carried out using specific parameters and guidelines. In addition, the credit risk strategy not only sets principles for managing risks, but also defines the resources required for this, the qualifications of staff and the technical-organisational support of the management process.

Credit decisions are taken by the Board of Administration, Board of Management, Credit Committee and authorised officers in Sales or the Risk Office analysis units in line with an approved, risk-adequate competence regulation.

The Credit Committee is a permanent body of BayernLB and the most senior credit body below the Board of Management. All credit decisions taken in accordance with the competence regulation in the Board of Management and Board of Administration are voted on first in the Credit Committee.

The decision-making process in the subsidiaries has been/will be adjusted accordingly; members of BayernLB's Board of Management are represented on the credit committees of some subsidiaries.

Risk measurement

Risk management within BayernLB Group was further refined in the reporting year. In HGAA, work was begun on revising the credit process and introducing the relevant BayernLB rating procedures. This process will continue through 2009 as planned. In addition, HGAA is also refining rating procedures still in use to cover specific customer segments. In 2008, DKB AG passed the Internal Ratings Based (IRB) Approach suitability tests, as set by the regulatory authority, for the DSGVO (German Savings Bank Association) standard rating, including the small customer rating, and the DSGVO real estate rating.

BayernLB's main rating procedures are:

- Scorecard procedure
Scorecard or scoring procedures are used to allocate points to certain major attributes of customers (quantitative and qualitative) based on mathematical/statistical historical analyses to calculate a total score for creditworthiness. All possible total scores are assigned within a scale that is based on the probability of default and therefore a rating scale.
- Simulation procedures
Simulation procedures are used to classify property financing risks. Simulation-based rating procedures use a quantitative model with a default test to differentiate between performing and non-performing loans. The result is a probability of default calculated from the results of the default test (i.e. not in default or in default) from all simulations. Qualitative factors and warning signals are used in addition to quantitative risk assessments.

BayernLB obtained regulatory approval on 1 January 2007 to use the IRB (Internal Rating Based) approach. After completion of the regulatory review process, approval to apply the IRB approach has been granted for the following rating modules:

- Banks,
- Insurance,
- Corporates (corporate clients, including municipally owned companies),
- Savings banks standard rating,
- International public authorities,
- Country and transfer risk,
- Supranationals,
- Internal Assessment Approach for securitisations,
- Leasing (leasing companies and real estate leasing SPVs)
- International commercial real estate,
- Savings banks real estate rating,
- Project financing,
- Ship financing.

Rating procedures 1-8 are scorecard procedures that measure risks at customer level. Simulation-based procedures (10-13) are used for the “specialised lending” sub-class. These not only take account of credit related information but also include in particular transaction-specific criteria. Rating procedures 8 and 9 employ both simulation and scorecard methods.

In 2008, additional rating systems were submitted for regulatory testing in the form of rating procedures for assessing leveraged finance and aircraft financing. Borrowers are assigned to rating classes in a 25-tier master rating system based on the probability of default.

BayernLB updates and refines these models in partnership with “RSU Rating Service Unit GmbH & Co. KG” and “Sparkassen Rating und Risikosysteme GmbH”. All rating procedures are submitted for ongoing validation to ensure they are able to correctly determine default probabilities in each customer and financing segment. The validation process involves both quantitative and qualitative analyses, in which the rating factors, accuracy and calibration of the process, quality of the data and design of the model are assessed on the basis of statistical and qualitative analyses and user feedback.

The Bank’s internal rating systems are also used for loans granted to BayernLB’s participations.

The Creditrisk+ model is used to measure credit risk at portfolio level. In addition, the risk contribution of each individual business partner to the entire portfolio in the event of an unexpected loss is also calculated.

Risk limitation

Counterparty risks at the individual customer level are monitored daily by the BayernLB Risk Office's Group Risk Control Division using a bank-wide limit-setting system. This allows limits for each borrower (unit) to be entered and their compliance with them to be monitored. In establishing the limits, a distinction is made between borrower, issuer, guarantee, replacement and settlement risks. Default risk timing structures are managed by subdividing the limits into different maturity bands. A similar system is used in the subsidiaries.

Large risks are managed group-wide based on the corresponding regulatory framework for large exposures.

To ensure the credit portfolio is sufficiently granular, concentration risk is managed by placing economically-focused limits on borrower units, based on the Basel II risk weighting. This involves setting, on the basis of BayernLB's equity situation, uniform, rating class-linked limits which no borrower unit may exceed.

Concentrations at portfolio and sub-portfolio level are limited using target portfolio management, which is structured by risk-orientated guidelines, such as portfolio limits on rating classes, sectors and countries. Target portfolio planning is based on the risk-bearing capacity calculation, carried out over several years, reviewed annually and adapted if conditions change.

Another key tool for limiting risks at BayernLB Group level is the acceptance and ongoing valuation of eligible forms of collateral. In deciding how much collateral is required, particular account is taken of the type of financing, the borrower's assets, their valuation and liquidity and a reasonable cost/benefit ratio (acceptance costs and ongoing valuation).

Collateral is processed and valued in line with the relevant guidelines, which set out in particular valuation procedures, discounts and frequency for the individual types of collateral. Net risk positions are calculated on the basis of the liquidation value of the collateral.

Specialist units are responsible for all contractual documentation, as well as administration and ongoing monitoring.

In derivatives trading, master agreements are usually concluded for the purpose of close-out netting. Collateral agreements have been made with certain business partners restricting the default risk associated with individual trading partners to an agreed maximum and authorising the call for additional collateral should this limit be exceeded.

Credit derivative transactions are only carried out with counterparties with investment-grade ratings. Replacement risk is also reduced using appropriate credit hedging agreements.

As part of its IRBA approval, the Federal Financial Supervisory Authority (BaFin) has given its approval to reduce the amount of regulatory capital required by offsetting against charges on property, guarantees, financial collateral and derivatives. In 2008, the definition of financial collateral was extended from cash collateral only to also include securities. The above-named types of collateral are the main types of collateral accepted by BayernLB. Of these, charges on property are the most important.

Risk monitoring

All credit exposures are monitored continuously as part of a reporting process in terms of their financial situation, collateral, compliance with limits, contractual obligations and internal and external agreements. Exposures with elevated risk are detected early on using defined early warning indicators that form part of the early risk detection process. Early warning indicators are reviewed for appropriateness on a regular basis. Problem exposures are classified in line with standard international practice (special mention, substandard, doubtful and loss) based on their level of risk and, if necessary, are transferred to specialist restructuring and risk monitoring teams.

Implementing suitable measures early on through the provision of intensive support or problem loan handling helps minimise or completely prevent BayernLB from experiencing potential defaults.

Investment risk

Definition of investment risk

Besides counterparty risks from the credit business, risks may also arise from participations (investments in entities), otherwise known as shareholder risk. These include potential losses of equity provided, liability risks (e.g. letters of comfort) or risks from profit and loss transfer agreements (loss transfers).

Framework

To achieve its corporate aims, BayernLB makes selected investments focused on broadening its range of business, providing services for the Bank or purely as a financial investment.

The risk strategy and participation policy govern the handling of participation risks. This policy regulates in particular how participations are categorised as either strategic or quasi-credit/credit-substitutes, how mixed debt- and equity-financed participations are handled, the investment process itself as well as the controlling and reporting system.

BayernLB exercises influence over the business and risk policies of its investees through its presence on their shareholder committees or supervisory bodies.

Based on the requirements in BayernLB's Group risk strategy, compatible risk management processes, strategies and procedures are implemented in the Group's strategic participations. These participations are intensively integrated into BayernLB Group's management via the individual types of risk.

All participations are also subject to ongoing performance and risk monitoring. The aim here for BayernLB is to generate adequate and sustainable returns after taking account of risk provisions.

Risk measurement

Investment risks (excluding the Group's strategic participations) are measured using the simple risk-weighted method under SolvV if the grandfathering method is not applied.

Risk limitation

The Group's strategic participations are integrated into BayernLB's annual strategy and planning process. BayernLB's aim is to achieve corporate control or ensure this through appropriate voting agreements. By having a presence on the shareholder or supervisory bodies, the Bank can influence business and risk policies.

BayernLB provides the investee with equity and/or debt. If it provides both equity and debt capital, it examines any additional risks, particularly those arising from its status as a lender (Section 32a GmbHG, Section 8a KStG).

Risk monitoring

BayernLB has an independent central unit with the authority to issue guidelines for all methods and processes relating to participation risk control within Group Risk Control. The business units involved are responsible for operational implementation of risk management instruments.

A classification process for rating and monitoring risk has been implemented for all participations. Key factors in this are maximum loss potential and early warning indicators. As with credit risk, the assigned rating determines what process – normal, intensive support or problem loan handling – is to be used within BayernLB.

Investment risks are described in the annual participations report to the Board of Management and Board of Administration using the relevant procedures (classification, early warning). If any relevant early warning signals occur, the decision-makers are notified ad hoc. Significant critical participations are monitored within the intensive support or problem loan handling process and reported to the Board of Management on a quarterly basis. The report sets out in particular recommendations for action and the implementation status of measures already executed.

Country risk

Definition of country risk

Country risk is the risk of a business partner in the country affected or the country itself failing to meet its obligations either at all or on time due to sovereign acts, macro-economic problems or political problems.

Country risk can arise from a potential deterioration in macro-economic conditions, political or social upheaval, nationalisation or expropriation of assets, non-recognition by a government of international liabilities, currency control measures, currency depreciation or devaluation, payment or delivery bans, moratoria, embargos, war, revolution or a coup d'état in the country in question.

Framework

BayernLB supports customers seeking to enter rapidly growing foreign markets to tap new potential sources of income. Specific strategies are created for selected countries and region, for example, expansion into Eastern Europe. BayernLB therefore consciously accepts a limited amount of country risk in the course of its business activities.

The country risk policy lays down uniform and binding criteria for defining and handling country risks. It specifies, for example, the need for a country rating for each country in which business is carried out, the way country risk is measured, limits for risk-relevant countries, areas of responsibility, and monitoring, including escalation levels, when limits are exceeded.

The basic system for managing country risks applies group-wide.

Risk measurement

Country ratings are a key tool for measuring individual country risk. Country ratings are calculated group-wide and centrally by an independent analysis unit in the Economics Division, revised at least annually and modified where necessary. Country risk is assessed by analysing the economic and political situation in each country, particularly its ability to service its debt, using quantitative and qualitative data. Country ratings are used by BayernLB to determine credit risk in the IRB approach under Basel II.

Risk limitation

Country risks are restricted via a target portfolio by setting country limits on transfer and conversion risks for countries classed as risk-relevant, similar to the target portfolios for rating classes and sectors. These limits are set simultaneously and are coordinated, both at country and portfolio level BayernLB does not take on exposure to countries with an especially high risk.

Risk monitoring

A normal risk environment is assumed in the country portfolio model when measuring losses arising from country risks. The central country risk controlling unit monitors compliance with target portfolio country limits on an ongoing basis and notifies the Board of Management directly by means of the regular credit and country risk report if they are exceeded.

In cooperation with the Economics Department, the Credit Committee and the Board of Management are promptly notified of any significant negative changes in country risk. Ad hoc reports and scenario analyses are compiled for the Credit Committee and the Board of Management where needed. Estimated country risks based on a VaR model are shown in a monthly risk-bearing capacity report.

Market price risk including interest rate risk

Definition of market price risk

Market price risk relates to potential losses from changes in market prices. BayernLB breaks down market price risks by risk factor: general and specific interest rate risk, currency risk, share price risk, commodity risk, volatility risk, as well as risks from alternative investments. Market price risks may arise from securities (or quasi-securities products), money market or foreign-exchange products, commodities, derivatives, currency or earnings hedging, quasi-equity funding or asset/liability management.

Framework

The risk strategy lays down the strategic principles for dealing with market price risks. These may only be assumed within approved limits and are constantly measured and monitored. The basis for assuming market price risks – even for closed positions – is a product introduction process for the underlying products. The Group subsidiaries implement their own planning.

Risk measurement

In BayernLB Group, various instruments are used for the purposes of monitoring and limit setting, including risk sensitivities, value-at-risk, stress tests and ratios for calculating risk-bearing capacity. Market price risks are normally measured as part of the daily monitoring process using the value-at-risk method based on a one-day holding period and confidence level of 99 percent. Historical simulation – which calculates and takes into account correlations – is the main value-at-risk method used at BayernLB.

Market price risk measuring procedures are regularly assessed for reliability with respect to soundness and quality. In the backtesting process, the risk forecast is compared with the actual results (profit or loss). In accordance with the Basel II traffic light approach, the forecasting quality of the risk model is classified as good if the forecast risk was not less than the actual daily risk on no more than four days per year. In BayernLB in 2008, due to the extreme market volatility, the limits for individual sub-portfolios were sporadically breached; these extreme market movements were then incorporated directly into the risk calculation.

Although value-at-risk-based measurement is the generally accepted approach for measuring risks, the outcomes must always be viewed in the context of the model's parameters (particularly: the confidence level selected, one day holding period, use of historical data over one year to forecast future events). For this reason, additional, forward-looking analyses are carried out on the basis of extreme or blanket assumptions that are not covered by the measurement methods used. In group-wide, uniform stress tests, the market positions of the individual institutions are exposed to crisis or blanket market price movements or crisis situations and analysed in terms of risk potential. These stress scenarios cover price risks for interest rates, credit spreads, exchange rates, share prices, prices of alternative investments, commodities prices, as well as volatility risks. Additional individual stress tests are used at individual bank level. The outcomes of the standardised stress scenarios are also incorporated into the Group risk-bearing capacity. For example, additional stress-related economic risk for market risks was taken into account in the reporting year due to the marked widening of credit spreads. The outcomes of the group-wide standardised stress tests were continually reviewed and modified where necessary.

Within BayernLB Group, no in-house, internal risk models are currently used for regulatory purposes. Instead, the standardised method is used.

Interest rate risks in the form of refinancing, structure, basis and options risks are entered into. In BayernLB, the interest rate risk in the investment book portfolios is integrated into the daily risk monitoring using value-at-risk methods as part of the monitoring of market risks. Contractual or legal termination rights are modelled as options and incorporated into the risk calculation. All undated deposits are considered to be due on a daily basis.

In addition, for the interest rate risk in the investment book, an interest-rate shock scenario of +130/ -190 basis points is calculated group-wide.

Risk limitation

In BayernLB Group, the maximum loss from assuming market price risks is limited by allocating market risk capital, based on the calculation of risk-bearing capacity. The limits so calculated are monitored at the Group-wide and individual bank level. In BayernLB, market risk capital for the overall value-at-risk is allocated by setting risk factor limits for each of the market risk factors. In addition, risk factor limits are also set for each of the defined sub-portfolios.

Risk monitoring

All market price risks are monitored and reported on a daily basis independently of Trading. Besides implementing supervisory requirements, the trading monitoring unit ensures risk transparency and reports to the portfolio managers regularly. The Board of Management and Board of Administration are given quarterly updates on the market price risk situation. In BayernLB in addition, detailed monthly reporting takes place.

The quarterly Pfandbrief report to the Board of Management (pursuant to Section 27 German Pfandbrief Act) shows both credit and operational risk in the Bank's register of cover and Pfandbrief-related market and liquidity risks.

Operational risk

In line with the regulatory definition, BayernLB Group defines operational risk (OpRisk) as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Legal risks fall within this definition.

Legal risk is the risk of loss resulting from non-compliance with laws and rulings due to ignorance (even if unintentional or unavoidable), insufficient diligence in applying the law or failure to respond to legal changes within a reasonable period of time.

Risk strategy

Operational risks within the BayernLB Group are identified and evaluated as fully as possible, so that the appropriate measures for avoiding, mitigating, transferring or intentionally accepting the risks can be framed and prioritised.

BayernLB has undertaken to manage operational risk efficiently in order to protect the company, employees and customers from financial loss, loss of confidence or damage to its reputation.

Framework

Rules and procedures for dealing with operational risk are set out in the OpRisk strategy, operating instructions and an OpRisk manual.

Legal risks are taken into consideration by the Legal Division, which records losses and carries out regular assessments of potential OpRisk damage from legal risks and is responsible for identifying and centrally managing legal risks.

Risk measurement

For the purposes of disclosure under the Solvency Ordinance (SolvV) and Basel II, BayernLB has applied the standardised approach (STA) since 1 January 2007 to calculate capital requirements for operational risk at the Group-wide and individual bank level. Pursuant to Section 277 SolvV, which allows partial use of the basic indicator approach for a transitional period, HGAA is still included in the calculation of BayernLB Group's OpRisk capital requirements on the basis of the basic indicator approach.

To estimate operational risk internally and economically, BayernLB uses a value-at-risk model based on a loss distribution approach. The model factors in internal and external loss data and allows "expected" and "unexpected" losses to be calculated. To build up base data, information on OpRisk events in the business areas and support operations is continually collected within an institutionalised reporting system (loss database). Additional information is collected through risk inventories and included as scenarios in the OpRisk modelling. In 2008, BayernLB further improved its methods for building up these scenarios and the loss data recording procedures. For the purposes of early detection, specific key risk indicators are used.

BayernLB founded the OpRiskdata consortium (DakOR) back in 2006 in partnership with eight other banks and service provider VÖB Service as trustee. Jointly collected data are used to make comparisons and have been employed since 2007 to measure OpRisk in the BayernLB internal value-at-risk model. Since 2008, BayernLB has used the ÖffSchOR loss event database also operated by VÖB Service, in which publicly known OpRisk loss events, primarily from German-speaking countries, are entered.

Risk limitation

Operational risks cannot be limited. To ensure business continuity at all times, emergency scenarios for key business processes are tested and used to draw up suitable measures for BayernLB.

Business Continuity Management

Business Continuity Management (BCM) refers to all measures and processes used to maintain key business activities in operation. BCM ranges from the adoption of preventative protective measures to ensure availability, with the aim of preventing or limiting losses from undesired events, to ensuring business processes, applications and infrastructure are able to resume within a reasonable period of time.

Threat scenarios, resulting, for example, in the non-availability of staff, loss of usability of buildings or an outage of support systems, are taken into account. To ensure business operations are properly maintained in an emergency (business continuity), suitable protection measures are drawn up based on scenarios of critical events for all key business processes.

The BCM standard applicable in BayernLB is incorporated with its associated process steps, controls and responsibilities in the Bank's written organisational rules. The BCM standard covers regular risk monitoring of local BCM activities and, in 2008, was the subject of comprehensive training sessions for local management.

In 2008, both the analysis of the business activities that must be maintained bank-wide in the event of an emergency (based on loss potential) and the report on current threats to BayernLB from potential risks were updated.

Risk monitoring

The central OpRisk controlling unit is responsible for issuing guidelines on all methods, processes and systems related to OpRisk controlling and management. The local OpRisk management units of the business areas and support operations are responsible for managing these risks. Incentives for reducing these risks are created by allocating OpRisk capital.

Processes with generally higher OpRisk are identified and reviewed by systematically monitoring the risk inventories and key risk indicators used.

The Group's strategic participations manage their operational risk using their own OpRisk controlling. Companies belonging to the regulatory group pursuant to Section 10a KWG were included in BayernLB Group's institutional OpRisk loss event reporting procedure. In addition, regular risk inventories are carried out for potentially risk-relevant companies.

BayernLB Group's operational risk and OpRisk management activities are regularly reported to the Board of Management. The half-yearly OpRisk report was discontinued on 30 September 2009 when OpRisk reporting was integrated into the quarterly risk reports for the Group and BayernLB. The risk reports show on a quarterly basis the OpRisk loss situation and changes in economic risk. In addition, the risk report shows on a half-yearly basis the relevant OpRisk potential for the Group and summarises the status of BayernLB's BCM activities.

Scope of consolidation (Section 323 SolvV)

BayernLB, a corporation established under public law, is a credit institution domiciled in Munich, Germany. It is classified as a parent institution for regulatory purposes and subject to the Solvency Ordinance (SolvV).

Consolidation matrix

The table below shows the companies directly included in the consolidated financial statements (fully consolidated or valued at equity) and their regulatory treatment. A number of smaller, subordinate companies are also consolidated but are of minor importance and are therefore not shown. A complete list of shareholdings pursuant to Section 285, sentence 1 no. 11 HGB and Section 313 para. 2 HGB is published separately in the electronic Federal Gazette.

Consolidation matrix

Name	Regulatory treatment			Consolidation under IFRS	
	Consolidation		Dis-counted method	Risk-weighted stakes	Valued-at-equity
	Full	Proportional			
Credit Institutions					
• BayernLB, Munich (parent company)	x				x
• BayernInvest Kapitalanlagegesellschaft mbH, Munich	x				x
• Banque LBLux S.A., L - Luxembourg	x				x
• Deutsche Kreditbank Aktiengesellschaft, Berlin	x				x
• HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, A - Klagenfurt	x				x
• Landesbank Saar, Saarbrücken	x				x
• LB(Swiss) Privatbank AG, CH - Zurich		x			x
• MKB Bank Zrt., H - Budapest	x				x
Financial service institutions					
• --					
Financial enterprises					
• BayernLB Capital LLC I, USA - Wilmington	x				x
• Kommanditgesellschaft Allgemeine Leasing GmbH & Co., Grünwald			x		x
Ancillary banking services					
• --					
Insurance companies					
• --					
Investment companies					
• German Centre for Industry and Trade India Holding-GmbH, Munich			x		x
Other					
• GBWAG Bayerische Wohnungs-AG, Munich				x	x
• Real I. S. AG Gesellschaft für Immobilien Assetmanagement, Munich				x	x

BayernLB Group's strategic participations

The Group's strategic participations form an integral part of BayernLB's business model. As strategic participations, they function as independent market players. Forming part of a close-knit network, they are able to offer customers a wide range of products while concentrating on their own core strengths. The strategic subsidiaries are integrated into BayernLB's planning process.

No restrictions or significant impediments exist preventing the transfer of funds or equity within BayernLB Group, provided no local banking supervisory rules are contravened.

No exemptions for group institutions under Section 2a KWG have been applied (waiver rule).

BayernLB's most significant strategic participations are:

- Deutsche Kreditbank AG, Berlin (100 percent holding) is BayernLB's internet-based retail bank and serves as the centre of expertise for residential sector exposures within BayernLB Group.
- Landesbank Saar, Saarbrücken (75.1 percent holding) targets customers of mutual interest in the German state of Saarland and a growing business with customers in neighbouring areas of France in close cooperation with BayernLB. Furthermore, selected BayernLB products are jointly distributed.
- MKB Bank Zrt., in Budapest, Hungary (89.6 percent holding) is integral to BayernLB's strategy for Eastern Europe and constitutes a bridgehead for tapping into promising emerging markets in Central and Eastern Europe. Along with DKB, it constitutes a key component of BayernLB's retail businesses.
- Banque LBLux S.A., Luxembourg (75 percent holding) acts as service provider in the financial centre of Luxembourg. It is also responsible for the Corporates and Real Estate Business Areas in the Benelux region and acts as IT service provider for several BayernLB entities.
- LB (Swiss) Privatbank AG, Zurich (50 percent holding) in the financial centre of Switzerland serves as the competence centre for international private banking and fund business. Its core activities are focused on HNW private and corporate customers, mainly from the Sparkassen-Finanzverbund in Bavaria, Hesse, Thuringia and the Saarland. There is also close collaboration with BayernLB in trading, research and asset management.
- Hypo Alpe-Adria-Bank International AG (HBInt), Klagenfurt, Austria was acquired by BayernLB in 2007. BayernLB's stake in HBInt has now risen to a 67.1 percent holding after purchasing additional shares and following a capital increase in 2008. HGAA operates in the Southern/Eastern European markets.

Own funds (Sections 324, 325 and 326 SolvV)

Capital management

BayernLB Group's capital management is based on a planning process that combines strategic, risk-oriented and regulatory factors within a multi-year operational planning.

In the initial planning, BayernLB Group's strategy is reviewed regularly and modified where necessary. Strategy is confirmed or modified by the Board of Management and submitted to the Board of Administration for approval.

Based on the agreed strategy, the Risk Office and business areas work together to draw up specific objectives for the sub-portfolios in terms of counterparty risk at BayernLB level. Among the agreed target parameters are ratings, sectors and country structures.

Based on Internal Capital Adequacy Assessment Process (ICAAP) requirements, each business area and support operation within BayernLB is allocated a more broadly defined economic risk capital in addition to the required reported equity.

Regulatory capital adequacy (solvency)

BayernLB has established the following objectives, methods and processes to ensure adequate levels of capital:

Reported equity is allocated on the basis of BayernLB Group's own funds planning. Own funds are defined as modified available capital, which is made up of core capital and supplementary capital, plus regulatory Tier III capital. Core capital consists essentially of subscribed capital plus reserves and capital contributions from silent partners. Supplementary capital includes participation rights and long-term subordinated liabilities. Regulatory Tier III capital includes short-term subordinated liabilities.

Own funds planning is based largely on the internal target core capital ratio (ratio of core capital to risk positions) and an internally set target ratio (ratio of own funds to risk positions) for BayernLB Group. It defines for the planning period the maximum risk assets, market risk positions and operational risks that may arise from BayernLB's business activities. The effect of market fluctuations – simulated in stress tests – is taken into account by means of capital buffers to ensure solvency criteria are continually met.

As part of the IFRS Group planning, regulatory capital is distributed to the individual planning units. These planning units (or Group units) are the BayernLB segments including the consolidated (non-Group strategic) participations allocated to them, Bayerische Landesbodenkreditanstalt and LBS Bayern and the Group's strategic participations DKB, MKB, HGAA, LBLux and SaarLB.

Regulatory capital is allocated to the Group units through a top-down distribution of limits on risk assets and market risk positions set by the Board of Management, comprising a target core capital ratio > 8 percent for the Group, in addition to segment-specific targets.

Checks are constantly carried out to ensure the limits on risk asset and market risk positions provided for each Group unit are observed.

Capital structure (Section 324 SolvV)

BayernLB's regulatory capital consists of paid-in nominal capital and reserves plus various other capital instruments. The most important features of the main capital instruments (terms and conditions) are summarised below.

Core capital

Capital contributions from silent partners

Dated capital contributions from silent partners have original maturities of 10 years or more. The annual dividend depends on capital market yields at the time of distribution plus a risk premium based on market conditions. They meet the requirements under Section 10 para. 4 KWG to be included in core capital.

Undated capital contributions from silent partners have broadly similar terms and conditions but are perpetual and not cumulative (unpaid dividends are not carried forward). The distribution is linked to capital market rates and agreed for a 10-year time period. These also meet the Basel Committee on Banking Supervision's requirements of 27 October 1998 for inclusion as core capital.

Hybrid capital

Hybrid capital that BayernLB Group has included as core capital is generated by issuing trust preferred securities through a special-purpose entity. This structure is perpetual but can be terminated by BayernLB after 10 years have elapsed. The annual dividend depends on capital market yields at the time of distribution plus a risk premium based on market conditions. The requirements for inclusion as core capital under Section 10 (2a) no. 2 KWG are fulfilled.

Supplementary capital

Profit participation certificates

Profit participation rights have original maturities of at least five years, though most have maturities of 10 years or more or are perpetual. The annual dividend depends on capital market yields at the time of distribution plus a risk premium based on market conditions. They meet the requirements under Section 10 para. 5 KWG for inclusion as supplementary capital.

Longer-term subordinated liabilities

Long-term subordinated liabilities have original maturities of at least five years, though most have maturities of ten years or more. Interest rates are dependent on capital market yields at the time of distribution plus a risk premium based on market conditions. The requirements for inclusion as supplementary capital under Section 10 para. 5a KWG are fulfilled. As they are limited to 50 percent of core capital held, a certain proportion of these subordinated liabilities are treated as regulatory Tier III capital (caps).

Short-term subordinated liabilities (regulatory Tier III capital)

Short-term subordinated liabilities have original maturities of just under 2 ½ years. Interest rates depend on capital market yields at the time of distribution plus a risk premium based on market conditions. They meet the requirements under Section 10 para. 7 KWG for inclusion as supplementary capital.

Own funds structure (based on regulatory reporting)

EUR million	31 Dec 2008
Subscribed capital	2,911
Open reserves	9,037
Capital contributions from silent partners	2,245
Funds for general banking risks under Section 340 g HGB	608
Asset side balancing item	1,475
Deduction items under Section 10 para. 2 a sentence 2 KWG (Intangible assets)	-162
Total core capital under Section 10 para. 2 a KWG	16,114
Sum of supplementary capital under Section 10 para. 2 b KWG and regulatory tier III capital under Section 10 para. 2 c KWG	8,754
Sum of capital deduction items under Section 10 para. 6 und 6 a KWG	-657
of which: provision shortfall and expected losses under Section 10 para. 6 a no. 1 and 2 KWG	-525
Total modified available capital under Section 10 para. 1 b KWG and eligible tier III capital under Section 10 para. 2 c KWG	24,211

The provision shortfall calculated for BayernLB was largely due to a rise in expected losses based on increasing numbers of rating downgrades and USD currency exchange effects in the second half of 2008.

Capital adequacy (Section 325 SolvV)

Internal capital adequacy assessment process (ICAAP)

In addition to complying with regulatory capital requirements, a key component of BayernLB Group's risk management is safeguarding economic risk-bearing capacity (Internal Capital Adequacy Assessment Process (ICAAP)).

Risk-bearing capacity monitoring is carried out at BayernLB level and Group level. Significant progress in creating a centralised risk management and monitoring function was made in 2007/2008 with the full integration of all key Group strategic subsidiaries (DKB, HGAA, SaarLB, LBLux, LBSwiss and MKB) into the regular reporting on Group risk-bearing capacity, credit and country risk, market risk and operational risk. To ensure risk quantification methods relevant to the risk reporting are uniform, standards that are binding group-wide were drawn up.

The calculation of risk-bearing capacity was further refined in 2008. This largely involved adding an early warning function ("negative case") to the existing concept which succeeded in increasing sensitivity to small changes in economic risk. The confidence level, which is used as a basis for calculating economic risk capital, is derived from the strategic target rating. Accordingly, the economic risk was calculated on the basis of a confidence level of 99.96 percent, which corresponds to an external rating of A+.

Risk types used for calculating economic risk include credit, country, market price, investment and operational risks, as well as other risks (e.g. typical building savings risks at LBS). Economic risk for each risk type is normally calculated using the Value-at-Risk (VaR) method. This will be supplemented by an additional calculated economic risk resulting from stress scenario assessments.

Risk cover funds indicate the level at which unexpected losses arising from risks undertaken can be covered. They are organised into tiers along lines based on the balance sheet and income statement, in which the components of capital are categorised by their availability (liquidity) and the external impact of changes in them (capital market effects). A maximum loss limit – and therefore the available risk capital – is calculated from the risk cover funds. The components of the risk cover funds not included in the maximum loss limits are used to give depositors and senior creditors additional protection in the event of insolvency and are therefore not allocated to BayernLB's business activities. The consolidated risk cover funds for the Group are calculated centrally by the Financial Office Support Operation. The risk cover funds were presented under an IFRS format instead of an HGB format in the reporting year. Changes to the income statement and to equity based on fair value measurement therefore had a direct impact on available risk cover funds. The reallocation of securities to the IFRS loans and receivables category (LaR) as at 1 July 2008 resulted in a smaller reduction in risk cover funds than that which occurred due to market prices as at the reporting date.

Scenario assessments

In addition to the results from VaR testing, which mainly uses historical statistical data, a number of scenarios involving elevated risk situations are analysed (stress scenarios). In designing the scenarios, events that are exceptional but plausible are deliberately used.

Early warning indicators of risk-bearing capacity were developed to assess the relevance of these scenarios, enabling additional economic risk to be identified in good time. These indicators are, like scenarios, constantly reviewed and modified when necessary to take account of changed conditions. The effects of the scenarios are quantified and included in the risk report if the corresponding early warning indicator becomes relevant.

Scenario	Objective
Weak economic environment	Describes the impact of an economic slowdown (global recession) on the portfolio.
Real estate bubble	Value of real estate collateral falls resulting in a recession.
Large problem individual borrowers	Loss in the event of default by a large problem individual borrower or an entire country.
Sector crisis	Simulation of the impact of an economic downturn in one or more sectors.
Profit slump	Reflects the business risk that arises from short-falls that may occur between planned and actual expenditure and income.
Increased risk provisioning	Simulation of significant risk cover fund utilisation.
Rating downgrade	Simulation of the downgrade of BayernLB's rating to A- or BBB+(long-term) and A-2 or A-3 (short-term) based on S&P notation.
Market price/liquidity crisis	Simulation of a crisis on any one of BayernLB's major markets spilling over to the global inter-bank markets.
Additional funding obligation for the institutional deposit guarantee fund	Reflects the institution-specific impact of potential support requirements within the Sparkassen-Finanzgruppe, which could trigger additional funding obligations.

Economic risk and scenario losses are determined on the basis of group-wide uniform standards. The aggregation in risk-bearing capacity reporting at Group level does not take diversification into account and is therefore more conservative.

Capital requirements

On 1 January 2007, BayernLB obtained approval as an IRBA institution and uses the Internal Ratings Based (IRB) Approach at Group and individual bank level. On the same date, SaarLB also obtained approval as an IRBA institution at the individual bank level. Since 30 September 2008, DKB has also been included in the IRB approach for the purposes of calculating capital requirements at BayernLB Group level. All other BayernLB participations are integrated into the BayernLB Group using the SolvV Credit Risk Standardised Approach (CSRA).

Capital requirements for counterparty risk exposures are calculated in the IRB approach on the basis of the rating procedure approved for BayernLB. External ratings under the standardised approach (CSRA) are used to determine capital requirements for exposures that are not yet measured with an approved internal rating system.

To calculate risk positions from securitisations, BayernLB uses the supervisory formula approach in addition to ratings-based approach and the internal rating procedure.

In respect of participations the simple risk-weighting method is employed for "classic" participations, if the grandfathering rule is not applicable. Capital requirements for investment units are mainly calculated using the look-through approach.

For market price risks, BayernLB currently uses supervisory standardised methods instead of an internal model. Operational risk is measured using the standardised model (partial use of the basic indicator approach for the HGAA sub-group).

Capital requirements for SolvV reporting

EUR million	31 Dec 2008
Counterparty risks	13,807
Standardised approach	5,614
• National governments	82
• Regional governments and local authorities	24
• Other public authorities	22
• Multilateral development banks	–
• International organisations	–
• Institutions	168
• Corporates	2,936
• Retail business	1,034
• Exposures secured by real estate property	693
• Past-due items	312
• Covered bonds issued by banks	12
• Investment units	29
• Other items	302
IRB approach	7,010
• National governments and central banks	106
• Institutions	1,726
• Corporates	5,059
• Retail business	8
• Other loan-unrelated assets	111
Securitisations	771
Securitisations under the standardised approach	24
Securitisations under the IRB approach	747
Risks from equity investments	412
Equity investments under the standardised approach (grandfathering)	325
Equity investments under the market approach (IRB)	87
• Simple risk weighting approach	87
– Listed participations	3
– Unlisted but sufficiently diversified equity investments	17
– Other participations	67
– Internal model approach	–
Equity investments under PD/LGD approaches	–
Market risks in the trading book	1,504
Standardised approach	1,504
• Interest rate risk	1,172
• Equity position risk	9
• Currency risk	131
• Commodity price risk	191
• Other market risk positions	1
Internal model approach	–
Operational risks	502
Basic indicator approach	116
Standardised approach	386
Advanced measurement approaches	–
Capital requirements	15,813

Capital ratios (based on regulatory reporting)

in %	Total capital ratio	Core capital ratio
Consolidated banking groups		
• BayernLB Group, Munich	12.3	8.0
• BayernLB, Munich	15.9	10.0
Subsidiaries*		
• Banque LBLux S.A., L - Luxembourg	10.6	6.4
• Deutsche Kreditbank Aktiengesellschaft, Berlin	9.2	7.6
• HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, A - Klagenfurt	12.4	8.3
• Landesbank Saar, Saarbrücken	11.0	8.4
• MKB Bank Zrt., H - Budapest	10.9	7.7
Joint ventures*		
• LB(Swiss) Privatbank AG, CH - Zurich	24.1	24.1

* Calculated in accordance with SolvV or local reporting regulations, individual institution level only

Disclosure of risk types (Sections 326 to 336 SolvV)

Counterparty risk: General disclosure requirements on all institutions (Section 327 SolvV)

Total volume of exposure by credit risk-bearing instrument

Total exposure is based on the individual exposure amount (before credit risk mitigation techniques and after credit conversion factors (CCF)). The credit equivalent amount is shown for derivative instruments.

Investment instruments and securitisations disclosed under Section 327 SolvV are not represented in the breakdown as they have their own disclosure tables.

Exposures under SolvV arise from:

- Counterparty risks (Sections 9, 10, 11 and 13),
- Netting exposures (Section 12),
- Prepayment risks (Section 14) and
- Settlement risks (Sections 15 and 16).

Total gross credit exposures by type

EUR million	Loans, commitments and other non-derivative off-balance sheet assets	Securities	Derivative instruments
Total exposure	313,589	49,023	23,588

Geographic distribution of credit exposures

EUR million	Loans, commitments and other non-derivative off-balance sheet assets	Securities	Derivative instruments
Africa	594	35	–
Asia	6,625	230	201
Caribbean	987	399	52
Latin America	2,833	–	4
Central and Eastern Europe/CIS	36,360	1,306	612
Near/Middle East	4,323	35	320
North America	19,386	5,165	4,233
Western/Central Europe	234,312	41,338	17,887
Other	8,169	515	279
Total	313,589	49,023	23,588

Distribution of credit exposures by industry

EUR million	Loans, commitments and other non-derivative off-balance sheet assets	Securities	Derivative instruments
Automotive	5,519	330	419
Aviation	3,725	96	130
Banks/financial services institutions	82,077	39,979	16,669
Construction	4,296	133	65
Food & beverages	5,627	172	189
Gas & oil	5,338	61	242
Insurance companies	3,513	848	136
Retail customers	25,773	12	–
Real Estate	48,444	90	707
Countries/public sector	40,551	3,149	203
Utilities	10,343	329	967
Other	78,383	3,824	3,861
Total	313,589	49,023	23,588

Total credit exposures by residual maturity

EUR million	Loans, commitments and other non-derivative off-balance sheet assets	Securities	Derivative instruments
up to 1 year	52,744	12,755	4,518
between 1 year and 5 years	138,824	19,990	11,271
more than 5 years, undated	122,021	16,278	7,799
Total	313,589	49,023	23,588

Risk provision procedure

Specific loan loss provisions

Under the early risk detection process, exposures exhibiting risk signals are classified according to the amount of risk and given the appropriate form of support. This is based on objective indications of impairment. These include:

- A rating of 19 or below on the 25-tier rating scale
- Interest or principal payments or overdrafts past due for more than 30 days
- Forced renewals
- Rescheduling by other banks
- Payment deferrals or applications for payment deferrals
- Rating-related restructuring or reorganisation
- Standstill agreements
- Excessive debt or insufficient cover
- Country-specific problems

All exposures that are classified as substandard or lower based on these criteria are assessed for the impact on future cash flows as and when required, but at least once quarterly. If there is evidence of impairment, individual risk provisions are established, taking account of credit and country risks. Loan loss provisions are calculated for each business partner or financing project by offsetting the carrying amount of the receivable against the net present value of the estimated cashflow discounted at the original effective interest rate.

When establishing risk provisions, a distinction is made between specific risk provisions for existing loans, utilisations of financial guarantees, irrevocable credit commitments and other off-balance sheet liabilities. If, on impairment, it is determined that there is no outlook for recovery, the loan will, if a loan loss provision has already been established, be derecognised or, if an impairment is identified for the first time, directly written off against earnings. Key criteria for writedowns are rating-related cessation of business activities and interest or capital repayment waivers.

Portfolio provisions (general loan loss provisions)

Portfolio provisions related to creditworthiness are calculated on the basis of default probabilities and loss rates for all receivables which, according to individual assessment, do not need to be written down. The procedure applied is based on the SolvV system and also takes account of off-balance sheet credit transactions. BayernLB also exercised its option of establishing flat-rate specific loan loss provisions.

To reflect country risks (transfer risk and general political risk), portfolio provisions are also set up based on country risk-specific probabilities of default and loss rates, where these risks have not already been taken into account through specific provisions.

Definition of “in default” or “non-performing”

As part of the rating process, default criteria are included in the rating system.

Relevant default criteria are:

- (1) The individual borrower is past due more than 90 days on a material liability to BayernLB.
- (2) The Bank considers it unlikely that the individual borrower will pay its credit obligations to BayernLB in full, without recourse by the Bank to actions such as realising collateral (if held).
- (3) The Bank consents to a mandatory restructuring/workout restructuring of the credit obligation, which will result in a diminished financial obligation of the individual borrower on the basis of material forgiveness or postponement of principal, interest or fees.
- (4) The Bank makes a value adjustment or partial writedown due to a significant deterioration in credit quality subsequent to taking on the credit risk.
- (5) The Bank makes a full writedown of irrecoverable receivables.
- (6) The Bank sells part or all of the receivable of an individual borrower at a material, risk-related economic loss.

(7) The Bank has filed for the individual borrower's insolvency or made a similar order in respect of the individual borrower's credit obligations to BayernLB, or the individual borrower has sought or has been placed in bankruptcy or similar protection, where this would avoid or delay repayment of a credit obligation to BayernLB.

These default criteria take account of the definitions in the Solvency Ordinance, under which "loans in default" fall within rating class 22 (criteria 1), (2), (3) or (4)) and "non-performing loans" within rating classes 23 (criteria (3) or (4)) and 24 (criteria (5), (6) and (7)).

BayernLB's individual borrowers are also classed as "in default" or "non-performing" if they meet any of the default criteria of any subsidiary belonging to the BayernLB Group.

Reconciliation of changes in risk provisions

The following three tables show risk provisions under HGB and therefore cannot be compared with the presentation of risk provisioning under IFRS for the BayernLB Group.

Reconciliation of changes in risk provisions

EUR million	Opening balance as at 1 Jan 2008	Additions	Releases	Utilisations	Exchange rate-related and other changes	Closing balance as at 31 Dec 2008
Specific loan loss provisions	1,921	1,886	-528	-489	31	2,821
Provisions for the credit business	105	308	-31	-1	-24	358
General loan loss provisions	768	172	-85	-47	1	808

Impaired loans and provisions by sector

EUR million	Loan receivables		Balance			Net of additions/ releases			Direct writedowns	Receipts on written down loans
	Non-performing	In default	SLLP	GLLP	Provisions	SLLP	GLLP	Provisions		
Automotive	119	36	65	-	24	41	-	24	1	-
Aviation	239	-	40	-	-	-6	-	-	-	-
Banks/financial services institutions	943	49	623	-	214	606	-	208	-49	-
Construction	178	59	134	-	32	14	-	-5	3	-
Food & beverages	68	35	79	-	2	31	-	1	2	-
Gas & oil	11	6	11	-	-	11	-	-	-	-
Insurance companies	-	-	-	-	-	-	-	-	-	-
Retail customers	363	221	159	-	8	42	-	5	22	-
Real estate	710	1,171	596	-	21	186	-	10	10	-
Countries / public sector	30	44	5	-	-	3	-	-	-	-
Utilities	27	2	13	-	3	2	-	-	-	-
Other	1,440	1,129	1,095	-	54	429	-	33	18	-
Total	4,128	2,753	2,821	808	358	1,358	87	277	6	82

No breakdown can be given for GLLPs and receipts on written-off claims (see the tables below).

Impaired loans and provisions by geographical region

EUR million	Loan receivables		Balance			Net of additions/ releases			Direct writedowns	Receipts on written down loans
	Non-performing	In default	SLLP	GLLP	Provisions	SLLP	GLLP	Provisions		
Africa	-	-	-	-	-	-	-	-	-	-
Asia	90	5	24	-	1	5	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-	-	-
Latin America	25	36	23	-	1	7	-	1	-	-
Central and Eastern Europe/CIS	987	1,138	1,130	-	57	497	-	42	16	-
Near/Middle East	-	-	-	-	-	-	-	-	-	-
North America	808	118	173	-	187	154	-	182	-17	-
Western/Central Europe	2,120	1,456	1,363	-	113	572	-	52	6	-
Other	97	-	107	-	-	123	-	-	-	-
Total	4,128	2,753	2,821	808	358	1,358	87	277	6	82

CRSA exposure classes (Section 328 SolvV)

CSRA loan categories framework

Only external ratings from rating agencies Standard & Poor's and Moody's are used to assess creditworthiness in the standardised approach. Both have been specified for all CSRA loan categories.

The external ratings cover issuers, issues and countries. As the two rating agencies produce reports on a large number of countries, country classifications by export credit insurance agencies are not taken into account.

Issuers' credit ratings are used for unrated loans that are not ranked as subordinate.

Total exposures under CRSA before and after credit risk mitigation techniques and risk weightings

Risk weighting (in %)	Total exposure before credit risk mitigation	Total exposure after credit risk mitigation	IRBA (Specialised lending and investments) EUR million
	CRSA EUR million	CRSA EUR million	
0	49,289	60,404	–
10	701	701	–
20	8,952	8,306	–
35	13,290	13,101	–
50	10,120	10,203	–
75	24,028	17,237	–
100	54,995	45,687	–
150	2,806	2,748	–
Other risk weighting	860	860	345

These tables show CRSA exposures before and after credit risk mitigation techniques pursuant to Section 328 SolvV (after credit conversion factors). Substitution effects result in the replacement of exposures with originally high risk weightings by those with originally low risk weightings. IRBA exposures rated by regulatory risk weightings (under Section 329 SolvV) are also shown.

Disclosure by exposure class for which IRBA is used (Section 335 SolvV)

IRBA loan categories framework

BayernLB Group uses a uniform master rating system that is identical for all rating procedures and across all loan categories, so rating classes across all customer segments can be compared with each other. There are 22 rating classes for solvent borrowers and three classes for those in default. The rating classes are defined in terms of specific upper and lower limits on PD values.

The allocation of a borrower with an IRBA exposure to BayernLB's rating systems is governed by the scope of application defined in the rating process. Criteria-compliant application is ensured by the respective authorisation system of the rating systems.

Total exposure under the IRB approach by probability of default

	PD category 0 % to <= 0.5 %		PD category 0.5 % to <= 5 %		PD category 5 % to < 100 %		Default PD = 100 %		Total (excluding defaults)	
	Exposure (EUR million)	Average risk weighting (in %)	Exposure (EUR million)	Average risk weighting (in %)	Exposure (EUR million)	Average risk weighting (in %)	Exposure (EUR million)	Average risk weighting (in %)	Exposure (EUR million)	Average risk weighting (in %)
National governments	53,955	2	171	106	28	178	43	–	54,155	2
Institutions	57,807	25	5,775	101	548	215	893	–	64,130	34
Corporates	73,452	38	29,819	97	3,231	184	2,611	–	106,502	59
Total	185,214	23	35,765	98	3,807	189	3,547	–	224,787	38

The reported exposures are IRBA exposures pursuant to Section 99 SolvV (after credit risk mitigation techniques and after conversion factors) provided they can be allocated to PD categories. No risk weighting is calculated for exposures with a PD of 100 percent (default); Sections 104ff SolvV apply instead.

Total exposure under the IRB approach by default category (retail)

	PD category 0 % to <= 0.5 %			PD category 0.5 % to <= 5 %			PD category 5 % to < 100 %			Default PD = 100 %			Total		
	Exposure (EUR million)	Average LGD (in %)	Average risk weighting (in %)	Exposure (EUR million)	Average LGD (in %)	Average risk weighting (in %)	Exposure (EUR million)	Average LGD (in %)	Average risk weighting (in %)	Exposure (EUR million)	Average LGD (in %)	Average risk weighting (in %)	Exposure (EUR million)	Average LGD (in %)	Average risk weighting (in %)
Construction financing	13	50	21	8	49	87	4	47	248	2	50	0	27	46	42
Qualifying revolving retail receivables	3	59	7	5	59	36	4	58	126	0	60	0	12	57	12
Other retail loans	65	58	27	41	59	72	23	59	124	6	59	3	137	56	136
Total	83	57	25	54	58	71	31	57	141	8	57	2	176	54	113

Pursuant to Section 335 (2) no. 3 SolvV, only institutions applying the IRB approach for retail portfolios are required to publish the above table. As these procedures are applied in BayernLB Group only by DKB, the amounts shown relate only to DKB.

Use of internal estimates for purposes other than calculating risk-weighted exposure under IRBA

Internal estimates of the probability of default (PD) and loss given default rates (LGD) are important parameters in risk management and credit decisions. When calculating the pricing calculations of transactions a minimum margin is calculated. This takes account of the credit ratings from the internal rating procedures and loss given default estimates, which are important input parameters in calculating risk and capital costs.

In addition to regulatory risk limitation, the Bank manages its risk-bearing capacity from an economic perspective. Assessments of the economic risk-bearing capacity take account, among other things, of the results from the internal rating systems. Risk-bearing capacity is ensured by limiting available risk capital by risk type, business area and support operation. The Credit Committee and Board of Management are informed about the economic risk-bearing capacity in a monthly report. A risk-bearing capacity report at Group level is also produced.

Ratings also play an important role in credit approvals and credit processing. The authorised level for credit approvals contained in the competence regulations are based on ratings. Each loan is classified according to its level of risk. Different types of support are given: normal support, intensive support or problem loan treatment. Loans allocated to the intensive support and problem loan handling processes are subdivided into the “special mention” (only problem loan treatment), “substandard”, “doubtful” and “loss” categories.

Management and recognition of credit risk mitigation techniques

See “Credit risk mitigation techniques: disclosure for CRSA and IRBA (Section 336 SolvV)” on page 37.

Rating system control mechanisms

The rating systems include electronic checks that examine both the completeness and, where possible, plausibility of individual data or their combination with other data. As a further check, ratings are approved in line with the dual control principle. Except for non-risk relevant business as defined in MaRisk, only the Risk Office may grant ratings.

The Group Risk Control Division, which forms part of the Risk Office, is independent from the business areas. The counterparty risk monitoring unit, which is assigned to this division, has global responsibility for introducing, developing, maintaining and optimising rating systems.

All rating procedures are subject to ongoing validation. The validation process meets SolvV requirements and involves both quantitative and qualitative analyses.

Expected and actual losses in the credit business

The table below only applies to the IRB approach. Actual losses consist of utilisations of SLLPs and direct write-offs less receipts on written-off claims (HGB basis). As the number of banks which use the IRBA is significant, no changes in actual losses are shown.

EUR million	Expected loss (EL)	Actual loss
National governments	23	–
Institutions	499	52
Corporates	1,513	252
Construction financing	2	–
Qualifying revolving retail receivables	1	–
Other retail loans	8	3
Total	2,046	307

Construction financing, qualifying revolving retail receivables and other retail loans relate only to DKB (also see page 35).

Calculation of expected loss (EL) includes customers/loans that are performing or in default based on a one-year default probability. Customers/loans in default are considered to have a 100 percent probability of default (PD). Based on the definition of default under SolvV (e.g. “90 days in arrears”), customers are classed as in default very early on, before the institution has experienced any actual losses (“recovery”). In the actual event of realisation, actual occurring losses are not immediately shown, as average settlement times for exposures/customers may take several years.

The risk provision process is also a multi-year process in which several effects need to be taken into account (cyclicality, SLLP utilisation vs. write-back, etc.).

Credit risk mitigation techniques: Disclosure for CRSA and IRBA (Section 336 SolvV)

Qualitative framework for credit risk mitigation techniques

Sound collateral is requested for the purpose of hedging credit risk exposure. BayernLB follows the principle that real collateral (particularly charges on property) has seniority over debt undertakings.

Procedures for accepting collateral (procedures and requirements) are governed by the internal processing guidelines for each type of collateral.

In doing so, BayernLB also applies regulatory credit risk mitigation techniques. The German Federal Financial Supervisory Authority (BaFin) has assessed and recognised the following types of collateral: charges on property, guarantees, cash collateral and securities.

Netting agreements are used for derivative financial instruments. In BayernLB, an independent team is centrally responsible for the contractual documentation for these agreements as well as for administration and ongoing monitoring. Monitoring is carried out electronically.

The collateral policy sets out the requirements for valuing and administering collateral. To manage collateral, a collateral management system has been put in place where valuation criteria are documented. To ensure constant legal enforceability, contracts are usually standardised and changes in the law – particularly foreign legal systems – are monitored on an ongoing basis in cooperation with other institutions.

The procedure used to calculate and determine the value of the collateral must be documented clearly and meaningfully in line with defined requirements. If expert opinions are available, it must be ensured that information on marketability and liquidity used to assess liquidation value is available. Expected pro-rata shares from insolvencies and liquidations are reported only if there is a high probability that they will actually be paid or if the liquidator or insolvency administrator has clearly stated in writing and in figures that there is an expectation of being paid such a share, indicating the anticipated date of payment.

Major guarantors (guarantees and eligible sureties) are reported on a quarterly basis. Most are loan collateral guarantees and first-demand guarantees. Guarantors mainly comprise export credit insurers, public-sector customers and financial institutions (particularly guarantee banks). Most counterparties in the credit derivatives business are banks with very good ratings.

As part of the reporting, the key types and structures of eligible collateral are analysed and assessed for concentrations.

Credit risk mitigation: Total collateralised exposures for the standardised and IRB methods (not including securitisations)

EUR million	Financial collateral under Section 154 sentence 1 no. 1		Other eligible IRBA collateral under Section 154 sentence 1 no. 3		Eligible guarantees under Section 154 sentence 1 no. 2	
	CRSA	IRBA	CRSA	IRBA	CRSA	IRBA
	National governments	252	5	–	16	17
Regional governments and local authorities	50	–	–	–	10	–
Other public authorities	2	–	–	–	868	–
Multilateral development banks	–	–	–	–	–	–
International organisations	–	–	–	–	–	–
Institutions	226	516	–	1,557	22	3,217
Covered bonds issued by banks	3	–	–	–	–	–
Corporates	3,678	1,233	–	11,857	6,239	5,003
Retail	774	3	–	10	3,805	2
Exposures secured by real estate	–	–	21,266	–	–	–
Investment units	–	–	–	–	–	–
Participations	–	–	–	–	–	–
Other items	41	–	–	–	–	–
Past-due items	105	–	–	–	73	–
Total	5,131	1,757	21,266	13,440	11,034	8,435

The table provides a breakdown of financial collateral, charges on property and guarantees. Charges on property under CRSA are calculated from exposure class “exposures collateralised by real estate”.

Derivative counterparty risk exposures and netting exposures (Section 326 SolvV)

Capital allocation/ Allocation of upper limits for loans to counterparties

Derivative instruments within BayernLB Group are mostly employed by BayernLB. Banks and public-sector customers – customer groups with very good credit standings therefore – are the main counterparties in the derivatives business.

BayernLB has no separate capital allocation or default risk limits for counterparties with derivatives exposures. Both are carried out within the generally applicable limitation process for counterparty risk. Otherwise, the methods set by the supervisory authority for large exposure management and internal risk concentration management for counterparty risk apply. The latter sets limits on a business partner’s or counterparty’s exposure by means of rating-related risk concentration ceilings that may only be exceeded with the approval of the Board of Management.

See sub-section “Internal capital adequacy assessment process (ICAAP)” for information on capital allocation for risk types.

Measures to reduce risks

In derivatives trading, master agreements are usually concluded for the purpose of close-out netting. Collateral agreements have been made with certain business partners restricting default risk to an agreed maximum and authorising the call for additional collateral should this limit be exceeded. Actual collateral needs are regularly determined using mark-to-market valuations. Collateral needs after collateral calls are normally met by cash or government bonds.

Actual economic risk is thereby reduced to a contractually agreed threshold or a minimum transfer amount (for amounts above the threshold). All collateral accepted is systematically documented.

BayernLB uses derivative instruments to reduce market price risk and especially counterparty risk and to make a profit from proprietary trading in line with its business policy and strategy. Derivative instruments are integrated into the management systems for the market price risks and counterparty risks described above.

Correlation between market price and counterparty risk

Borrower risks are a subset of counterparty risk and entered separately from market price risk. The same applies to counterparty risk from derivatives transactions.

Economic risks from each risk type are aggregated based on a conservative assumption of a correlation of +/- 1, while correlation effects are calculated for market price risk and accordingly taken into account.

Collateral increases in the event of rating downgrades

A small number of derivative OTC transactions have been concluded that contractually require collateral to be provided or increased in the event that one of BayernLB's external ratings is downgraded. The amount of collateral to be provided in case of a downgrade would not affect BayernLB's risk-bearing capacity.

Derivative counterparty risk exposures and netting exposures

EUR million	Positive replacement values before netting and collateral	Netting options	Eligible collateral	Positive replacement values after netting and collateral
Interest rate-related contracts	24,372	-	-	-
Currency-related contracts	6,678	-	-	-
Equity/index-related contracts	242	-	-	-
Credit derivatives	2,872	-	-	-
Commodity-related contracts	621	-	-	-
Other contracts	-	-	-	-
Total	34,785	9,604	544	24,637

Counterparty risk

	Maturity method	Fair value method	Standardised method	Internal model
Counterparty risk exposure	-	11,741	34	-

Credit derivatives (a)

	Nominal value of hedging
Credit derivatives (protection buyer)	–

Credit derivatives (b)

Nominal value	Used for own credit portfolio		As intermediary
	purchased	sold	
Credit default swaps	42,190	35,432	10
Total return swaps	11,089	2,933	–
Credit options	–	–	–
Other	–	–	–

The first section of the table shows positive replacement values (defined as the positive fair value of the derivative before add on) pursuant to SolvV disclosure requirements. The reductions in positive replacement values shown were due to netting agreements.

The second section (counterparty risk) shows risk-weighted assets (RWA) for derivatives under the mark-to-market method/standardised method.

The third section shows credit derivatives (a): hedging transactions with credit derivatives are treated as sureties and are therefore classed in regulatory terms as off-balance sheet items in Solvency Ordinance reports.

Trading positions in credit derivatives are shown in the fourth section (credit derivatives b).

BayernLB acts as both a protection seller and protection buyer in respect of credit default swaps (CDSs). The CDSs are valued and monitored at individual transaction level daily. Profit and loss positions are calculated every day on the basis of this valuation.

Total return swaps (TRSs) are used by BayernLB for a number of business purposes, primarily to free up liquidity. TRSs are shown at the nominal value (not EAD) to the counterparty, each underlying being hedged.

Participations in the banking book (Section 332 SolvV)

Objectives of the participations portfolios

BayernLB's strategic participations include:

- Group strategic participations
Investments in banks in Germany and abroad that broaden customer potential and expand market share and are integral components of BayernLB's business model.
- Outsourcing of support operations
Investments in companies that provide services for BayernLB
- Other strategic participations
Investments in companies intended to be held long term that are entered into for strategic business-considerations to broaden the respective business spectrum.

Participations that count as quasi credit/credit substitutes include:

- Commercial enterprises (as financial investments) and
- Investments in companies required as part of the Bank's product range.

Measurement and accounting principles

BayernLB has a corporate valuation tool that fulfils all balance sheet requirements. Recognised valuation procedures are used to measure value:

- Market approach
- Income approach
- Cost approach

The income approach is normally applied if a company's value is not reflected by a stock market price. The cost approach is only applied in justified exceptional cases (companies in liquidation). The valuation is based on data supplied by the investee company. All factors used to value a company are documented in the valuation tool and disclosed to the auditor.

Under German commercial law (Section 340e para. 1 HGB), investments are valued according to the provisions applying to fixed assets (i.e. Section 253 para. 1 and 2 HGB), unless they are not intended for long-term use by the business. In this case, they are valued in accordance with the provisions applicable to current assets (i.e. Section 253 para. 1 and 3 HGB). Investment instruments are valued in regulatory terms on the basis of the simple risk-weighted method if the grandfathering rule is not applicable. The calculation of investment units is essentially based on the look-through approach.

Values of investment instruments

EUR million	Comparison		Stock market value
	Carrying amount	Fair value	
HGB investments			
- listed positions	1,063	503	503
HGB investments			
- unlisted	3,105	3,104	–
Non-HGB investments			
- listed positions (equities in the banking book)	23	19	19
Non-HGB investments			
- unlisted (investment units)	351	298	–
Non-HGB investments			
- other investment positions	–	–	–

The table includes all investment instruments in the BayernLB Group less Group consolidated participations. Fair value comprises the carrying amount and any unrealised gains or losses. Market capitalisation is calculated on the basis of the Xetra price as at 31 December 2008.

Realised and unrealised gains and losses on investment instruments

EUR million	Realised gains/losses from sales/settlement	Unrealised gains/losses	
		Total	Of which reported under supplementary capital
Total	148	-617	–

Market price risk (Section 330 SolvV)

See page 26 and 27 for information on market price risk.

Interest rate risk in the banking book (Section 333 SolvV)

Interest rate risk in the banking book is managed and monitored in BayernLB. Like all market price risks within BayernLB, it is calculated as net present value risk and integrated into the daily risk monitoring using value-at-risk methods as part of market risk monitoring. Limits are assigned on the basis of risk-bearing capacity calculated for each risk factor and monitored for compliance.

Interest rate risk in the bank book is also captured by means of changes in present value, which are measured and monitored using BaFin's interest rate shock scenarios of +130 basis points and -190 basis points. To calculate changes in present value, early repayment of loans with termination rights are taken account of through options models. Investor behaviour regarding undated deposits is modelled on the basis of internal models and procedures to manage and monitor interest rate risks. Non-interest bearing capital components, which are modelled over the next ten years in equal distributions, are also taken into account as part of risk management.

Interest rate risk in the banking book

EUR million	Change in present value	
	Interest rate shock +130 basis points	Interest rate shock -190 basis points
EUR	421	-1,214
USD	-385	435
CHF	-2	-21
GBP	43	-67
JPY	-13	-49
Other	80	-161
Total	143	-1,076

Securitisations (Section 334 SolvV)

Objectives, scope and assumed functions in connection with securitisation positions

Pursuant to Section 229 SolvV, the securitisation business can be broken down into two segments: transactions for customers that are structured exclusively at BayernLB's Munich and New York offices (ABS customer transactions) and investments in asset-backed securities (ABS).

In the asset-backed credit business, BayernLB structures and securitises the receivables portfolios of customers. The receivables portfolios comprise trade receivables, vehicle financing, consumer loans (including credit card receivables) and residential and commercial mortgage loans. The financing is largely carried out through Giro Balanced Funding Corporation and Giro Lion Funding Limited, the ABCP programmes established by the Bank. BayernLB Group's ABS customer transactions are conducted exclusively by BayernLB or in conduits that it has established.

BayernLB and its subsidiaries HGAA, Landesbank Saar and Banque LBLux S.A. initially invested in asset-backed securities to diversify portfolios and increase returns. Purchases of these securities ceased in 2007 when the financial crisis, triggered by these same securities, began.

The volume of BayernLB Group's securitisation transactions was EUR 23.7 billion as at 31 December 2008, of which EUR 23.7 billion related to BayernLB and BayernLB-supported conduits.

Pursuant to Section 229 SolvV,

- the volume of structured customer transactions where BayernLB acts as sponsor was EUR 3.8 billion and
- the volume of transactions where BayernLB acts as investor was EUR 5.4 billion.

In the reporting year, BayernLB was the originator of securitisations only in the transactions described below. On 19 December 2008, a guarantee agreement was concluded between the Free State of Bavaria and BayernLB. The guarantee covers actual losses in the ABS portfolio, above a first loss of EUR 1.2 billion. The maximum amount guaranteed is EUR 4.8 billion. The hedging has an economic, regulatory and accounting impact.

In return for a premium, the Free State of Bavaria undertakes as a protection seller to hedge BayernLB's ABS portfolio through two credit default swaps (CDSs). The hedging covers insolvency, non-payment of capital and interest and capital writedowns, as well as losses incurred from any sales before maturity.

The differences in the presentation of securitisation positions in the risk report are due to differences in the definition of securitisation under IFRS and the regulatory definition. For example, non-tranched securities secured by receivables are booked as securitisation exposures in the IFRS risk report. But for regulatory purposes, these exposures are not reported as securitisations.

Procedures to calculate exposure

In accordance with the IRB approach, all BayernLB's securitisation transactions are backed by own funds. The rating-based approach (RBA), which uses external ratings, is applied for both investor and sponsor exposures with underlying asset-backed securities. The rating agencies specified are Standard & Poor's and Moody's.

The Internal Assessment Approach (IAA; internal rating procedure) is applied in the case of customer receivables that are refinanced through ABCP programmes. The procedures currently in use include published models of recognised rating agencies.

The supervisory formula approach is utilised for exposures to which neither the rating-based approach nor internal rating procedures are applied.

In its ongoing assessment of the credit quality of an ABS transaction, BayernLB focuses on the value of the underlying pool of securitised receivables and on the suitability of the available collateralised structural elements (credit enhancements). The collateralised structural elements are continually assessed for suitability, irrespective of the external

rating for each ABS transaction, using appropriate stress tests and based on current market information. Asset class and market-related stress testing procedures are also employed and are largely based on BayernLB's assumptions and projections relating to future delinquencies, default and realisation rates in the portfolios underlying the ABS investments. The input parameters are continually checked for plausibility on the basis of market information and updated if necessary. In addition, the impact of structural factors and influence of parties involved at individual transaction level is factored in.

In the current market environment, BayernLB has been using indicative prices to measure asset-backed securities. These prices are based on information from market data providers, quotes from counterparties and brokers, as well as spreads and pricing data from external providers. BayernLB has an in-house valuation model for residential mortgage-backed securities/US sub-prime securities that are impaired.

Summary of the Bank's internal accounting and valuation methods for securitisations

General accounting methods apply to securitised financial instruments purchased by BayernLB.

Accounting under HGB

Securities in the trading portfolio: These are valued on the basis of the strict principle of lower of cost or market value, taking account of the requirement to reinstate original values. Valuations are shown in the net gains or losses on financial transactions item and current income under net interest income.

Securities in the liquidity reserve: These are valued on the basis of the strict principle of lower of cost or market value, taking account of the requirement to reinstate original values. Valuations are shown in the depreciation and earnings from selected securities item and current income under net interest income.

Securities valued as investments (investment portfolio): These are valued on the basis of the less strict principle of lower of cost or market value. Valuations are shown in the depreciation and reversals of securities treated as investments items. Current income is reported under the net interest income.

Receivables are reported at nominal value or at cost.

Credit risks are taken into account by establishing appropriate risk provisions. Current income is reported under net interest income.

Accounting under IFRS

Held-for-trading financial instruments and financial instruments at fair value (fair value option) are measured at fair value. Valuations are reported under gains or losses on fair value measurement. Realised and current income are also shown under this item.

Financial instruments classed as available for sale are measured at fair value. The difference between fair value and amortised cost is shown as a separate item in equity (revaluation reserve) and not recognised through profit or loss, until the asset is either disposed of or permanently impaired. Gains or losses on their sale or permanent impairment are reported in the gains or losses on investments item, and current income under net interest income.

Financial instruments in the form of loans and receivables are measured at amortised cost. Impairment is recognised under risk provisions in the income statement. Current income is reported under net interest income.

In the reporting year, in its “Reclassification of Financial Assets” statement on changes to IAS 39 and IFRS 7, the International Accounting Standards Board (IASB) agreed, among other things, to expand the option for reclassifying under certain conditions financial assets from the AfS and HfT categories to the LaR category. This is designed to take into account that fact that assets in the AfS category must be valued at daily market prices, although no actual market prices for this type of asset can be determined due to the financial crisis. BayernLB Group has utilised this option and reclassified securities reported as investments from the AfS category to the LaR category. It is intended in each case to hold these securities, which were reclassified retrospectively as at 1 July 2008, for the foreseeable future. Detailed information is given under note 58 of the 2008 IFRS consolidated annual report on the reclassification of financial assets.

Total retained or acquired securitisation exposures

EUR million	Total retained or acquired securitisation exposures	
	CRSA	IRBA
On-balance sheet items		
• Loans	213	2,456
• Credit enhancements	–	3
• Investments in ABSs	157	16,036
• Other on-balance sheet items	–	–
Total on-balance sheet items	370	18,495
Off-balance sheet items		
• Liquidity facilities	–	4,564
• Derivatives	–	175
• Off-balance sheet items resulting from synthetic transactions	–	–
• Other off-balance sheet items	–	118
Total off-balance sheet items	–	4,857

Total retained or acquired securitisation exposures corresponds to the sum of securitised receivables less the EUR 4.8 billion guarantee from the Free State of Bavaria.

Total retained or acquired securitisation exposures by risk-weighting range

EUR million	Total retained or acquired securitisation exposures	
	CRSA	IRBA
> 0% ≤ 10%	–	19,169
> 10% ≤ 20%	220	1,832
> 20% ≤ 50%	11	221
> 50% ≤ 100%	124	672
> 100% ≤ 650%	7	191
1250% / capital deduction*	8	1,266
Total	370	23,352

* The capital deduction item includes the EUR 1.2 billion first loss share in the guarantee agreement with the Free State of Bavaria.

Total securitised receivables by portfolio

EUR million	Outstanding loans
Classic securitisations	
• Credit cards	–
• Residential property	–
• Vehicle financing	–
• Other	–
Synthetic securitisations	
• Credit cards	–
• Residential property	–
• Vehicle financing	–
• ABS (guarantee agreement with the Free State of Bavaria)	19,346
Total	19,346

No credit events took place in the ringfenced portfolio in the period to 31 December 2008.

Operational risk (Section 331 SolvV)

See pages 26 and 27 for information on operational risk.

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The layout of the tables is largely based on the examples used by the Bundesbank's Disclosure Expert Panel of November 2006.

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List of abbreviations

ABCP	Asset-backed commercial paper
ABS	Asset-backed security
AFS	Available-for-Sale
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority)
BCM	Business continuity management
CCF	Credit conversion factor
CDS	Credit default swap
CEO	Chief executive officer
CFO	Chief financial officer
CHF	Swiss franc
CIS	Commonwealth of Independent States
COO	Chief operating officer
CRO	Chief risk officer
CRSA	Credit risk standardised approach
DakOR	Datenkonsortium OpRisk
DSGV	Deutscher Sparkassen- und Giroverband (Association of German Savings and Giro Banks)
EAD	Exposure at default
EL	Expected loss
EUR	Euro
GBP	GB pound
GLLP	General loan loss provision
GmbHG	Gesetz betreffend die Gesellschaften mit beschränkter Haftung (German Limited Liability Companies Act)
HfT	Held-for-Trading
HGB	Handelsgesetzbuch (German Commercial Code)
IAA	Internal Assessment Approach
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IRBA	Internal Rating Based Approach
JPY	Japanese yen

KStG	Körperschaftsteuergesetz (German Corporate Taxation Act)
KWG	Kreditwesengesetz (German Banking Act)
LaR	Loans and receivables
LGD	Loss given default
MaRisk	Minimum Requirements for Risk Management
ÖffSchOR	Loss database operated by VÖB
OpRisk	Operational risk
OTC	Over the counter
PD	Probability of default
RBA	Rating Based Approach
RMBS	Residential mortgage-backed security
S&P	Standard & Poor's
SLLP	Specific loan loss provision
SolvV	Solvabilitätsverordnung (Solvency Ordinance)
SPC	Special purpose companies
STA	Standardised approach operational risk
TRS	Total return swap
USD	US dollar
VaR	Value-at-risk
VÖB	The Association of German Public Sector Banks
TRS	Total Return Swap
USD	US Dollar
VaR	Value at Risk
VÖB	Verband öffentlicher Banken

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