



**BAYERNLB | DISCLOSURE REPORT**  
**AS AT 31 DECEMBER 2010**  
PURSUANT TO PART 5 OF THE  
SOLVENCY ORDINANCE (SOLVV)

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## Preliminary remarks

Pillar III of the Basel Framework (Basel II) defines the requirements for the regular disclosure of qualitative and quantitative information. The goal is to create transparency with regard to the risks entered into by institutions.

With the publication of the Solvency Ordinance (SolvV) on the capital adequacy of institutions, groups of institutions and financial holding groups, and of Section 26a of the German Banking Act (KWG), the disclosure requirements were transposed into national law. Compliance with these disclosure requirements is a prerequisite for the use of certain procedures to determine capital requirements.

On 1 January 2007 Bayerische Landesbank (BayernLB) obtained regulatory approval 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 alongside BayernLB's own annual report as a single entity – prepared under HGB (German Commercial Code) accounting rules – and the BayernLB Group's annual report – prepared under International Financial Reporting Standards (IFRS). The report is based on HGB figures, as these are currently used to prepare SolvV reports within the BayernLB Group.

Under the waiver rule, individual banks may be exempted from certain capital adequacy rules and disclosure requirements at individual bank level provided they meet various organisational and procedural conditions. BayernLB has opted not to apply the waiver rule under Section 2a KWG at this time.

With reference to Section 26a (2) KWG (Disclosure by banks), there are no notable allocations of BayernLB participations in line with the objectives of the participation portfolio described under Section 332 SolvV. The auditors have examined the processes and systems used to prepare this report. Quantitative information has not been audited.

**N.B.:** Figures in the tables may be rounded up or down to the next unit

# Risk management objectives and principles (Section 322 SolvV)

## Organisational and operational implementation of the management philosophy

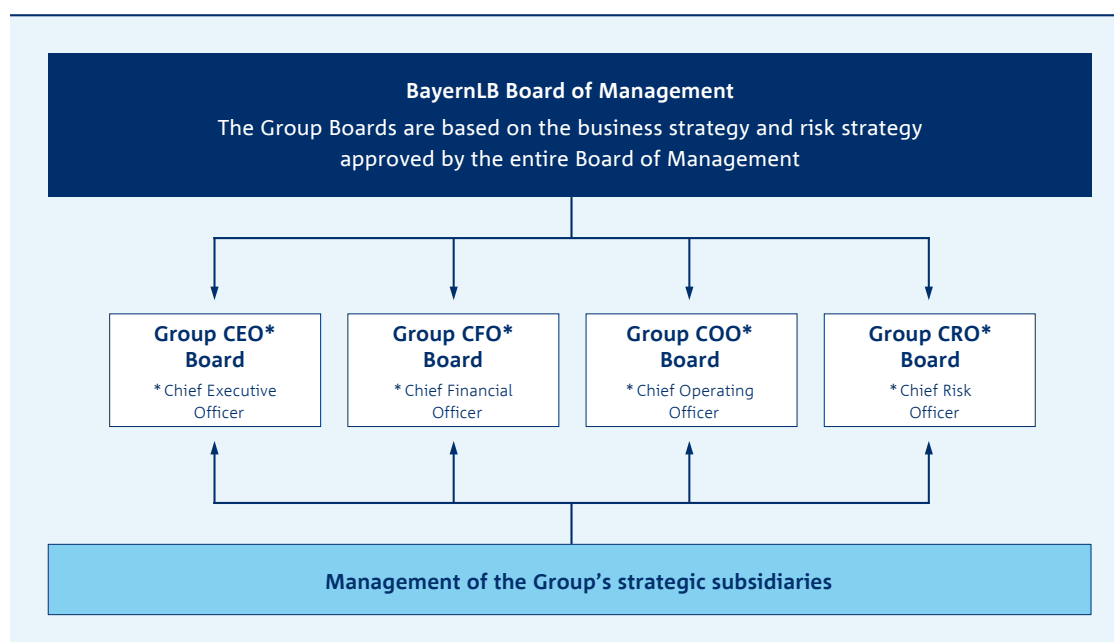
### Risk strategy

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 strategy is regularly reviewed and adapted.

As part of Group management, BayernLB regularly sends staff members to work in its subsidiaries. In turn, staff at subsidiaries work and receive training at BayernLB's headquarters in Munich.

### Organisation/internal risk monitoring and reporting

#### Group Boards in the BayernLB Group



BayernLB's Board of Management ("Group Board of Management") is responsible for providing the BayernLB Group with a legally compliant business organisation, which, in addition to having suitable internal control procedures in place, above all ensures the appropriate management and monitoring of key risks at Group level. The business organisation prevents conflicts of interest by segregating Sales and Risk Office units and Trading and Settlement units.

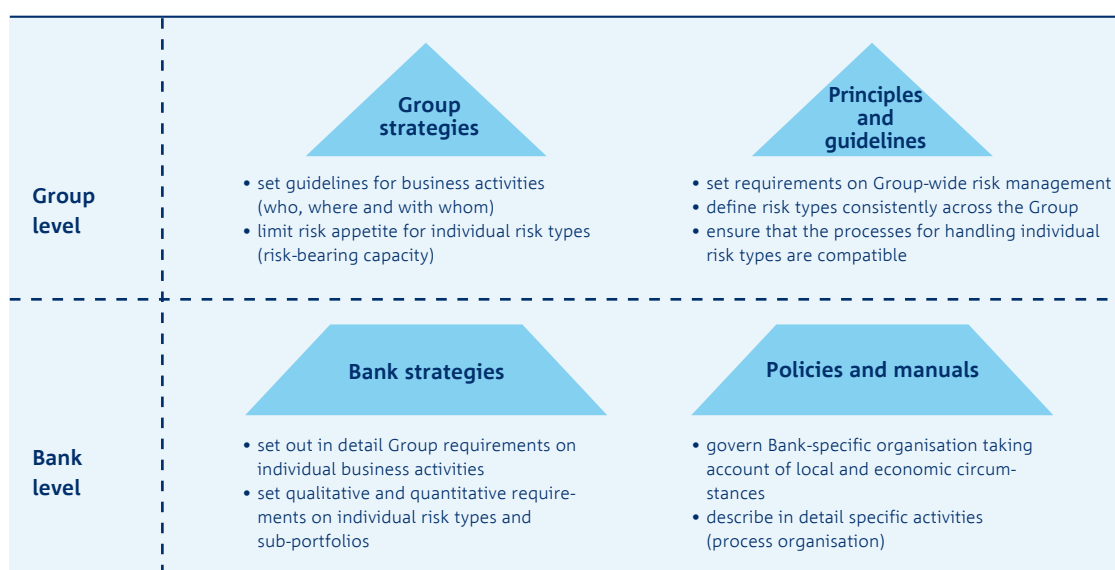
To ensure Group-wide management, the Group Board of Management set up several Group Boards whose members are drawn from BayernLB's Board of Management and the Boards of Management of Group subsidiaries MKB Bank Zrt. (MKB), Banque LBLux S.A. and Deutsche Kreditbank AG (DKB).

The main task of the Group Boards is to prepare the resolutions on Group-wide standards for approval by the governing bodies and regularly exchange information on implementing and refining these standards.

With regard to risk management, Group and individual Bank-specific strategies are also derived from the Group Risk Management Principles and the Group Risk Guidelines and then set out in policies and manuals.

The management system for risk management rules is shown in the chart below.

#### Management system for risk management rules within the BayernLB Group



Group Risk Control independently identifies, values, analyses, communicates, documents and monitors all risk types at aggregated level. In addition to standard and ad-hoc reporting on the Group's risk situation to internal decision-makers, information is communicated in the form of external risk reporting based on legal provisions and supervisory rules. Group Risk Control is therefore a central registry for the BayernLB Group's risk situation. Group Risk Control develops and maintains the methods and processes needed for management and operational monitoring. Another key task is coordinating the introduction of products as part of the new product design process.

The Asset Liability Management Committee (ALCO) is the umbrella entity for combining earnings targets with risk management objectives. Risk reporting and earnings reporting are combined in the ALCO report and the Management Information System (MIS) report. The ALCO report in particular includes recommendations for action by the Board of Management regarding the strategic and operational management of the Group.

The Board of Management and other bodies receive independent and risk-adequate reports so that all risk types can be operationally managed and risk-bearing capacity maintained. Besides periodic reporting, ad-hoc reporting by risk type is also carried out at an operational level.

## Liquidity management

The strategic principles for dealing with liquidity risk within the BayernLB Group are set out in the Group risk strategy. The prime goal of liquidity risk management and monitoring is to ensure the Group's payment obligations can be met and refinancing obtained at all times. In addition to remaining solvent at all times, the primary objective in this regard is to avoid reputational damage. BayernLB acts as lender of last resort for the Group if needed.

These strategic goals are defined through the Group Treasury Principles and the Group Liquidity Guideline in conjunction with the emergency plan for securing liquidity for day-to-day management, which sets out the processes, management tools and hedging instruments needed to avert or address potential short-term crises. This also includes an escalation mechanism deployed in the event of early warning signals.

In the reporting year, strategic liquidity management within the BayernLB Group was the responsibility of the Group Treasury Division within the Markets Business Area. This business area also handles operational management through the Asset Liability Management and Money Markets units. Situational liquidity is also balanced on the market and adequate counter-balancing capacity ensured at all times. The Risk Office Central Area's Group Risk Control Division is responsible for compiling liquidity overviews (e.g. liquidity commitment schedules) and limit ratios and for checking liquidity risks on a Group-wide basis.

## Internal Audit

The Audit Division audits BayernLB's business operations and reports directly to the Chairman of the Board of Management (Chief Executive Officer) under Section 22 (3) of BayernLB's Statutes. Its audit activities are based on a risk-oriented audit 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 audit units of the subordinated entities within the BayernLB Group.

## Managing credit risks

### Definition of credit risks

Credit risks, which are divided into counterparty risks and credit rating risks, are the biggest risk for the BayernLB Group in terms of size. Counterparty risks arise from transactions that result in a claim against a borrower, issuer of securities or counterparty. Any failure by them to meet their obligations results in a loss equal to the amount due but not paid, less the value of realised collateral and the associated processing costs. This definition covers not only debtor and guarantee risks from credit business but also issuer and borrower risks from trading business.

Credit rating risks for securities are managed in particular as part of the management of interest rate risks. For the management of interest rate risks, a distinction is made between price-related and credit rating-related interest rate risks; this is also reflected in the separate presentation of risk capital requirements for counterparty risks, specific interest rate risks and market risks.

Country risks – another type of counterparty risk – are also measured, managed and monitored. Country risk in the narrow sense is defined as the risk that a business partner domiciled in another country or a country itself fails to meet its obligations on time or at all due to sovereign acts or economic or political problems (transfer and conversion risks). Country ratings are a key tool for measuring individual country risk. When measuring and limiting risks, BayernLB takes account of both country risk in its narrow sense and the total counterparty risks for all individual customers (country of risk principle) in each country (with the exception of Germany).

## **Organisation**

Credit risk management is carried out jointly by the Sales units and Risk Office units. Within BayernLB, the parent company, the Risk Office function is allocated in organisational terms to the Credit Analysis Division as part of the Risk Office Central Area. For the reduction portfolio the functions are performed by the Restructuring Unit.

Credit risk management in the BayernLB Group is carried out jointly by the Sales units and Risk Office units. In the management process, the Credit Analysis Division analyses, assesses and manages risks in relation to all risk-relevant exposures of BayernLB that are part of core business (Risk Office function). It helps set the credit risk strategy in relation to individual customers, sectors and countries, is responsible for ongoing analysis of creditworthiness and transactions, and votes on behalf of the Risk Office in the credit decision process. The same applies to all Group companies.

BayernLB's non-core business activities are being progressively wound down by the Restructuring Unit. Alongside risks arising from core business activities, Group Risk Control also independently identifies, values, analyses, communicates, documents and monitors all risks in the Restructuring Unit. The Restructuring Unit also oversees the implementation of the corresponding reduction measures in the relevant subsidiaries. MKB also established a restructuring unit in the reporting year.

The BayernLB portfolios to be wound down include credit substitute transactions, portions of the loan portfolio with banks and the public sector outside Germany, and structured financing, including ship financing, aircraft financing, US commercial real estate financing and leveraged buyout financing, in Europe, the US and Asia. The aim is to release capital and liquidity tied up in the non-core business as cost-effectively as possible. The Restructuring Unit's winding-down remit is primarily based on the future focusing of business activities, with problem loan handling only a secondary consideration.

The Restructuring Unit is also in charge of the Sales and Risk Office functions of the exposures and portfolios assigned to it for winding down. It also handles all of BayernLB's restructuring or liquidation exposures regardless of whether they are allocated to the core business or reduction portfolio.

## 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 strategy for the Bank and the Group, taking account of risk-bearing capacity considerations. The credit risk strategy is used to draw up a detailed credit policy, which serves as a basis for operational implementation.

BayernLB has a multi-stage credit approval process. The competence regulation sets out the authority of different levels of competence holders to approve credits based on the amount and rating classification. Credit decisions that require Board of Management and/or Board of Administration approval are voted on first in the relevant credit committee, which is itself also a competence holder. Since the Restructuring Unit was established, credit decisions affecting the reduction portfolio have been taken in a separate credit committee.

The Board of Administration has established a Risk Committee to take credit decisions on behalf of the Board of Administration and deal with risk reporting.

The decision-making processes in the subsidiaries have been adjusted accordingly; members of BayernLB's Board of Management are represented on the credit committees of some subsidiaries.

## Risk measurement

Risk measurement at portfolio level is carried out using an analytical system. The risk contribution of each individual business partner to the entire portfolio in the event of an unexpected loss is also calculated for the purposes of risk analysis. Stress tests are regularly conducted on the impact of events that may affect the level of risk capital requirements, both on an ad-hoc and regular basis using assumptions on rating migration within the portfolio.

BayernLB uses several statistically based rating procedures, in which borrowers are assigned to rating classes on a 25-tier master rating scale on the basis of default probabilities. BayernLB obtained regulatory approval to use the IRB (Internal Rating Based) approach on 1 January 2007. Rating procedures are maintained and refined by BayernLB largely in collaboration with RSU Rating Service Unit GmbH & Co. KG and Sparkassen Rating und Risikosysteme GmbH. All rating procedures are submitted for annual 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.

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 analyses to calculate a total score for creditworthiness. The scorecards obtained are converted into rating scores using a calibration function. These risk assessments are supplemented by taking account of warning signals and liability matrices.

- Simulation procedures

Simulation procedures are mainly used to classify property financing risks. These rating procedures create scenarios for future cash flow trends and calculate rating scores and default probabilities based on loan to value and debt service coverage ratios through the use of default tests that differentiate between performing and non-performing loans. The quantitative risk assessment is supplemented by qualitative factors and warning signals.

The 16 rating modules approved to use the IRB approach are:

1. Banks
2. Insurance companies
3. Corporates (corporate clients, including municipally owned companies)
4. Savings banks standard rating
5. International public authorities
6. Country and transfer risk
7. Supranationals
8. Leveraged finance
9. Retail customer scoring (LBS Bayern)
10. Internal Assessment Approach for securitisations
11. Leasing (leasing companies and real estate leasing SPVs)
12. Aircraft financing
13. International commercial real estate
14. Savings banks real estate rating
15. Project financing
16. Ship financing

Rating procedures 1-9 are scorecard procedures that measure risks at customer level. Simulation-based procedures (12-16) that in some cases take account of information on creditworthiness and in particular transaction-related criteria are used for the specialised lending sub-class. Rating procedures 10 and 11 employ both simulation and scorecard methods.

During the economic crisis, the rating procedures proved to be robust and accurate. New findings that came to light over the course of the crisis have been integrated into the rating system.

The aim of the existing early warning process is to allow sufficient flexibility to implement risk avoidance/risk minimisation measures by recognising negative changes in the risk profile at an early stage through the use of suitable risk early warning indicators. At indicator level, this includes price information (shares and CDS), volatility, market capitalisation and other peer group comparison factors. The pricing method has been completely redeveloped and now supports even more detailed mapping of different business characteristics.

### **Risk limitation**

The Group Risk Management Principles stipulate that counterparty risks at borrower/borrower unit level are to be monitored daily in the Risk Office using a Bank-wide limit system. In the limit system, the timing element of default risks is factored in by subdividing the limits into maturity bands. Comparable processes have been implemented in the subsidiaries.

To limit the large credit risks, the maximum gross exposure for each borrower unit is limited to EUR 500 million Group-wide in accordance with Section 19 (2) KWG. Justified exemptions can be approved by the relevant competence holder.

Risk concentrations in individual sub-portfolios are avoided by setting and monitoring risk-orientated upper limits, for example, for sectors or countries.

Another key tool for limiting risks at BayernLB Group level is the acceptance and ongoing valuation of eligible forms of collateral.

Decisions on the appropriate level of collateral are based in particular on the type of financing, the assets made available by the borrower, their value and liquidity and a reasonable cost/benefit ratio (acceptance costs and ongoing valuation).

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

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 for individual trading partners to an agreed maximum and authorising a call for additional collateral should this limit be exceeded.

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

The German Federal Financial Supervisory Authority (BaFin) has granted BayernLB approval to lower capital requirements through real estate liens, ship mortgages, registered pledges on aircraft, warranties, and financial collateral in the form of securities, cash deposits or credit derivatives within the scope of its approval to use the IRB approach.

### **Risk monitoring**

A reporting system is used to constantly monitor all credit exposures in terms of their financial status and collateral, compliance with limits, fulfilment of the terms of their agreements and compliance with external and internal requirements. The monitoring process is supported by an escalation procedure. Exposures with elevated risk are detected at an early stage of the early risk detection process using defined early warning indicators. These indicators are regularly reviewed for suitability.

Problem exposures are classified in terms of their level of risk in accordance with standard international categories (special mention, substandard, doubtful and loss) and where necessary are made subject to special restructuring and risk monitoring.

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

## Managing investment risks

### Definition of investment risks

Investment risks (shareholding risks) as defined by the BayernLB Group are counterparty risks arising from participations in companies.

This relates to potential (value) losses from:

- the provision of equity or equity-type financing (e.g. silent partner contributions), such as no dividend being paid, partial write-downs, losses realised on sale or a reduction in hidden reserves
- liability risks (e.g. letters of comfort) and/or profit and loss transfer agreements (e.g. loss transfers)
- capital contribution commitments

To achieve its corporate aims, BayernLB enters into selected participations focused on broadening its range of business, providing services for BayernLB or purely as financial investments.

### Framework

The risk strategy and participation policy, along with other documents, govern the handling of investment risks. They deal in particular with the handling of mixed, debt-financed and equity-financed investments, the participation process itself, and controlling and reporting.

Investments are allocated to either a core or non-core portfolio. The core portfolio contains strategic participations that support the business model and operating process. In the case of non-core participations, by contrast, a sale is being considered or an exit has been contractually agreed as part of BayernLB's resizing.

BayernLB influences the business and risk policies of the companies it holds stakes in by being represented on shareholder committees or supervisory bodies. Compatible risk management processes, strategies and procedures are implemented in the Bank's subsidiaries based on the risk assessment and the requirements of the BayernLB Group risk strategy. These participations are intensively integrated into the BayernLB Group's management process via the individual risk types.

### Risk measurement

Investment risks are measured using the simple risk-weighted method under SolvV if the grandfathering method under Section 338 SolvV is not applied.

### Risk limitation

Major 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 committees or supervisory bodies, the Bank can influence business and risk policies.

BayernLB provides participations with equity and/or debt. If it provides both equity and debt, it examines any additional risks, particularly those arising from its status as a lender (Section 32a of the German Limited Liability Act (GmbHG), Section 8a of the German Corporate Taxation Act (KStG)).

### **Risk monitoring**

BayernLB has an independent central unit with the authority to issue guidelines for all methods and processes for controlling investment risks. The business units involved are responsible for operational implementation of risk management instruments.

A classification procedure for assessing and monitoring risk with clear guidelines on the early detection of risks has been implemented for all participations.

Key factors in this regard are maximum loss potential and early warning indicators. As with credit risks, the assigned rating determines what process – normal, intensive support or problem loan treatment – is to be used within BayernLB.

Investment risks are explained in the annual participations report to the Board of Management 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 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.

## **Managing market risks**

### **Definition of market risks**

Market risks relate to potential losses from changes in market prices. The BayernLB Group breaks down market risks by risk factor: general and specific interest rate risks (credit spread risks), currency risks, share price risks, commodity risks, volatility risks, and risks from alternative investments.

In line with the current business and risk strategy, market risks are only entered into as a result of customer business. In principle, they may only otherwise arise from the reduction of risk relating to other risk types, asset/liability management (including capital provision), liquidity management or non-core business that is being wound down.

### **Framework**

The risk strategy lays down the strategic principles for dealing with market risks. These may only be entered into within approved limits and are constantly measured and monitored. New and existing products go through a launching process before they are launched or introduced onto new markets.

## **Risk measurement**

In the BayernLB Group, various instruments are used to monitor and set limits, including value-at-risk, risk sensitivities, stress tests and ratios for calculating risk-bearing capacity. The risk controlling units of the various Group subsidiaries are responsible for monitoring their own market risks, but market risks are integrated into BayernLB's daily risk reporting.

Market risks are normally measured using a correlated value-at-risk method based on a one-day holding period and confidence level of 99 percent, although Group subsidiaries also use alternatives such as the scenario matrix method (Banque LBLux S.A.) or the variance/covariance approach (MKB) in addition to the historical simulation method. Risks for certain bank book holdings are also measured on a monthly basis.

The reliability of procedures for measuring market risks is regularly assessed for quality and the quality of individual risk procedures. In the backtesting process, the risk forecast is compared with the actual results (profit or loss). In accordance with Basel II requirements, the forecasting quality of the risk model is classified as good if the forecast risk was less than the actual negative daily performance on no more than four days a year. As at 31 December 2010, the forecasting quality of the key procedures for measuring market risks was classified as good.

The outcomes of the value-at-risk-based measurement must always be viewed in the context of the model's parameters (in particular: fixed confidence level, one-day holding period, use of historical data over one year to forecast future events). With this in mind, the risk positions of individual banks are exposed to unusual market price fluctuations as part of monthly stress tests and analysed in terms of risk potential. Additional individual stress tests are used at individual bank level. The stress tests take all relevant market risk factors into account. They are reviewed on an ongoing basis and the parameters adjusted where necessary.

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

## **Risk limitation**

In the BayernLB Group, market risks are limited by allocating available economic capital for market risks derived from the available economic capital as part of the calculation of risk-bearing capacity. The derived value-at-risk limits are monitored at individual bank and Group level. Value-at-risk limits for various market risk factors and portfolio levels are derived from the available economic capital for market risks. Restrictive limit allocations are set for the units responsible for risk, creating a reserve for unforeseen market movements.

## **Risk monitoring**

Market risks in the trading book, and parts of the bank book, are monitored and reported on a daily basis independently of Trading. Besides implementing supervisory requirements, the Trading monitoring unit ensures risk transparency and regular reporting to portfolio managers. The market risk situation is communicated monthly to the Chief Risk Officer and at least quarterly to the entire Board of Management and the Risk Committee of the Board of Administration through the Group Risk Report.

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

### Managing operational risks

In line with the regulatory definition, the 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 risks are the risks 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

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

Operational risks within the BayernLB Group are identified and evaluated as fully as possible with the aim of defining appropriate measures for avoiding, mitigating, transferring or intentionally accepting the risks and determining their priority.

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.

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

### Framework

Rules and procedures for dealing with operational risks are set out Group-wide in the risk strategies, guidelines, operating instructions and an OpRisk manual.

### Risk measurement

For the purposes of disclosure under the Solvency Ordinance (SolvV) and Basel II, BayernLB has since 1 January 2007 applied the standard approach (STA) to calculate capital requirements for operational risk at Group and Bank level.

BayernLB also applies the standard approach for SolvV reporting when calculating the OpRisk risk capital requirement in the Bank's internal risk-bearing capacity calculation (ICAAP).

Through the data consortium OpRisk (DakOR), which is operated jointly with eight other banks, and the loss database for publicly known OpRisk loss events (ÖffSchOR), primarily from German-speaking countries, BayernLB has access to loss data that it can use for comparative purposes.

### **Risk limitation**

Operational risks cannot be limited. To ensure business continuity at all times, emergency scenarios relevant to 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 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, an outage of support systems or limitations on other resources are taken into account. To ensure business operations are properly maintained in an emergency (business continuity), relevant failure scenarios relating to time-critical business processes are examined and suitable measures for maintaining them are drawn up.

The BCM standard applicable in the BayernLB Group and the associated process steps, controls and responsibilities are part of the Bank's organisational rules and risk strategy. Foreign entities and subsidiaries are responsible for defining their own back-up strategies.

### **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 central areas are responsible for managing these risks.

The Group's strategic subsidiaries manage their operational risk using their own OpRisk controlling. The key subsidiaries are included in the BayernLB Group's institutionalised OpRisk loss event reporting procedure. In addition, regular risk inventories are carried out for potentially risk-relevant companies.

The BayernLB Group's operational risk and OpRisk management activities are reported to the Board of Management on a quarterly or ad-hoc basis. The risk reports cover various themes including OpRisk losses and major events. Every six months the risk report also indicates the relevant OpRisk potential of the Group and summarises the status of BayernLB's BCM activities.

## Scope of consolidation (Section 323 SolvV)

BayernLB is an institution under public law with a German banking licence and its registered office in Munich. This means that for supervisory purposes it is a parent bank that comes under SolvV.

### Consolidation matrix

The table below shows those companies directly included in the IFRS consolidated financial statements (either fully consolidated or stated at equity), and their supervisory treatment. A large number of smaller, subordinated companies are consolidated, but not shown because they are of little significance. A complete list of shareholdings pursuant to Section 285(1)(11) HGB and Section 313(2) HGB is published separately in the electronic Federal Gazette.

### Consolidation matrix

Name	Regulatory treatment				Consolidation under IFRS	
	Consolidation			Risk-weighted investments	Full	Valued-at-equity
	Full	Proportional	Deduction method			
<b>Credit institutions</b>						
• BayernLB, Munich (parent company)	x				x	
• Banque LBLux S.A., L - Luxembourg	x				x	
• Deutsche Kreditbank Aktiengesellschaft, Berlin	x				x	
• Landesbank Saar, Saarbrücken			x			x
• MKB Bank Zrt., H - Budapest	x				x	
<b>Investment companies</b>						
• BayernInvest Kapitalanlage-gesellschaft mbH, Munich	x				x	
<b>Financial enterprises</b>						
• BayernLB Capital LLC I, USA - Wilmington	x				x	
<b>Investment companies</b>						
• German Centre for Industry and Trade India Holding-GmbH, Munich			x			x
<b>Other</b>						
• GBW AG, Munich				x	x	
• KGAL GmbH & Co., Grünwald				x		x
• Real I. S. AG Gesellschaft für Immobilien Assetmanagement, Munich				x	x	

The scope of consolidation for supervisory purposes includes all subsidiaries when consolidation is mandatory, so the carrying values of participations in subsidiaries are not deducted from capital (Section 323(2) SolvV).

### **The BayernLB Group's participations in banks**

The major banking subsidiaries shown below have an independent market presence. Forming part of a close-knit network with each other and BayernLB, they are able to offer customers a wide range of products while concentrating on their own core strengths. They are integrated into BayernLB's planning process.

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

No exemptions for group institutions under Section 2a KWG have been applied under the waiver rule to date.

Major banking subsidiaries of BayernLB:

- Deutsche Kreditbank AG, Berlin (100% holding) is BayernLB's internet-based retail bank and provides specialist expertise with respect to commitments, particularly in eastern Germany.
- Banque LBLux S.A., Luxembourg (100% holding) acts as a 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.
- MKB Bank Zrt., Budapest (89.9% holding) is BayernLB's presence in Eastern Europe and has its own banking subsidiaries in Bulgaria and Rumania. It is one of our retail businesses, alongside DKB.

Following the deconsolidation of Landesbank Saar, Saarbrücken, in June 2010, this bank is no longer included in the following disclosure tables unless specifically mentioned otherwise.

# Capital (Sections 324, 325 and 326 SolvV)

## Regulatory capital adequacy (solvency)

BayernLB has established the following objectives, methods and processes for determining its capital requirements.

Reported equity is allocated on the basis of capital planning at the Group level. Capital is defined as liable capital – the sum of core capital and supplementary capital – plus regulatory Tier 3 capital. Core capital consists essentially of subscribed capital plus reserves and other capital. Supplementary capital includes profit participation capital and long-term subordinated liabilities.

Capital planning is based largely on the internal target core capital ratio (the ratio of core capital to risk positions) and an internally set target for the overall ratio (ratio of capital to risk positions) of the BayernLB Group. It defines for the planning period upper limits for risk assets, market risk positions and operational risks arising from the BayernLB Group's business activities. The effects of market fluctuations – simulated in stress tests – are taken into account by means of capital buffers to ensure solvency criteria are met at all times.

As part of Group planning, regulatory capital is distributed to each planning unit. The planning units (Group units) are the defined business segments of BayernLB, Bayerische Landesbodenkreditanstalt (BayernLabo), LBS Bayern and Group subsidiaries.

Regulatory capital is allocated to Group units through a top-down distribution of limits on risk assets and market risk positions agreed by the Board of Management, with segment-specific targets and a supervisory minimum core capital ratio for the Group.

The limits on each Group unit's risk asset positions and market risk positions are constantly monitored for compliance. The Board of Management receives monthly reports on current limit utilisations.

## Capital structure (Section 324 SolvV)

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

### Core capital

#### *Other capital – capital contributions from silent partners*

Dated capital contributions from silent partners have original maturities of 10 years or more. The annual dividend is dependent 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 the transitional provisions in Section 64(1) KWG are met.

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 capital market-based distribution is agreed for a 10-year time period. This counts as core capital under Section 10(2a)(1)(10) in conjunction with (4) and (2)(4) KWG.

### *Other capital – hybrid capital*

Hybrid capital that the BayernLB Group has included as core capital is generated by the issue of 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 is dependent 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)(1)(10) in conjunction with (4) and (2)(3) KWG are met.

### **Supplementary capital**

#### *Profit participation certificates*

Profit participation rights have original maturities of at least 5 years, though most have maturities of 10 years or more or are perpetual. The annual dividend is 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(5) KWG are met.

#### *Longer-term subordinated liabilities*

Long-term subordinated liabilities have original maturities of at least 5 years, though most have maturities of 10 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(5a) KWG are met.

#### *Short-term subordinated liabilities (regulatory Tier 3 capital)*

The BayernLB Group had no short-term liabilities (Tier 3 capital) as at 31 December 2010.

### **Capital structure (based on balance sheet figures)**

EUR million	31 Dec 2010
Subscribed capital	2,300
Open reserves	6,733
Other capital	5,057
of which: Other fixed-term capital or capital with incentive to repay (hybrid capital)	636
Funds for general banking risks under Section 340 g HGB	490
Asset side balancing item	119
Deduction items under Section 10 para. 2 a sentence 2 KWG (Intangible assets)	-115
<b>Total core capital under Section 10 para. 2 a KWG</b>	<b>14,584</b>
<b>Total of supplementary capital under Section 10 para. 2 b KWG and regulatory tier III capital under Section 10 para. 2 c KWG</b>	<b>5,947</b>
<b>Total of capital deduction items under Section 10 para. 6 and 6 a KWG</b>	<b>-1,360</b>
of which: Provision shortfall and expected losses under Section 10 para. 6 a no. 1 and 2 KWG	-235
<b>Total adjusted available capital under Section 10 para. 1 d KWG and eligible tier III capital under Section 10 para. 2 c KWG</b>	<b>19,171</b>

## Capital adequacy (Section 325 SolvV)

### Internal Capital Adequacy Assessment Process (ICAAP)

Risk-bearing capacity is monitored using the Internal Capital Adequacy Assessment Process (ICAAP), both at the levels of BayernLB and subsidiaries DKB, MKB and LBLux, and at consolidated level. ICAAP is used to assess whether sufficient economic capital is available for the risks taken on and planned.

The calculation of risk-bearing capacity was revised as at 31 December 2010. The essence of the change described below seeks, firstly, to ensure that ICAAP is firmly based on the goal of protecting senior creditors in the event of the liquidation of BayernLB. Secondly, the change strictly separates the calculation of risk-bearing capacity used by the planning units at the BayernLB Group to measure capital requirements from the performance of stress scenarios.

These stress scenarios are different from sensitivity analyses that allow for conceivable trends such as the effect of movements in interest rates in the course of business and are used in the risk-bearing capacity calculation to monitor compliance with planned risk capital requirements.

The risk strategy determines what percentage of available economic capital can be allocated for different risk types. This is currently 75% (previous year: 70%); the balance is available for use under stress scenarios. Diversification effects between the different types of risk have been taken into account for the first time as at 31 December 2010 when setting the numerical allocations for Group units.

Available economic capital is the sum of equity plus subordinated capital less items not available in the event of the liquidation of the Bank (such as intangibles) and a buffer for types of risk quantified using scenario calculations rather than VaR methodology.

Economic risk planning for the risk-bearing capacity calculation and planning of available economic capital are integral parts of the capital planning described in the section on regulatory capital adequacy.

The method of calculating risk-bearing capacity is assessed and refined on a regular basis to ensure it adequately takes account of external factors and internal strategic goals. The confidence level used to calculate economic risk in ICAAP is based on the strategic target rating.

Since 2009, economic risk has been calculated on the basis of a confidence level of 99.95 percent (which corresponds to an A2 rating on Moody's ratings scale).

### Capital requirements

In 2007, BayernLB obtained approval as an IRBA institution to use the Internal Ratings Based (IRB) Approach at Bank and Group level. Since September 2008, DKB has also been included in the IRB approach for the purposes of calculating capital requirements at the BayernLB Group level. 2009 saw the integration of LBLux and LBS into the IRBA methodology. All other BayernLB participations are included in the BayernLB Group using the CRSA approach.

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 have not yet been measured with an approved internal rating system.

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

In respect of equity exposures the simple risk-weighting method is employed for “traditional” investments where the grandfathering rule is not applicable. Capital requirements for investment fund units are mainly calculated using the look-through approach.

For market risks, BayernLB currently uses supervisory standardised methods instead of an in-house risk model. Operational risks are measured using the standardised method.

Capital requirements for SolvV reporting

EUR million	31 Dec 2010
<b>Counterparty risks</b>	<b>8,305</b>
• <b>Standardised approach</b>	<b>1,734</b>
– National governments	4
– Regional governments and local authorities	1
– Other public authorities	7
– Multilateral development banks	0
– International organisations	0
– Institutions	11
– Corporates	657
– Retail business	483
– Exposures secured by real estate property	394
– Past-due items	132
– Covered bonds issued by banks	0
– Investment units	9
– Other items	36
• <b>IRB approach</b>	<b>5,987</b>
– National governments and central banks	82
– Institutions	1,304
– Corporates	4,420
– Retail business	118
– Other loan-unrelated assets	63
<b>Securitisations</b>	<b>381</b>
• <b>Securitisations under the standardised approach</b>	<b>0</b>
• <b>Securitisations under the IRB approach</b>	<b>381</b>
<b>Risks from investments</b>	<b>203</b>
• <b>Investments under the standardised approach (grandfathering)</b>	<b>139</b>
• <b>Investments under the market approach (IRB)</b>	<b>64</b>
– Simple risk weighting approach	64
Listed participations	1
Unlisted but sufficiently diversified participations	0
Other participations	63
– Internal model approach	0
• <b>Investments under PD/LGD approaches</b>	<b>0</b>
<b>Settlement risk</b>	<b>6</b>
– Settlement risk	6
<b>Market risks in the trading book</b>	<b>1,066</b>
• <b>Standardised approach</b>	<b>1,066</b>
– Net interest rate exposure	770
– Net equity exposure	11
– Total currency exposure	111
– Commodities exposure	173
– Other market risk exposures	1
• <b>Internal model approach</b>	<b>0</b>
<b>Operational risks</b>	<b>531</b>
• <b>Basic indicator approach</b>	<b>0</b>
• <b>Standardised Approach</b>	<b>531</b>
• <b>Advanced measurement approaches</b>	<b>0</b>
<b>Capital requirements</b>	<b>9,908</b>

**Capital ratios (based on balance sheet figures)**

in %	Total capital ratio	Core capital ratio
<b>Consolidated banking groups</b>		
• BayernLB Group, Munich	15.5	11.2
• BayernLB, Munich	20.0	13.9
<b>Subsidiaries*</b>		
• Banque LBLux S.A., L - Luxembourg	12.7	7.4
• Deutsche Kreditbank Aktiengesellschaft, Berlin	8.9	7.0
• MKB Bank Zrt., H - Budapest	11.3	10.1

\* Calculated under SolvV or local reporting regulations, individual institution level only

# Requirements on risk types (Sections 326 to 336 SolvV)

## Counterparty default risk: general disclosure requirements for all institutions (Section 327 SolvV)

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

### Total exposure by credit risk-bearing instrument

EUR million	Loans, commitments and other non- derivative off- balance sheet assets	Securities	Derivative instruments
<b>Total exposure</b>	234,470	43,873	14,744

### Total exposure by geographical region

EUR million	Loans, commitments and other non- derivative off- balance sheet assets	Securities	Derivative instruments
Africa	365	50	0
Asia	3,290	857	66
Caribbean	321	288	0
Latin America	1,290	0	0
Central and Eastern Europe/CIS	14,220	1,721	165
Middle East	3,536	61	207
North America	10,397	6,712	2,574
Western/Central Europe	199,367	33,819	11,687
Other	1,684	365	45
<b>Total</b>	<b>234,470</b>	<b>43,873</b>	<b>14,744</b>

### Total exposure by sector

EUR million	Loans, commitments and other non- derivative off- balance sheet assets	Securities	Derivative instruments
Banks/financial service providers	54,898	29,225	10,078
Renewable energy	5,521	28	54
Automotive	4,188	98	579
Oil and gas	5,463	46	161
Real estate	47,247	15	758
Food & beverages	3,969	74	163
Logistics	5,118	172	279
Retail customers	22,782	0	0
Sovereigns/public sector	29,461	12,737	308
Utilities	10,064	199	520
Other	45,759	1,279	1,844
<b>Total</b>	<b>234,470</b>	<b>43,873</b>	<b>14,744</b>

### Total exposure by residual maturity

EUR million	Loans, commitments and other non- derivative off- balance sheet assets	Securities	Derivative instruments
Up to 1 year	45,194	14,593	3,333
Between 1 year and 5 years	72,648	21,916	5,797
More than 5 years, undated	116,628	7,364	5,614
<b>Total</b>	<b>234,470</b>	<b>43,873</b>	<b>14,744</b>

The amounts as at 31 December 2010 do not differ materially from the average amounts over that year (Section 327(2)(1) SolvV).

### Risk provision procedure

Risk provisions are calculated in the BayernLB Group by analysing customer relationships at quarterly intervals. Specific loan loss provisions are established for significant individual credit exposures if objective indications of impairment exist with an impact on future expected cash flows. Objective indications include, for instance, interest and capital repayment arrears greater than 30 days or a rating of 19 and worse on a scale of 1–25.

Specific loan loss provisions are determined by subtracting the present value of future expected cash flows, calculated using the original effective interest rate based on the discounted cash flow method, from the carrying amount of the receivable. Risk provisions are raised or lowered if expected cash flows change. Unwinding – the change in the net present value of future expected cash flows over the period – is reported as interest income; the current interest payments received are not subsequently recognised as net interest income but counted as repayments.

Collective single loan loss provisions are established for portfolios composed of similar, non-material receivables on the basis of collective risk assessment. These are also reported under the specific loan loss provisions for credit risks.

Credit rating-related portfolio provisions are calculated on the basis of historical probabilities of default and loss rates for all material and immaterial receivables where an individual assessment reveals no indications of impairment and for which no collective specific loan loss provisions have been established. This uses a procedure based on parameters derived from the Basel II system that are regularly assessed.

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

Irrecoverable receivables are derecognised, normally by utilising existing specific loan loss provisions. Bad debt losses for which no or insufficient specific loan loss provisions have been set aside are charged to existing portfolio provisions (utilisation). An identical amount is allocated to portfolio provisions, which is reported as a direct write-off in risk provisions for the credit business.

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

Default criteria are incorporated in the rating system within the rating process. 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 write-down due to a significant deterioration in credit quality subsequent to taking on the credit risk.
- (5) The Bank makes a full write-down of irrecoverable receivables.
- (6) The Bank sells part or all of the receivables 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 Solvency Ordinance definitions, 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.

### 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.

#### Changes in risk provisions

EUR million	Opening balance as at 1 Jan 2010	Additions	Releases	Utilisations	Exchange rate-related and other changes	Closing balance as at 31 Dec 2010
Specific loan loss provisions	2,359	1,123	– 386	– 428	– 131	2,537
Provisions for the credit business	251	232	– 104	– 154	– 29	196
General loan loss provisions*	522	400	– 363	– 54	– 3	502

\* Includes GLLPs on positions on and off the balance sheet

Loans in default and non-performing loans by sector

EUR million	Receivables		Balance			Net of additions/ releases			Direct writedowns	Receipts from written down receivables
	Non-performing	In default	SLLP	GLLP	Provisions	SLLP	GLLP	Provisions		
Banks/financial service providers	1,669	0	899	–	102	30	–	120	1	–
Renewable energy	55	3	31	–	1	27	–	0	0	–
Automotive	82	6	42	–	8	0	–	–17	1	–
Oil and gas	5	0	4	–	1	3	–	0	3	–
Real estate	2,116	49	635	–	10	268	–	3	3	–
Food & beverages	67	4	88	–	2	36	–	1	5	–
Logistics	183	0	55	–	23	32	–	7	5	–
Retail customers	528	153	250	–	12	127	–	11	28	–
Sovereigns/public sector	4	62	4	–	0	12	–	0	0	–
Utilities	64	3	22	–	0	13	–	–2	1	–
Other	808	34	507	–	37	189	–	5	7	–
<b>Total</b>	<b>5,581</b>	<b>314</b>	<b>2,537</b>	<b>502</b>	<b>196</b>	<b>737</b>	<b>37</b>	<b>128</b>	<b>54</b>	<b>87</b>

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Loans in default and non-performing loans by geographical region

EUR million	Receivables		Balance			Net of additions/ releases			Direct writedowns	Receipts from written down receivables
	Non-performing	In default	SLLP	GLLP	Provisions	SLLP	GLLP	Provisions		
Africa	0	0	0	–	0	0	–	0	0	–
Asia	75	0	22	–	6	5	–	4	0	–
Caribbean	0	0	0	–	0	0	–	0	0	–
Latin America	8	0	8	–	0	3	–	0	8	–
Central and Eastern Europe/ CIS	541	15	664	–	26	384	–	17	0	–
Middle East	23	0	67	–	0	0	–	0	0	–
North America	460	0	68	–	200	–25	–	–39	5	–
Western/Central Europe	4,345	299	1,650	–	–36	325	–	146	41	–
Other	129	0	58	–	0	45	–	0	0	–
<b>Total</b>	<b>5,581</b>	<b>314</b>	<b>2,537</b>	<b>502</b>	<b>196</b>	<b>737</b>	<b>37</b>	<b>128</b>	<b>54</b>	<b>87</b>

## CRSA exposure classes (Section 328 SolvV)

### CSRA loan categories framework

Only external ratings from the rating agencies Moody's and Standard & Poor'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 both rating agencies produce a high proportion of country assessments, no account is taken of country classifications for export credit insurance agencies.

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

### Total exposure under CRSA before and after credit risk mitigation techniques, and by risk weighting

Risk weighting in %	Total exposure before credit risk mitigation	Total exposure after credit risk mitigation	IRBA (investments) EUR million
	CRSA EUR million	CRSA EUR million	
0	57,061	66,958	0
10	11	11	0
20	1,448	1,442	0
35	11,995	13,249	0
50	437	737	0
75	13,814	8,057	0
100	17,147	11,099	0
150	737	620	0
Other risk weighting	601	601	216

These tables show CRSA exposures before and after credit risk mitigation techniques pursuant to Section 328 SolvV (after credit conversion factors). Substitution effects can mean that items with higher original risk weightings are replaced by lower weightings, especially in the category where the risk weighting = 0. IRBA exposures rated by regulatory risk weightings (under Section 329 SolvV) are also shown.

## Disclosure of loan categories where IRBA is used (SolvV Section 335)

### IRBA loan categories framework

The 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 of 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 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)	Avg. risk weighting (in %)	Exposure (EUR million)	Avg. risk weighting (in %)	Exposure (EUR million)	Avg. risk weighting (in %)	Exposure (EUR million)	Avg. risk weighting (in %)	Exposure (EUR million)	Avg. risk weighting (in %)
National governments	51,769	2	230	103	3	233	70	–	52,002	2
Institutions	35,951	26	5,653	112	252	181	804	–	41,856	39
Corporates	58,919	28	25,747	96	4,030	185	3,092	–	88,696	62
<b>Total</b>	<b>146,639</b>	<b>22</b>	<b>31,630</b>	<b>99</b>	<b>4,285</b>	<b>185</b>	<b>3,966</b>	–	<b>182,554</b>	<b>39</b>

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

### Total exposure under the IRB approach by default category (retail, only DKB and LBS)

	PD category 0% to <= 0.5%			PD category 0.5% to <= 5%			PD category 5% to < 100%			Default PD = 100%			Total		
	Exposure (EUR million)	Avg. LGD (in %)	Avg. risk weighting (in %)	Exposure (EUR million)	Avg. LGD (in %)	Avg. risk weighting (in %)	Exposure (EUR million)	Avg. LGD (in %)	Avg. risk weighting (in %)	Exposure (EUR million)	Avg. LGD (in %)	Avg. risk weighting (in %)	Exposure (EUR million)	Avg. LGD (in %)	Avg. risk weighting (in %)
Construction financing	3,198	26	12	1,232	29	41	110	27	145	60	27	21	4,600	27	23
Qualifying revolving retail receivables	23	60	8	21	60	33	5	60	131	0	60	5	49	60	30
Other retail loans	419	59	25	318	59	69	57	57	125	7	60	4	802	58	50
<b>Total</b>	<b>3,640</b>	<b>30</b>	<b>14</b>	<b>1,571</b>	<b>35</b>	<b>47</b>	<b>172</b>	<b>38</b>	<b>138</b>	<b>67</b>	<b>30</b>	<b>19</b>	<b>5,451</b>	<b>32</b>	<b>27</b>

Pursuant to Section 335(2)(3) SolvV, only institutions applying the IRB approach for retail portfolios are required to publish the above table. As these procedures are applied in the BayernLB Group only by DKB and LBS, the amounts shown relate only to DKB and LBS.

#### 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. As part of the advance calculations (pricing), the 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 findings from the internal rating systems. Risk-bearing capacity is ensured by limiting available economic 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, with the competence regulation 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 the section headed Credit risk mitigation techniques: disclosure for CRSA and IRBA (Section 336 SolvV).

## Rating system control mechanisms

The rating systems have technical control mechanisms that examine both the completeness and, where possible, plausibility of individual data or their combination with other data. As a further control, ratings are approved in line with the dual control principle. Except for non-risk relevant business within the meaning of MaRisk, only the Risk Office may grant rating approval.

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. The validation process involves both quantitative and qualitative analyses.

## Expected and actual losses in the credit business

The tables below are only relevant for the IRB approach. Actual losses consist of utilisations of SLLPs and direct write-offs less receipts on written-off claims (HGB basis).

### Expected losses in the credit business

EUR million	2010		2009*		2008	
	Expected loss (EL)	Actual loss	Expected loss (EL)	Actual loss	Expected loss (EL)	Actual loss
National governments	34	8	19	0	23	0
Institutions	432	25	464	676	499	52
Corporates	1,680	174	1,653	329	1,513	252
Construction financing	28	3	28	3	2	0
Qualifying revolving retail receivables	1	1	1	1	1	0
Other retail loans	15	1	14	2	8	3
<b>Total</b>	<b>2,190</b>	<b>212</b>	<b>2,179</b>	<b>1,011</b>	<b>2,046</b>	<b>307</b>

\* Including Landesbank Saar

### Actual losses in the credit business

EUR million	Losses in 2010	Losses in 2009*	Changes	Description
National governments	8	0	8	–
Institutions	25	676	–651	Sale of HGAA
Corporates	174	329	–156	Fall in SLLP utilisation at DKB
Construction financing	3	3	0	–
Qualifying revolving retail receivables	1	1	0	–
Other retail loans	1	2	0	–
<b>Total</b>	<b>212</b>	<b>1,011</b>	<b>–799</b>	<b>–</b>

\* Including Landesbank Saar

Construction financing, qualifying revolving retail receivables and other retail loans relate only to DKB and LBS.

Calculation of expected loss (EL) includes customers/loans that are performing or in default based on a one-year default probability. Loan commitments in default are considered to have a 100% 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 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) is preferable to debt undertakings.

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

BayernLB also uses regulatory credit risk mitigation techniques. The German Federal Financial Supervisory Authority (BaFin) has granted BayernLB approval to lower capital requirements through real estate liens, ship mortgages, registered pledges on aircraft, warranties, and financial collateral in the form of securities, cash deposits or credit derivatives within the scope of its approval to use the IRB approach.

Credit derivative transactions are only carried out with counterparties with investment-grade ratings. Collateral agreements have been made with certain business partners restricting the default risk for individual trading partners to an agreed maximum and authorising a call for additional collateral should this limit be exceeded.

Specialist units are responsible for the contractual documentation, as well as 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 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 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). The counterparties in credit derivatives transactions are generally banks.

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

## Total collateralised exposures (excluding 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	76	0	0	0	8	187
Regional governments and local authorities	32	–	0	–	2	–
Other public authorities	0	–	0	–	395	–
Multilateral development banks	0	–	0	–	0	–
International organisations	0	–	0	–	0	–
Institutions	32	129	0	2,990	0	2,227
Covered bonds issued by credit institutions	0	–	0	–	0	–
Corporates	1,902	1,373	0	16,492	3,731	6,238
Retail	88	0	0	32	4,058	0
Exposures secured by real estate	0	–	13,836	–	0	–
Investment units	0	–	0	–	0	–
Investments (shareholdings)	0	0	0	0	0	0
Other items	6	–	0	–	0	–
Past-due items	1	–	0	–	12	–
<b>Total</b>	<b>2,137</b>	<b>1,503</b>	<b>13,836</b>	<b>19,514</b>	<b>8,206</b>	<b>8,652</b>

The first part of the table provides a breakdown of financial collateral, the second part shows other collateral allowable under IRBA and the third part shows warranties. The other collateral allowable under IRBA in the CRSA are calculated from the loan category “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 the BayernLB Group are mostly employed by BayernLB. Banks and public-sector customers are the main counterparties in the derivatives business.

In BayernLB, there is no separate capital allocation or limits on default risk for counterparties in derivatives positions. Both are conducted as part of the general process of limiting counterparty risk. In addition, the regulatory and internal management methods for large credit risks also apply.

See the section headed Internal Capital Adequacy Assessment Process (ICAAP) for information on capital allocation for risk types.

### **Measures to mitigate risks**

In derivatives trading, master agreements are usually entered into 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. Variation margin is normally met by cash or government bonds.

Actual economic risk is thereby reduced to a contractually agreed threshold or a minimum transfer amount that has not yet been reached. All collateral accepted is systematically documented.

BayernLB uses derivative instruments to mitigate counterparty risk in particular, as well as market risks. Derivative instruments are integrated into the management systems for the market risks and counterparty risks described above.

### **Correlation between price and counterparty risk**

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

In risk-bearing capacity reporting at Group level, the aggregation by risk type currently takes no account of the impact of diversification through correlation and is therefore conservative.

### **Collateral increases in the event of rating downgrades**

A small number of derivative OTC transactions have been entered into that contractually require collateral to be provided or increased in the event of a downgrade of one of BayernLB's external ratings. BayernLB's risk-bearing capacity is unaffected by the impact of a rating downgrade on the level of collateral that needs to be provided.

## Derivative counterparty risk exposures and netting exposures

### Positive replacement values

EUR million	Positive replacement values before netting and collateral	Netting options	Eligible collateral	Positive replacement values after netting and collateral
Interest rate-related contracts	29,432	–	–	–
Currency-related contracts	3,925	–	–	–
Equity/index-related contracts	329	–	–	–
Credit derivatives	85	–	–	–
Commodity-related contracts	439	–	–	–
Other contracts	0	–	–	–
<b>Total</b>	<b>34,210</b>	<b>11,071</b>	<b>595</b>	<b>22,544</b>

### Counterparty risk

	Maturity method	Fair value method	Standardised method	Internal model
Counterparty risk exposure	0	4,915	13	0

### Credit derivatives (a)

Nominal value of hedging	
Credit derivatives (protection buyer)	0

### Credit derivatives (b)

Nominal value	Used for own credit portfolio		As intermediary
	Purchased	Sold	
Credit default swaps	1,367	553	0
Total return swaps	2,245	537	0
Credit options	0	0	0
Other	0	0	0

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 SolvV 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). CDS positions are measured and monitored daily at individual transaction level. 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 release liquidity. TRSs are shown at the nominal value (not EAD) to the counterparty, each underlying being hedged.

## Participations in the bank book (Section 332 SolvV)

### Objectives of the participations portfolios

Participations at BayernLB level are divided into two portfolios.

Core portfolios:

- The Group's strategic participations  
Participations that form an integral part of the business model of BayernLB to expand potential clients and markets and where BayernLB controls the management.
- Participations that support the business model  
Participations taken for strategic reasons to expand the business range.
- Participations that support operating processes  
Participations taken to meet operating requirements in banking operations and under outsourcing arrangements.

Non-core participations:

- Participations where BayernLB is considering a sale as part of resizing or where there is a contractually agreed exit.

### Measurement and accounting principles

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

- Market approach
- Income approach
- Cost approach

The income approach is normally applied if the company is not valued using a 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(1) HGB), investments are valued using the rules applying to fixed assets (i.e. Section 253(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 rules applicable to current assets (i.e. Section 253(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. Investment funds are calculated using the look-through method in some cases.

#### Values of investment instruments

EUR million	Comparison		
	Carrying amount	Fair value	Stock market value
HGB investments			
• listed positions	919	831	831
HGB investments			
• unlisted	877	925	–
Non-HGB investments			
• listed positions (equities in the bank book)	8	8	8
Non-HGB investments			
• unlisted (investment units)	182	193	–
Non-HGB investments			
• other investment positions	0	0	–

The table includes all investment instruments in the BayernLB Group less consolidated Group 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 2010.

#### Realised and unrealised gains and losses on investment instruments

EUR million	Realised gains/ losses from sales/ restructurings	Unrealised gains/losses	
		Total	Of which reported under supplementary capital
<b>Total</b>	<b>5</b>	<b>–40</b>	<b>0</b>

## Market risk (Section 330 SolvV)

For market risk, please refer to the section headed Managing market risks.

## Interest rate risk in the bank book (Section 333 SolvV)

### Positioning and management

Interest rate risk in the Group bank book mainly arises from refinancing activities as part of asset/liability management and from placing excess undated funds. Limiting and management is based on a VaR model that uses historical time series. It is also limited as a percentage of liable equity by means of various stress tests simulating parallel shifts and pivots in the yield curve. Treasury units/ALCOs are responsible for managing interest rate risk in the bank book; they take account of long-term strategic targets when placing undated funds and medium-term market expectations in their ongoing funding activity. In addition to VaR, which is used to set limits and serves as the basis for verifying risk capacity and capital backing, sensitivity figures, especially price value per basis point, are also used for management purposes. Interest rate risk in the bank book is dominated by euro risks; those in dollars are much smaller, and in other currencies almost negligible.

### Assumptions

For calculation purposes, all rate-sensitive positions in the bank book are included in a gap analysis, either individually or on an aggregated business. Undated deposits are mainly modelled using moving averages. Interest risk from termination rights is covered by special option pricing models. Undated capital is not taken into account, as specified in MaRisk. To this extent, there is no distinction between product modelling using VaR or stress simulation. The measure of risk used is change in net present value.

### Frequency of risk measurement

Interest rate risk is calculated at the BayernLB Group at least monthly independent of Trading; at BayernLB Bank it is conducted daily. The most frequently used historical simulation takes a period of at least one year and calculates the net present value change at a 99% confidence level for a one-day holding period. This calculation, adjusted for the time needed to close out positions, is used to calculate risk capital utilisation in terms of risk capacity.

In addition to the daily (in some Group units monthly) VaR calculation, other stress scenarios are run weekly or monthly and limits set, based on the annual stress test questionnaire on market risks from the Bundesbank.

### Interest rate shock scenario

For the interest rate risk in the bank book, an interest rate shock scenario of +130/-190 basis points is calculated at both Bank and Group level. As at the reporting date, the calculated change in net present value relative to liable capital at the BayernLB Group and Bank was considerably below the outlier criterion of 20%. If the net present value of a bank falls by more than 20% of capital under this interest rate shock scenario, the regulator assumes that interest rate risk is disproportionately high and is obliged to take counter-measures.

### Interest rate risk in the bank book

EUR million	Change in net present value	
	Interest rate shock +130 basis points	Interest rate shock – 190 basis points
EUR	–884	1,162
USD	–85	170
CHF	–7	14
GBP	14	–20
JPY	9	–25
Other	2	–5
<b>Total</b>	<b>–951</b>	<b>1,296</b>

### 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 (customer transactions) and investments in asset-backed securities (ABS securities).

In the asset-backed credit business, BayernLB structures and securitises customer receivables portfolios. 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, Giro Lion Funding Limited and Corelux S.A., the ABCP programmes established by the Bank. The BayernLB Group's ABS customer transactions are conducted exclusively by BayernLB or in conduits that it has established.

BayernLB and its subsidiaries, Landesbank Saar (since deconsolidated) 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 the BayernLB Group's securitisation transactions (before risk mitigation techniques) was EUR 17.1 billion as at 31 December 2010, of which EUR 16.9 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 1.1 billion and
- the volume of transactions where BayernLB acts as investor was EUR 1.8 billion.

BayernLB was the originator of securitisations only in the transactions described below. On 19 December 2008, a guarantee agreement was entered into between BayernLB and the Free State of Bavaria. The guarantee covers actual losses in the ABS portfolio, above a first loss of EUR 1.2 billion. The guarantee covers a maximum amount of EUR 4.8 billion. The protection is economically effective and recognised for supervisory and accounting purposes. As at 31 December 2010, the size of the portfolio was EUR 14.2 billion.

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 hedge covers insolvency, non-payment of capital and interest, capital write-downs and 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 risk-weighted exposure**

In accordance with the IRB approach, all BayernLB's securitisation transactions are backed by capital. 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 Moody's and Standard & Poor's.

The Internal Assessment Approach (IAA) 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 delinquency, 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 are obtained from market data providers, counterparties, brokers and portfolio advisers as part of the guarantee agreement. Prices from different sources are checked for plausibility using statistical methodology. If a security has a wide range of prices compared with similar securities, it is assessed separately and the unrealistic prices eliminated. After this quality assurance has been carried out, the relevant measurement price is obtained through averaging.

### **Summary of the 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 reverse write-downs. Valuation gains or losses are shown in net gains or losses on financial transactions 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 reverse write-downs. Valuation gains and losses are shown in write-downs and income from selected securities 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. Valuation gains and losses are shown in write-downs and write-ups on securities treated as investments. Current income is reported under 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): the assets 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: the assets are measured at fair value. The difference between fair value and amortised cost is shown as a separate item in equity (the revaluation surplus) 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 gains or losses on investments and current income under net interest income.

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

**Total retained or acquired securitisation exposures**

EUR million	Total retained or acquired securitisation exposures	
	CRSA	IRBA
<b>On-balance sheet items</b>		
• Loans	0	1,252
• Credit enhancements	0	0
• Investments in ABSs	0	10,084
• Other on-balance sheet items	0	0
• Guarantee agreement with Free State of Bavaria	0	4,800
<b>Total on-balance sheet items</b>	<b>0</b>	<b>16,136</b>
<b>Off-balance sheet items</b>		
• Liquidity facilities	0	941
• Derivatives	0	63
• Off-balance sheet items resulting from synthetic transactions	0	0
• Other off-balance sheet items	0	0
<b>Total off-balance sheet items</b>	<b>0</b>	<b>1,004</b>

**Total retained or acquired securitisation exposures by securitisation risk-weight**

EUR million	Total retained or acquired securitisation exposures	
	CRSA	IRBA
> 0 ≤ 10 %	0	1,381
> 10 ≤ 20 %	0	497
> 20 ≤ 50 %	0	8,504
> 50 ≤ 100 %	0	56
> 100 ≤ 650 %	0	82
1,250%/capital deduction	0	1,820
Guarantee agreement with Free State of Bavaria	0	4,800
<b>Total</b>	<b>0</b>	<b>17,140</b>

The capital deduction includes the outstanding first-loss piece of EUR 747 million under the guarantee from the Free State of Bavaria. This first-loss portion has already been fully recognised in the income statement in 2007 and 2008.

#### Total securitised receivables by portfolio

EUR million	Outstanding receivables
<b>Classic securitisations</b>	
• Credit cards	0
• Residential property	0
• Vehicle financing	0
• Other	0
<b>Synthetic securitisations</b>	
• Credit cards	0
• Residential property	0
• Vehicle financing	0
• ABS (guarantee agreement with the Free State of Bavaria)	14,266
<b>Total</b>	<b>14,266</b>

By 31 December 2010, losses on defaults and sales of ABSs in the portfolio protected by the guarantee from the Free State of Bavaria amounted to EUR 453 million (including interest), which was covered in full by the first-loss portion of BayernLB.

#### Losses on defaults and sales of ABSs

Asset class (EUR million)	Losses (incl. interest)	Outstanding notional of positions where losses have been realised
CDO	276	24
Non-prime RMBS	168	325
Prime RMBS	9	161
<b>Total</b>	<b>453</b>	<b>510</b>

#### Operational risk (Section 331 SolvV)

For operational market risk, please refer to the section headed Managing operational risks.

## List of tables

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
ALCO	Asset Liability Management Committee
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (German federal banking supervisory authority)
BCM	Business Continuity Management
CDO	collateralized debt obligation
CDS	credit default swap
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHF	Swiss francs
CIS	Commonwealth of Independent States
COO	Chief Operating Officer
CRO	Chief Risk Officer
CRSA	Credit Risk Standardised Approach
DakOR	Datenkonsortium OpRisk (OpRisk data consortium)
EAD	exposure at default
EL	expected loss
EUR	euro
GBP	British pounds
GLLP	general loan loss provision
GmbHG	Gesetz betreffend die Gesellschaften mit beschränkter Haftung (German Limited Companies Act)
HGB	Handelsgesetzbuch (German Commercial Code)
IAA	Internal Assessment Approach

ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IRBA	Internal Rating Based Approach
JPY	Japanese yen
KStG	Körperschaftssteuergesetz (German Coporation Tax Act)
KWG	Kreditwesengesetz (German Banking Act)
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 securities
RWA	risk-weighted assets
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	Verband öffentlicher Banken (Association of German Public Sector Banks)

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