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Re.: Exposure draft „Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk"

Dear Sandra,

Kreditanstalt für Wiederaufbau (KfW) appreciates the opportunity to comment on the IASB's exposure draft „Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk". As the bank's internal risk management is based on a macro hedging strategy of interest rate risk, KfW believes that the release of this exposure draft constitutes a considerable step towards compatibility of external reporting and internal risk management and thereby relieves the resistance and criticism expressed by many banks and non-banks with regard to the requirements of IAS 39 without contradicting the standard's basic principles.

However, as described in more detail below, KfW believes that (a) the hedged item under the proposed designation approaches only happens to agree to the hedged net risk position determined by internal risk management, (b) practical implementation of effectiveness assessment is difficult and (c) the proposed recognition, amortisation and derecognition of fair value adjustments is complex and requires major systems changes.

Question 1

Draft paragraph 128A proposes that in a fair value hedge of the interest rate risk associated with a portion of a portfolio of financial assets (or financial liabilities), the hedged item may be designated in terms of an amount of assets (or liabilities) in a maturity time period, rather than as individual assets or liabilities or the overall net position. It also proposes that the entity may hedge a portion of the interest rate risk associated with this designated amount. For example, it may hedge the change in the fair value of the designated amount attributable to changes in interest rates on the basis of expected, rather than contractual, repricing dates. However, the Board concluded that ineffectiveness arises if these expected repricing dates are revised (eg in the light of recent prepayment experience), or actual repricing dates differ from those expected. Draft paragraph A36 describes how the amount of such ineffectiveness is calculated. Paragraphs BC16-BC27 of the Basis for Conclusions set out alternative methods of designation that the Board considered, their effect on measuring ineffectiveness and the basis for the Board's decisions including why it rejected these alternative methods.

Do you agree with the proposed designation and the resulting effect on measuring ineffectiveness?

Based on expected interest rate changes KfW hedges net risk positions in different maturity time periods either completely or partially. Considering the history and philosophy of IAS 39, the proposed designation of an amount of assets or an amount of liabilities as hedged item is comprehensible, but in KfW's opinion not consistent with existing risk management practice, i.e. the management of a net risk position.

Should the proposed designation approach be in line with existing risk management practice, an amount of assets or liabilities would need to be designated whose fair value change would not only result from the proportional fair value change of assets or liabilities, but would be calculated including both the fair value change of the assets and the fair value change of the liabilities of which the hedged net risk position is composed.

The proposed designation of either a proportion of a group of assets or liabilities as a hedged item is one-sided and the fair value change of the respective other component – i.e. either the group of liabilities or the group of assets comprised in the hedged net risk position – is disregarded. Following the proposed approach, measurement of effectiveness and ineffectiveness, respectively, becomes feasible, the result, however, may only happen to agree with the actual ineffectiveness of the hedging relationship. An example is a hedged net risk position of 10 million € of which 80% are hedged. This position could be composed of either 20 million € assets and 10 million € liabilities or 15 million € assets and 5 million € liabilities. Measuring effectiveness will lead to different results depending on whether only the fair value change of the assets or the fair value changes of both the assets and the liabilities comprised in the hedged net risk position are considered. For internal risk management purposes effectiveness can only be measured considering the fair value changes of both assets and liabilities.

If not,

(a) *in your view how should the hedged item be designated and why?*

In KfW's view, the designation as a hedged item should correspond to the internal risk management practice of banks.

Other than the majority of the IASB members, KfW would favour designation approach C. In accordance with internal risk management KfW usually hedges net risk positions in different maturity time periods only partially. Due to economic developments and related psychological factors actual cash flows may be different from planned ones and therefore require adjustments between maturity time periods. As an example, a downturn and related tight labour market may result in people benefiting from short-term liquidity and redeeming their loans earlier than contractually negotiated because they are afraid of losing their jobs and anticipate not to be able to repay their debt due to unemployment. This behaviour cannot be explained by changes in market interest rates only.

Notwithstanding these general comments KfW has developed an example in order to evaluate the consequences of not applying hedge accounting and either adopting designation approach C or D. This example is based on ten loans leading to cash inflows in seven different maturity time periods. In order to facilitate the analysis, i.e. benefit from the measurement functions of Summit which KfW uses as front and back office system for securities and derivatives, the expected cash flows per maturity time period are presented as bonds whose interest rates are determined by the weighted average of the loans' interest rates. These bonds represent the net risk position, which is partially hedged against changes in EURIBOR using interest rate swaps. The example illustrates the specific requirements relating to the assessment of hedge effectiveness and the accounting treatment of fair value adjustments with and without changes in expectations and derecognition of assets comprised in the hedged net risk position (changes are assumed to arise in August) over a period of 6 months using monthly maturity time periods. The statements which can be drawn from this example are included in the paragraphs below. For detailed information please refer to the annex outlining the summarised results as well as the accounting entries for one maturity time period (August). If the IASB would like further clarification on statements included in this comment letter and annex, KfW is looking forward to discussing these statements.

The main conclusion from the example is that both the adoption of designation approach C and D lead to a significant reduction in volatility in the income statement. Both designation approaches have proven to be realisable for KfW. Moreover, based on KfW's business, an analysis of the past as well as a periodical review of the estimates used KfW assumes that actual cash flows do not differ materially from planned ones. Thus, the adoption of either designation approach C or D is not expected to lead to materially different results for KfW. This is confirmed by the example both for financial instruments with short and long remaining lives as well as for a situation in which the impairment of a loan affects the hedged item. However, beside the strategic reason described above the feasibility of designation approach C has proven to be much better. This is why KfW explicitly favours designation approach C.

What needs to be considered though, is that a substantial degree of volatility is left in the income statement under the proposed designation approaches. This statement is supported by a comparison of the summarised results presented in the annex. According to law KfW is not allowed to enter into trading activities. This is reflected in the bank's internal strategy and determined the design of the example. The example analyses a hedging relationship which is economically closed. A remaining volatility in the income statement should therefore be close to zero which, however, is by far not the case. Considering the objective of IAS/IFRS to provide useful and transparent information to the users of financial statements, this constitutes a contradiction, and KfW kindly asks the IASB to point out in which way the hedge accounting rules may be applied in order to produce adequate results.

(b) would your approach meet the principle underlying IAS 39 that all material ineffectiveness (arising from both over- and under-hedging) should be identified and recognised in profit or loss?

KfW's favoured approach would meet the principle underlying IAS 39 that all material ineffectiveness should be identified and recognised in profit or loss. As mentioned above, ineffectiveness of a macro hedge should be in accordance with internal risk management practice and therefore agree to the difference between the hedging instruments' fair value change and the fair value change attributable to the hedged risk relating to the assets and liabilities comprised in the hedged net risk position. Any difference remaining of this comparison needs to be recorded as a profit or loss in the income statement.

The exposure draft does not contain any guidance on how hedge effectiveness should be assessed. KfW would appreciate if the exposure draft could be amended by explanations and examples on how the effectiveness of macro fair value hedges should be assessed. An example is a statement whether the 80 to 125% margin applicable to ex post assessment of hedge effectiveness should also be applicable to its ex ante assessment, as KfW read from the July 2003 IASB Update.

Having gone through effectiveness assessment in the example, KfW faced difficulties with the ex post assessment of hedge effectiveness. The reasons need to be analysed further, which, however, has not been possible until 14 November 2003.

One of the difficulties KfW faced in trying to assess hedge effectiveness related to the amortisation of premiums and discounts. Whenever premiums and discounts need to be amortised, fair value changes attributable to the hedged risk need to be calculated by subtracting the fair value as of the previous reporting date as well as the amortisation of premiums and discounts from the fair value as of the current reporting date. In order to do this, premiums and discounts need to be allocated to individual assets or liabilities which is not consistent with the portfolio-based approach of accounting for macro fair value hedges proposed in the exposure draft. KfW would appreciate if the Board could clarify whether it is intended that the amortisation of premiums and discounts relating to financial instruments hedged in a fair value macro hedge should follow a single transaction-based approach.

Notwithstanding the practical difficulties KfW faced in the ex post assessment of hedge effectiveness KfW would appreciate if the Board could review whether IAS 39p142(e) according to which hedge accounting may not be applied retrospectively if the effectiveness of the hedge cannot be shown to be within the 80 to 125% margin should also be applicable for macro fair value hedges. According to KfW, the assumption underlying this provision, i.e. that an asset or liability is designated as a hedged item and expected to be hedged steadily by a derivative financial instrument, is not compliant with a macro hedging strategy of interest rate risk. In fact, this macro hedging strategy is dynamic and does not intend to “freeze” hedging relationships. This is reflected in the exposure draft describing monthly dedesignation and redesignation. Consequently, it cannot be appropriate to abandon the application of hedge accounting in a month where ex ante assessment of hedge effectiveness suggests that a hedge would be between 80 and 125% effective, whereas this cannot be supported by ex post effectiveness testing. KfW thereby does not challenge that ineffectiveness needs to be measured and recorded. However, abandoning hedge accounting for the preceding month does not seem to be consistent with the philosophy and assumptions of a macro hedging strategy of interest rate risk.

Eventually, KfW asks the Board to specify whether IAS 39p157, applicable to the accounting treatment for termination of a hedge, should also be applicable to macro fair value hedges. If so, the functionality of IT systems would need to be expanded considerably, which does not comply with ED IAS 39p3(b) where the Board states that major systems changes shall be avoided. E.g., if risk management includes financial instruments with a maturity of 20 years, the application of monthly maturity time periods would require the creation of 240 additional accounts in November 2003. Another 240 accounts would be needed in each month following November 2003 resulting in 57.600 accounts per portfolio over a period of 20 years. If dedesignation and redesignation is performed as described in the exposure draft, the 240 accounts created in November 2003 only serve for recognition and amortisation of the fair value adjustments relating to the hedged item in November 2003. In the course of dealing with the example KfW considered aggregating accounts in different ways. E.g., KfW analysed whether amortising fair value adjustments using a straight-line method suggested that an aggregation and thereby reduction in the number of accounts would be possible. This did not prove to be possible, however, without losing pieces of information necessary to interpret the resulting figures and accounts. KfW would therefore appreciate clarification as well as further guidance and illustrative examples should IAS 39p157 be also applicable to macro fair value hedges.

(c) *under your approach, how and when would amounts that are presented in the balance sheet line items referred to in paragraph 154 be removed from the balance sheet?*

Based on KfW's understanding fair value adjustments relating to the respective hedged item need to be adjusted by the effects of a complete or partial derecognition of assets or liabilities comprised in the hedged net risk position. The exposure draft does not specify, however, how derecognised assets or liabilities need to be determined and how information about a derecognition of assets or liabilities need to be considered in determining the amortisation of fair value adjustments.

In KfW's point of view, a feasible approach, which is compliant with the portfolio-based approach proposed by the exposure draft, consists in determining whether a specific asset or liability should be designated as a component of the hedged item in a macro fair value hedge or not. This would be applicable for the asset's or liability's entire life. The piece of information whether the asset or liability constitutes a component of a hedge item would need to be stored together with other data specific to the asset or liability. In the event of a derecognition of assets or liabilities the fair value adjustments would be adjusted proportionally. Simultaneously, the net gain or loss on termination of the assets or liabilities would be adjusted.

Question 2

Draft paragraph A30(b) proposes that all of the assets (or liabilities) from which the hedged amount is drawn must be items that could have qualified for fair value hedge accounting if they had been designated individually. It follows that a financial liability that the counterparty can redeem on demand (ie demand deposits and some time deposits) cannot qualify for fair value hedge accounting for any time period beyond the shortest period in which the counterparty can demand payment. Paragraphs BC13-BC15 of the Basis for Conclusions set out the reasons for this proposal.

Do you agree that a financial liability that the counterparty can redeem on demand cannot qualify for fair value hedge accounting for any time period beyond the shortest period in which the counterparty can demand payment?

KfW is a state-owned bank whose operations are ruled by a specific law called "Gesetz über die Kreditanstalt für Wiederaufbau". Article 2 of this law describes the tasks and transactions KfW is allowed to enter into, and paragraph 3 specifies that KfW is not allowed to take in any deposits. This is why question 2 does not apply to KfW's hedging strategy, and therefore KfW leaves commenting on this question to banks which carry out this business.

Yours sincerely,

Rainer Hartje
Head of Controlling

Klaus Weirich
Head of Accounting

Annex

KfW example re exposure draft "Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk"

KfW has developed an example in order to evaluate the consequences of not applying hedge accounting and either adopting designation approach C or D. This example is based on 10 loans leading to cash inflows in 7 different maturity time periods. In order to facilitate the analysis, i.e. benefit from the measurement functions of Summit which KfW uses as front and back office system for securities and derivatives, the expected cash flows per maturity time period are presented as bonds whose interest rates are determined by the weighted average of the loans' interest rates. These bonds represent the net risk position which is partially hedged against changes in EURIBOR using interest rate swaps. The example illustrates the specific requirements relating to the assessment of hedge effectiveness and the accounting treatment of fair value adjustments with and without changes in expectations and derecognition of assets comprised in the hedged net risk position (changes are assumed to arise in August) over a period of 6 months using monthly maturity time periods. This annex contains the summarised results as well as the accounting entries for one maturity time period (August).

Please find on the following excel sheets the summarized results, accounting entries and accounts for a scenario where hedge accounting is not applied as well as for designation approaches C and D.

Information re the accounting entries

- Quantitative information is provided in million €.
- The first accounting entry in each section relates to the fair value change of the hedging instruments.
- The second accounting entry in each section relates to the fair value change of the hedged items.
- Fair value adjustments differ between designation approaches C and D as soon as actual cash flows differ from planned ones.
- The third accounting entry in each section deals with the amortisation of fair value adjustments recorded in July 01.
- Fair value adjustments are amortised on a straight-line basis.
- Since actual cash flows were assumed to be identical with planned ones in July 01, there is not difference between fair value adjustments determined under designation approach C and D.
- The fourth accounting entry reflects the derecognition of assets and adjusts the fair value adjustments recorded in July 01.

Comments on the results

The main conclusion which can be drawn from the example is that both the adoption of designation approach C and D lead to a significant reduction in volatility in the income statement. The remaining volatily in the income statement is smaller adopting designation approach C as compared to D. The adoption of designation approach C leads to a net gain in August, while the adoption of designation approach D results in a net loss. This is due to higher income on hedge accounting resulting from the derecognition of assets as well as the adjustment of the related fair value adjustments.

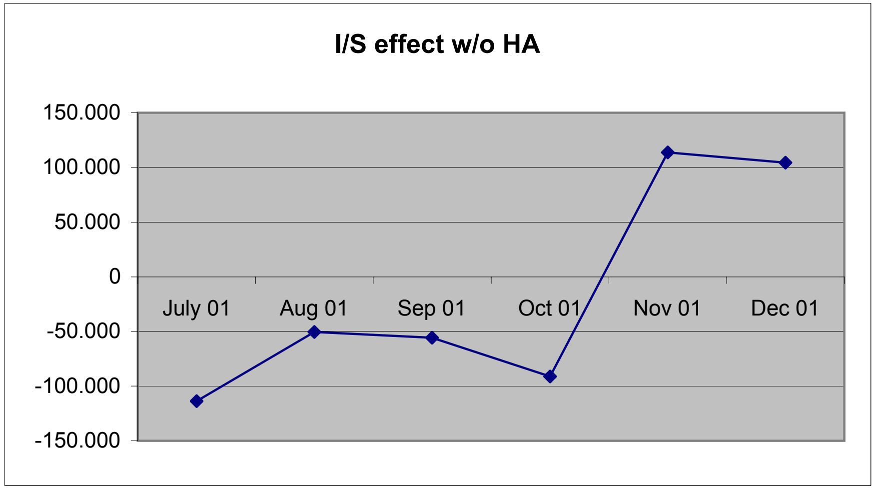
Abbreviations used for titles of excel sheets

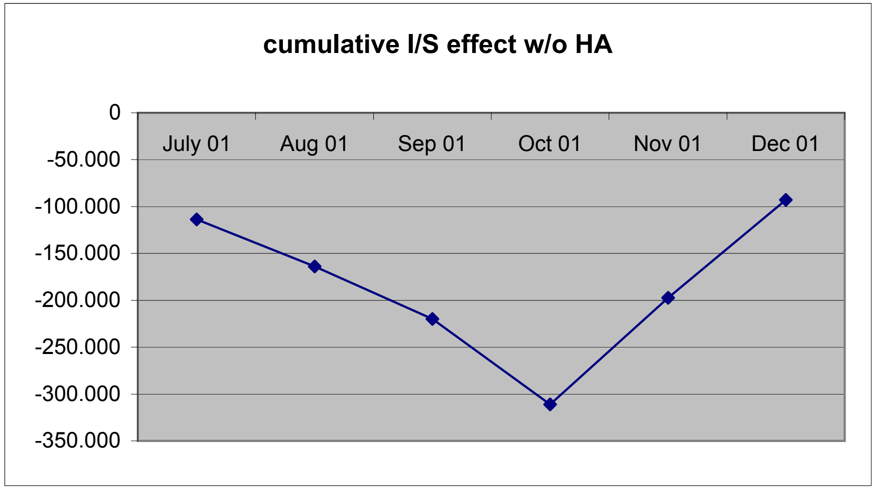
AE	accounting entries
BS	balance sheet
DA	designation approach
HA	hedge accounting
IS	income statement
wo	without

Abbreviations used in excel sheets

adj	adjustment
Aggr	aggregate
B/S	balance sheet
FV	fair value
HA	hedge accounting
I/S	income statement
MTP	maturity time period
w/o	without

	I/S effect	cumulative I/S effect
July 01	-113.575	-113.575
Aug 01	-50.469	-164.044
Sep 01	-55.714	-219.758
Oct 01	-91.274	-311.032
Nov 01	113.638	-197.394
Dec 01	104.450	-92.944
Average	**-15.491**	
Deviation	**99.262**	





Accounting entries

31.07.01 - 31.08.01

1) Bond1/Swap1

Dr	Trading result	11.197	Cr	Trading liabilities	11.197

2) Bond2/Swap2

Dr	Trading result	18.041	Cr	Trading liabilities	18.041

3) Bond3/Swap3

Dr	Trading result	2.841	Cr	Trading liabilities	2.841

4) Bond4/Swap4

Dr	Trading result	4.254	Cr	Trading liabilities	4.254

5) Bond5/Swap5

Dr	Trading result	5.393	Cr	Trading liabilities	5.393

6) Bond6/Swap6

Dr	Trading result	6.910	Cr	Trading liabilities	6.910

7) Bond7/Swap7

Dr	Trading result	1.833	Cr	Trading liabilities	1.833

B/S

Trading liabilities			
		1) Trading result	11.197
		2) Trading result	18.041
		3) Trading result	2.841
		4) Trading result	4.254
		5) Trading result	5.393
		6) Trading result	6.910
		7) Trading result	1.833
B/S	50.469		
	50.469		50.469

I/S

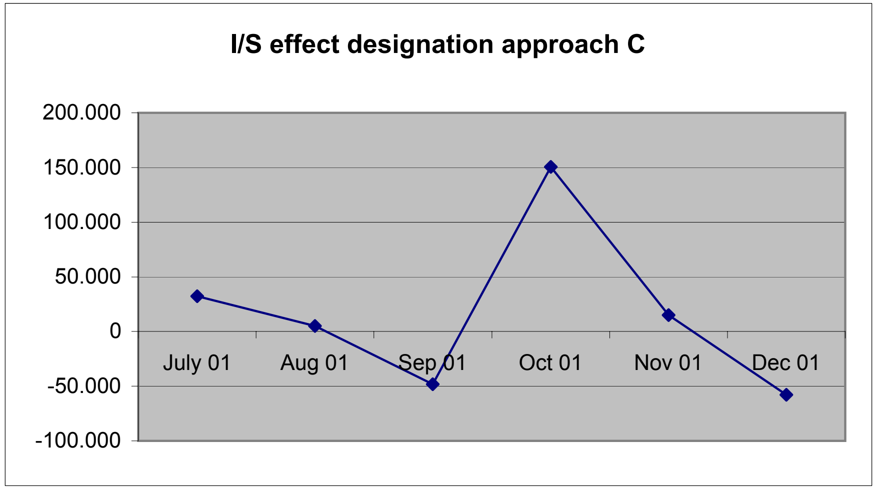
Trading result			
1) Trading liabilities	11.197		
2) Trading liabilities	18.041		
3) Trading liabilities	2.841		
4) Trading liabilities	4.254		
5) Trading liabilities	5.393		
6) Trading liabilities	6.910		
7) Trading liabilities	1.833		
		I/S	50.469
	50.469		50.469

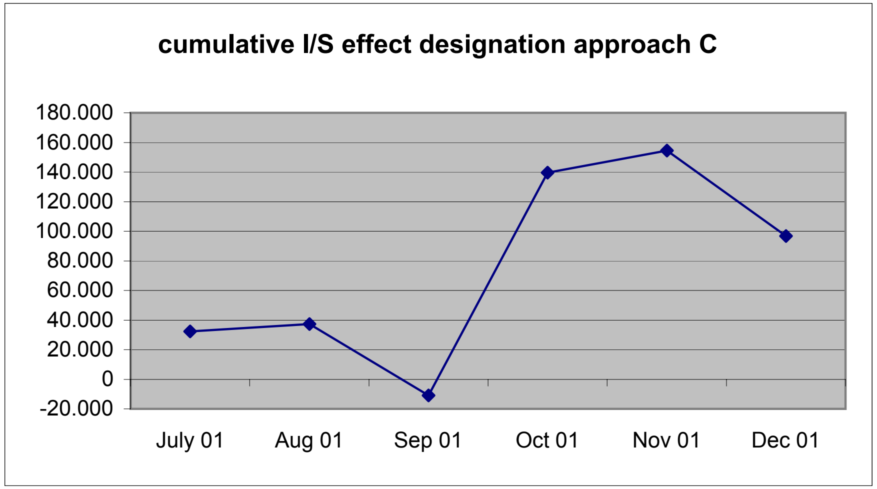
Summary

I/S			
Trading result	50.469		
Net interest income	0		
		Net loss	50.469
	50.469		50.469

B/S			
		Trading liabilities	50.469
Net loss	50.469		
	50.469		50.469

	I/S effect	cumulative I/S effect
July 01	32.335	32.335
Aug 01	4.980	37.315
Sep 01	-48.140	-10.825
Oct 01	150.427	139.602
Nov 01	14.964	154.566
Dec 01	-57.909	96.657
Average	**16.110**	
Deviation	**74.882**	





Accounting entries

31.07.01 - 31.08.01

1) Bond1/Swap1

Dr	Expense on hedge accounting	11.197	Cr	Negative fair values hedge accounting	11.197
Dr	Aggr FV adj MTP 12/2014, 08/2001	17.539	Cr	Income on hedge accounting	17.539
Dr	Interest expense	190	Cr	Aggr FV adj MTP 12/2014, 07/2001	190 (remaining life: 161 months)

Adjustment to FV adj due to derecognition of assets for period 30.06.01 - 31.07.01

Dr	Loss on derecognition of assets	6.122	Cr	Aggr FV adj MTP 12/2014, 07/2001	6.122

2) Bond2/Swap2

Dr	Expense on hedge accounting	18.041	Cr	Negative fair values hedge accounting	18.041
Dr	Aggr FV adj MTP 12/2013, 08/2001	28.169	Cr	Income on hedge accounting	28.169
Dr	Interest expense	272	Cr	Aggr FV adj MTP 12/2013, 07/2001	272 (remaining life: 149 months)

Adjustment to FV adj due to derecognition of assets for period 30.06.01 - 31.07.01

Dr	Loss on derecognition of assets	17.344	Cr	Aggr FV adj MTP 12/2013, 07/2001	17.344

3) Bond3/Swap3

Dr	Expense on hedge accounting	2.841	Cr	Negative fair values hedge accounting	2.841
Dr	Aggr FV adj MTP 03/2010, 08/2001	4.799	Cr	Income on hedge accounting	4.799
Dr	Interest expense	68	Cr	Aggr FV adj MTP 03/2010, 07/2001	68 (remaining life: 104 months)

Adjustment to FV adj due to derecognition of assets for period 30.06.01 - 31.07.01

Dr	Loss on derecognition of assets	1.759	Cr	Aggr FV adj MTP 03/2010, 07/2001	1.759

4) Bond4/Swap4

Dr	Expense on hedge accounting	4.254	Cr	Negative fair values hedge accounting	4.254
Dr	Aggr FV adj MTP 12/2009, 08/2001	7.182	Cr	Income on hedge accounting	7.182
Dr	Interest expense	129	Cr	Aggr FV adj MTP 12/2009, 07/2001	129 (remaining life: 101 months)

5) Bond5/Swap5

Dr	Expense on hedge accounting	5.393	Cr	Negative fair values hedge accounting	5.393
Dr	Aggr FV adj MTP 06/2007, 08/2001	9.214	Cr	Income on hedge accounting	9.214
Dr	Interest expense	151	Cr	Aggr FV adj MTP 06/2007, 07/2001	151 (remaining life: 71 months)

6) Bond6/Swap6

Dr	Expense on hedge accounting	6.910	Cr	Negative fair values hedge accounting	6.910
Dr	Aggr FV adj MTP 09/2006, 08/2001	12.762	Cr	Income on hedge accounting	12.762
Dr	Interest expense	195	Cr	Aggr FV adj MTP 09/2006, 07/2001	195 (remaining life: 62 months)

Adjustment to FV adj due to derecognition of assets for period 30.06.01 - 31.07.01

Dr	Loss on derecognition of assets	2.423	Cr	Aggr FV adj MTP 09/2006, 07/2001	2.423

7) Bond7/Swap7

Dr	Expense on hedge accounting	1.833	Cr	Negative fair values hedge accounting	1.833
Dr	Aggr FV adj MTP 12/2004, 08/2001	4.541	Cr	Income on hedge accounting	4.541
Dr	Interest expense	104	Cr	Aggr FV adj MTP 12/2004, 07/2001	104 (remaining life: 41 months)

B/S

Trading liabilities

		0	0
B/S	0		
	0		0

Positive fair values hedge accounting

0	0		
		B/S	0
	0		0

Negative fair values hedge accounting

		1) Expense on hedge accounting	11.197
		2) Expense on hedge accounting	18.041
		3) Expense on hedge accounting	2.841
		4) Expense on hedge accounting	4.254
		5) Expense on hedge accounting	5.393
		6) Expense on hedge accounting	6.910
		7) Expense on hedge accounting	1.833
B/S	50.469		
	50.469		50.469

Aggregate fair value adjustments

1) Aggr FV adj MTP 12/2014, 08/2001	17.539	1) Aggr FV adj MTP 12/2014, 07/2001	190
2) Aggr FV adj MTP 12/2013, 08/2001	28.169	2) Aggr FV adj MTP 12/2013, 07/2001	272
3) Aggr FV adj MTP 03/2010, 08/2001	4.799	3) Aggr FV adj MTP 03/2010, 07/2001	68
4) Aggr FV adj MTP 12/2009, 08/2001	7.182	4) Aggr FV adj MTP 12/2009, 07/2001	129
5) Aggr FV adj MTP 06/2007, 08/2001	9.214	5) Aggr FV adj MTP 06/2007, 07/2001	151
6) Aggr FV adj MTP 09/2006, 08/2001	12.762	6) Aggr FV adj MTP 09/2006, 07/2001	195
7) Aggr FV adj MTP 12/2004, 08/2001	4.541	7) Aggr FV adj MTP 12/2004, 07/2001	104
		1) Loss on derecognition MTP 12/2014, 07/2001	6.122
		2) Loss on derecognition MTP 12/2013, 07/2001	17.344
		3) Loss on derecognition MTP 03/2010, 07/2001	1.759
		6) Loss on derecognition MTP 09/2006, 07/2001	2.423
		B/S	55.449
	84.206		84.206

Aggr FV adj MTP 12/2014, 08/2001

1) Income on hedge accounting	17.539		
		Aggregate fair value adjustments	17.539
	17.539		17.539

Aggr FV adj MTP 12/2013, 08/2001

2) Income on hedge accounting	28.169		
		Aggregate fair value adjustments	28.169
	28.169		28.169

Aggr FV adj MTP 03/2010, 08/2001

3) Income on hedge accounting	4.799		
		Aggregate fair value adjustments	4.799
	4.799		4.799

Aggr FV adj MTP 12/2009, 08/2001

4) Income on hedge accounting	7.182		
		Aggregate fair value adjustments	7.182
	7.182		7.182

Aggr FV adj MTP 06/2007, 08/2001

5) Income on hedge accounting	9.214		
		Aggregate fair value adjustments	9.214
	9.214		9.214

Aggr FV adj MTP 09/2006, 08/2001

6) Income on hedge accounting	12.762		
		Aggregate fair value adjustments	12.762
	12.762		12.762

Aggr FV adj MTP 12/2004, 08/2001

7) Income on hedge accounting	4.541		
		Aggregate fair value adjustments	4.541
	4.541		4.541

Aggr FV adj MTP 12/2014, 07/2001

		1) Interest expense	190
Aggregate fair value adjustments	190		
	190		190

Aggr FV adj MTP 12/2013, 07/2001

		2) Interest expense	272
Aggregate fair value adjustments	272		
	272		272

Aggr FV adj MTP 03/2010, 07/2001

		3) Interest expense	68
Aggregate fair value adjustments	68		
	68		68

Aggr FV adj MTP 12/2009, 07/2001

		4) Interest expense	129
Aggregate fair value adjustments	129		
	129		129

Aggr FV adj MTP 06/2007, 07/2001

		5) Interest expense	151
Aggregate fair value adjustments	151		
	151		151

Aggr FV adj MTP 09/2006, 07/2001

		6) Interest expense	195
Aggregate fair value adjustments	195		
	195		195

Aggr FV adj MTP 12/2004, 07/2001

		7) Interest expense	104
Aggregate fair value adjustments	104		
	104		104

I/S

Trading result			
0	0		
		I/S	0
	0		0

Net result on hedge accounting			
1) Negative fair values hedge accounting	11.197	1) Aggr FV adj MTP 12/2014, 08/2001	17.539
2) Negative fair values hedge accounting	18.041	2) Aggr FV adj MTP 12/2013, 08/2001	28.169
3) Negative fair values hedge accounting	2.841	3) Aggr FV adj MTP 03/2010, 08/2001	4.799
4) Negative fair values hedge accounting	4.254	4) Aggr FV adj MTP 12/2009, 08/2001	7.182
5) Negative fair values hedge accounting	5.393	5) Aggr FV adj MTP 06/2007, 08/2001	9.214
6) Negative fair values hedge accounting	6.910	6) Aggr FV adj MTP 09/2006, 08/2001	12.762
7) Negative fair values hedge accounting	1.833	7) Aggr FV adj MTP 12/2004, 08/2001	4.541
I/S	33.737		
	84.206		84.206

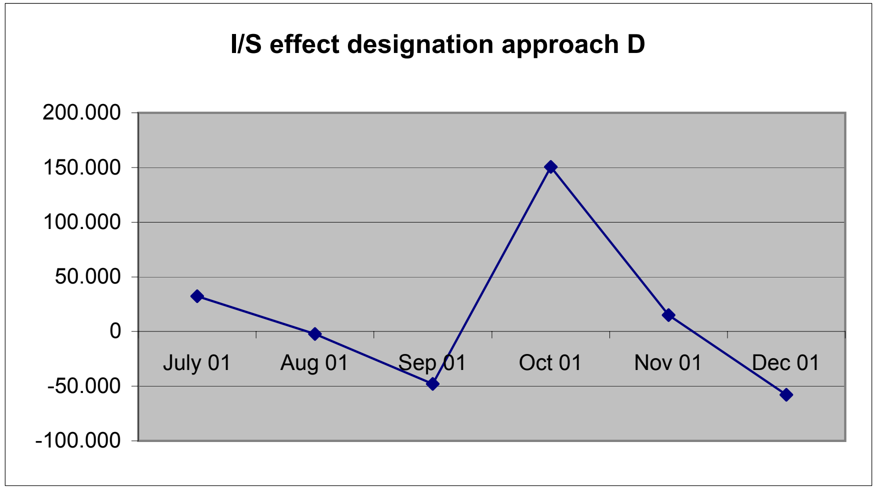
Net interest income			
1) Aggr FV adj MTP 12/2014, 07/2001	190		
2) Aggr FV adj MTP 12/2013, 07/2001	272		
3) Aggr FV adj MTP 03/2010, 07/2001	68		
4) Aggr FV adj MTP 12/2009, 07/2001	129		
5) Aggr FV adj MTP 06/2007, 07/2001	151		
6) Aggr FV adj MTP 09/2006, 07/2001	195		
7) Aggr FV adj MTP 12/2004, 07/2001	104		
1) Loss on derecognition MTP 12/2014, 07/2001	6.122		
2) Loss on derecognition MTP 12/2013, 07/2001	17.344		
3) Loss on derecognition MTP 03/2010, 07/2001	1.759		
6) Loss on derecognition MTP 09/2006, 07/2001	2.423		
		I/S	28.757
	28.757		28.757

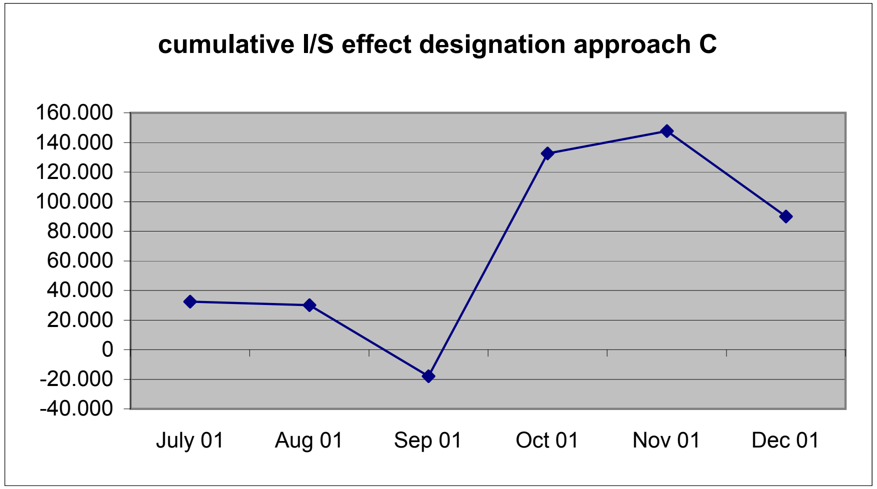
Summary

I/S			
Trading result	0	Net result on hedge accounting	33.737
Net interest income	28.757		
Net gain	4.980		
	33.737		33.737

B/S			
Positive fair values hedge accounting	0	Trading liabilities	0
Aggregate fair value adjustments	55.449	Negative fair values hedge accounting	50.469
		Net gain	4.980
	55.449		55.449

	I/S effect	cumulative I/S effect
July 01	32.335	32.335
Aug 01	-2.299	30.036
Sep 01	-48.029	-17.993
Oct 01	150.550	132.557
Nov 01	15.087	147.644
Dec 01	-57.786	89.858
Average	**14.976**	
Deviation	**75.159**	





Accounting entries

31.07.01 - 31.08.01

1) Bond1/Swap1

Dr	Expense on hedge accounting	11.197 Cr	Negative fair values hedge accounting	11.197
Dr	Aggr FV adj MTP 12/2014, 08/2001	14.616 Cr	Income on hedge accounting	14.616
Dr	Interest expense	190 Cr	Aggr FV adj MTP 12/2014, 07/2001	190 (remaining life: 161 months)

Adjustment to FV adj due to derecognition of assets for period 30.06.01 - 31.07.01

Dr	Loss on derecognition of assets	6.122 Cr	Aggr FV adj MTP 12/2014, 07/2001	6.122

2) Bond2/Swap2

Dr	Expense on hedge accounting	18.041 Cr	Negative fair values hedge accounting	18.041
Dr	Aggr FV adj MTP 12/2013, 08/2001	19.718 Cr	Income on hedge accounting	19.718
Dr	Interest expense	272 Cr	Aggr FV adj MTP 12/2013, 07/2001	272 (remaining life: 149 months)

Adjustment to FV adj due to derecognition of assets for period 30.06.01 - 31.07.01

Dr	Loss on derecognition of assets	17.344 Cr	Aggr FV adj MTP 12/2013, 07/2001	17.344

3) Bond3/Swap3

Dr	Expense on hedge accounting	2.841 Cr	Negative fair values hedge accounting	2.841
Dr	Aggr FV adj MTP 03/2010, 08/2001	3.839 Cr	Income on hedge accounting	3.839
Dr	Interest expense	68 Cr	Aggr FV adj MTP 03/2010, 07/2001	68 (remaining life: 104 months)

Adjustment to FV adj due to derecognition of assets for period 30.06.01 - 31.07.01

Dr	Loss on derecognition of assets	1.759 Cr	Aggr FV adj MTP 03/2010, 07/2001	1.759

4) Bond4/Swap4

Dr	Expense on hedge accounting	4.254 Cr	Negative fair values hedge accounting	4.254
Dr	Aggr FV adj MTP 12/2009, 08/2001	14.364 Cr	Income on hedge accounting	14.364
Dr	Interest expense	129 Cr	Aggr FV adj MTP 12/2009, 07/2001	129 (remaining life: 101 months)

5) Bond5/Swap5

Dr	Expense on hedge accounting	5.393 Cr	Negative fair values hedge accounting	5.393
Dr	Aggr FV adj MTP 06/2007, 8/2001	9.214 Cr	Income on hedge accounting	9.214
Dr	Interest expense	151 Cr	Aggr FV adj MTP 06/2007, 07/2001	151 (remaining life: 71 months)

6) Bond6/Swap6

Dr	Expense on hedge accounting	6.910 Cr	Negative fair values hedge accounting	6.910
Dr	Aggr FV adj MTP 09/2006, 08/2001	10.635 Cr	Income on hedge accounting	10.635
Dr	Interest expense	195 Cr	Aggr FV adj MTP 09/2006, 07/2001	195 (remaining life: 62 months)

Adjustment to FV adj due to derecognition of assets for period 30.06.01 - 31.07.01

Dr	Loss on derecognition of assets	2.423 Cr	Aggr FV adj MTP 09/2006, 07/2001	2.423

7) Bond7/Swap7

Dr	Expense on hedge accounting	1.833 Cr	Negative fair values hedge accounting	1.833
Dr	Aggr FV adj MTP 12/2004, 08/2001	4.541 Cr	Income on hedge accounting	4.541
Dr	Interest expense	104 Cr	Aggr FV adj MTP 12/2004, 07/2001	104 (remaining life: 41 months)

B/S

Trading liabilities

		0	0
B/S	0		
	0		0

Positive fair values hedge accounting

0	0		
		B/S	0
	0		0

Negative fair values hedge accounting

		1) Expense on hedge accounting	11.197
		2) Expense on hedge accounting	18.041
		3) Expense on hedge accounting	2.841
		4) Expense on hedge accounting	4.254
		5) Expense on hedge accounting	5.393
		6) Expense on hedge accounting	6.910
		7) Expense on hedge accounting	1.833
B/S	50.469		
	50.469		50.469

Aggregate fair value adjustments

1) Aggr FV adj MTP 12/2014, 08/2001	14.616	1) Aggr FV adj MTP 12/2014, 07/2001	190
2) Aggr FV adj MTP 12/2013, 08/2001	19.718	2) Aggr FV adj MTP 12/2013, 07/2001	272
3) Aggr FV adj MTP 03/2010, 08/2001	3.839	3) Aggr FV adj MTP 03/2010, 07/2001	68
4) Aggr FV adj MTP 12/2009, 08/2001	14.364	4) Aggr FV adj MTP 12/2009, 07/2001	129
5) Aggr FV adj MTP 06/2007, 08/2001	9.214	5) Aggr FV adj MTP 06/2007, 07/2001	151
6) Aggr FV adj MTP 09/2006, 08/2001	10.635	6) Aggr FV adj MTP 09/2006, 07/2001	195
7) Aggr FV adj MTP 12/2004, 08/2001	4.541	7) Aggr FV adj MTP 12/2004, 07/2001	104
		1) Loss on derecognition MTP 12/2014, 07/2001	6.122
		2) Loss on derecognition MTP 12/2013, 07/2001	17.344
		3) Loss on derecognition MTP 03/2010, 07/2001	1.759
		6) Loss on derecognition MTP 09/2006, 07/2001	2.423
		B/S	48.170
	76.927		76.927

Aggr FV adj MTP 12/2014, 08/2001

1) Income on hedge accounting	14.616		
		Aggregate fair value adjustments	14.616
	14.616		14.616

Aggr FV adj MTP 12/2013, 08/2001

2) Income on hedge accounting	19.718		
		Aggregate fair value adjustments	19.718
	19.718		19.718

Aggr FV adj MTP 03/2010, 08/2001

3) Income on hedge accounting	3.839		
		Aggregate fair value adjustments	3.839
	3.839		3.839

Aggr FV adj MTP 12/2009, 08/2001

4) Income on hedge accounting	14.364		
		Aggregate fair value adjustments	14.364
	14.364		14.364

Aggr FV adj MTP 06/2007, 08/2001

5) Income on hedge accounting	9.214		
		Aggregate fair value adjustments	9.214
	9.214		9.214

Aggr FV adj MTP 09/2006, 08/2001

6) Income on hedge accounting	10.635		
		Aggregate fair value adjustments	10.635
	10.635		10.635

Aggr FV adj MTP 12/2004, 08/2001

7) Income on hedge accounting	4.541		
		Aggregate fair value adjustments	4.541
	4.541		4.541

Aggr FV adj MTP 12/2014, 07/2001

		1) Interest expense	190
Aggregate fair value adjustments	190		
	190		190

Aggr FV adj MTP 12/2013, 07/2001

		2) Interest expense	272
Aggregate fair value adjustments	272		
	272		272

Aggr FV adj MTP 03/2010, 07/2001

		3) Interest expense	68
Aggregate fair value adjustments	68		
	68		68

Seperater Aktivposten LZB 12/2009, Adj. 7/2001

		4) Interest expense	129
Aggregate fair value adjustments	129		
	129		129

Aggr FV adj MTP 06/2007, 07/2001

		5) Interest expense	151
Aggregate fair value adjustments	151		
	151		151

Seperater Aktivposten LZB 09/2006, Adj. 7/2001

		6) Interest expense	195
Aggregate fair value adjustments	195		
	195		195

Aggr FV adj MTP 12/2004, 07/2001

		7) Interest expense	104
Aggregate fair value adjustments	104		
	104		104

I/S

Trading result

0	0		
		I/S	0
	0		0

Net result on hedge accounting

1) Negative fair values hedge accounting	11.197	1) Aggr FV adj MTP 12/2014, 08/2001	14.616
2) Negative fair values hedge accounting	18.041	2) Aggr FV adj MTP 12/2013, 08/2001	19.718
3) Negative fair values hedge accounting	2.841	3) Aggr FV adj MTP 03/2010, 08/2001	3.839
4) Negative fair values hedge accounting	4.254	4) Aggr FV adj MTP 12/2009, 08/2001	14.364
5) Negative fair values hedge accounting	5.393	5) Aggr FV adj MTP 06/2007, 08/2001	9.214
6) Negative fair values hedge accounting	6.910	6) Aggr FV adj MTP 09/2006, 08/2001	10.635
7) Negative fair values hedge accounting	1.833	7) Aggr FV adj MTP 12/2004, 08/2001	4.541
I/S	26.458		
	76.927		76.927

Net interest income

1) Aggr FV adj MTP 12/2014, 07/2001	190		
2) Aggr FV adj MTP 12/2013, 07/2001	272		
3) Aggr FV adj MTP 03/2010, 07/2001	68		
4) Aggr FV adj MTP 12/2009, 07/2001	129		
5) Aggr FV adj MTP 06/2007, 07/2001	151		
6) Aggr FV adj MTP 09/2006, 07/2001	195		
7) Aggr FV adj MTP 12/2004, 07/2001	104		
1) Loss on derecognition MTP 12/2014, 07/2001	6.122		
2) Loss on derecognition MTP 12/2013, 07/2001	17.344		
3) Loss on derecognition MTP 03/2010, 07/2001	1.759		
6) Loss on derecognition MTP 09/2006, 07/2001	2.423		
		I/S	28.757
	28.757		28.757

Summary

I/S

Trading result	0	Net result on hedge accounting	26.458
Net interest income	28.757		
		Nett loss	2.299
	28.757		28.757

B/S

Positive fair values hedge accounting	0	Trading liabilities	0
Aggregate fair value adjustments	48.170	Negative fair values hedge accounting	50.469
Net loss	2.299		
	50.469		50.469