

August 29, 2011



Bayerische Landesbank

2nd Supplement to the EUR 60,000,000,000 Debt Issuance Programme Prospectus dated May 13, 2011

**pursuant to Art. 16(1) of Directive 2003/71/EC and
Art. 13 (1) of the Luxembourg act relating to prospectuses for securities
(Loi relative aux prospectus pour valeurs mobilières)**

This supplement (the "**Supplement**") is supplemental to, and should be read in conjunction with, the Debt Issuance Programme Prospectus dated May 13, 2011 (the "**Prospectus**") pertaining to the EUR 60,000,000,000 Debt Issuance Programme of Bayerische Landesbank (the "**Programme**"), as supplemented by a 1st supplement dated May 24, 2011 (the "**1st Supplement**" and, together with this Supplement, the "**Supplements**"). Therefore, with respect to future issues under the Programme, references in the Final Terms to the Prospectus are to be read as references to the Prospectus as supplemented by the Supplements.

This Supplement has been approved pursuant to Art. 13(1) of the Luxembourg act relating to prospectuses for securities (*Loi relative aux prospectus pour valeur mobilières*, the "**Luxembourg Law**"), which transforms Directive 2003/71/EC of the European Parliament and the Council of November 4, 2003 (the "**Directive**") into Luxembourg law, by the *Commission de Surveillance du Secteur Financier* of the Grand Duchy of Luxembourg in its capacity as competent authority under the Luxembourg Law. The Issuer has requested the CSSF to provide the competent authorities in the Republic of Austria, the Federal Republic of Germany, the United Kingdom of Great Britain and Northern Ireland, the Netherlands and the Republic of Ireland with a certificate of approval attesting that this Supplement has been drawn up in accordance with the Luxembourg Law ("**Notification**"). The Issuer may request the CSSF to provide competent authorities in additional host Member States within the European Economic Area with a Notification.

This Supplement reflects the status as of the date of its publication only. The information provided in the Prospectus and the Supplements will be updated in accordance with the provisions of the Directive and the provisions of any applicable national laws implementing the Directive. Neither the delivery of this Supplement by any person nor any offer or any listing on any stock exchange of any securities issued under the Prospectus, as supplemented by the Supplements, includes or shall be deemed to include a representation that the information provided in this Supplement is accurate at any time subsequent to the date of this Supplement.

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I. General Information

1. Right to Withdraw

Investors who have already agreed to purchase or subscribe for the securities issued by Bayerische Landesbank under the Programme before this Supplement is published shall have the right, exercisable within a time limit of two working days after the publication of this Supplement, to withdraw their acceptances.

2. Responsibility Statement

Bayerische Landesbank ("**BayernLB**", the "**Bank**" or the "**Issuer**") accepts responsibility for the information contained in this Supplement. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

3. Publication of Supplement, Documents on Display

This Supplement has been published on the website of Bayerische Landesbank (www.bayernlb.de) on the date of its approval and will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu). The Prospectus, the 1st Supplement and the documents incorporated in any of those by reference may also be obtained via the internet on the website of BayernLB and the website of the Luxembourg Stock Exchange. Upon request, Bayerische Landesbank will provide, free of charge, a copy of the Prospectus, the Supplements and the documents incorporated in any of those by reference.

II. Supplement

1. BayernLB Group Interim Report – First Half of 2011

(i) The information in the Trend Information section under the heading "Recent Developments" on pages 46 to 48 of the Prospectus and (ii) the Financial Information section on pages 51 to 53 of the Prospectus is supplemented by the following information:

On August 29, 2011, Bayerische Landesbank published its consolidated interim financial information for the period from January 1, 2011 to June 30, 2011, consisting of condensed consolidated interim financial statements and the interim group management report (the "**BayernLB Group Interim Report – First Half of 2011**"). The condensed consolidated interim financial statements have been prepared in accordance with the International Financial Reporting Standards applicable to interim financial reporting as adopted by the European Union and comply with the requirements of IAS 39 and the interim group management report has been prepared in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. The BayernLB Group Interim Report – First Half of 2011 has been reviewed by the Issuer's auditors. The BayernLB Group Interim Report – First Half of 2011 is attached to this Supplement as Annex.

2. State Aid Procedure of the European Commission

The information on the state aid procedure of the European Commission set out in (i) the Summary (English version) in the 5th paragraph under the heading "Stabilisation Measures in Favour of Bayerische Landesbank and Hypo Group Alpe Adria and Related Administrative Proceedings" on page 11 of the Prospectus and (ii) the Risk Factors section under the heading "Restructuring of the BayernLB Group" on pages 33 and 34 of the Prospectus is supplemented by the following information:

In its decision dated as of December 18, 2008, the European Commission had reserved itself a final assessment of whether the stabilisation measures taken by the Free State of Bavaria possibly could be considered as indirect state aid in favour of the Bavarian Savings Banks Association as (indirect) owner of the Bank. Therefore, the European Commission might request the Bavarian Savings Banks Association and/or the Bavarian Savings Banks to participate, in whatever form, in the stabilisation of the Bank.

The information on the state aid procedure of the European Commission set out in the German translation of the Summary in the 5th paragraph under the heading "Stabilisierungsmaßnahmen zugunsten der Bayerischen Landesbank und der Hypo Group Alpe Adria und damit verbundene Verwaltungsverfahren" on pages 22 and 23 of the Prospectus is supplemented by the following information:

Die Information zum Beihilfeverfahren der Europäischen Kommission in der deutschen Übersetzung der Zusammenfassung im fünften Absatz unter der Überschrift "Stabilisierungsmaßnahmen zugunsten der Bayerischen Landesbank und der Hypo Group Alpe Adria und damit verbundene Verwaltungsverfahren" auf Seiten 22 und 23 des Prospekts vom 13. Mai 2011 wird um folgende Information ergänzt:

In ihrer Entscheidung vom 18. Dezember 2008 hat sich die Europäische Kommission eine endgültige Bewertung bezüglich der Frage vorbehalten, ob die Stabilisierungsmaßnahmen des Freistaats Bayern möglicherweise als mittelbare Beihilfe zugunsten des Sparkassenverbands Bayern als (mittelbarem) Eigentümer der Bank angesehen werden könnten. Daher könnte die Europäische Kommission vom Sparkassenverband Bayern und/oder den bayerischen Sparkassen eventuell verlangen, sich in irgendeiner Form an der Stabilisierung der Bank zu beteiligen.

Annex
BayernLB Group Interim Report – First Half of 2011

BayernLB Group – the first half of 2011 at a glance

IFRS income statement

EUR million	1 Jan–30 Jun 2011	1 Jan–30 Jun 2010	Change in %/pp
Net interest income	976	983	–0.6
Risk provisions in the credit business	–112	–392	–71.4
Net interest income after risk provisions	864	591	46.3
Net commission income	125	121	3.3
Gains or losses on fair value measurement	151	443	–65.9
Gains or losses on hedge accounting	46	11	>100.0
Gains or losses on financial investments	–114	–35	>100.0
Income from interests in companies valued at equity	8	–2	–
Administrative expenses	–733	–751	–2.5
Expenses for bank levies	–88	–	–
Other income and expenses	–8	43	–
Gains or losses on restructuring	–7	134	–
Earnings before taxes	244	554	–55.9
Cost/income ratio (CIR)	56.8%	46.9%	9.9 pp ¹
Return on equity (RoE)	5.2%	7.5%	–2.3 pp ¹

Quarterly comparison

The table below compares performance in the first and second quarters of 2011:

EUR million	Q2 2011	Q1 2011	Change in %
Net interest income	497	479	3.8
Risk provisions in the credit business	–63	–49	28.6
Net interest income after risk provisions	434	430	0.9
Net commission income	67	58	15.5
Gains or losses on fair value measurement	91	60	51.7
Gains or losses on hedge accounting	10	36	–72.2
Gains or losses on financial investments	–69	–45	53.3
Income from interests in companies valued at equity	0	8	–
Administrative expenses	–370	–363	1.9
Expenses for bank levies	–18	–70	–74.3
Other income and expenses	–45	37	–
Gains or losses on restructuring	–5	–2	>100.0
Earnings before taxes	95	149	–36.2

Rounding differences may occur in the tables.

IFRS balance sheet

EUR million	30 Jun 2011	31 Dec 2010	Change in %
Total assets	297,399	316,354	-6.0
Business volume	347,206	371,597	-6.6
Credit volume	220,178	231,207	-4.8
Total deposits	168,083	174,905	-3.9
Securitised liabilities	76,634	79,468	-3.6
Subordinated capital	7,065	7,727	-8.6
Equity	14,325	13,911	3.0

Banking supervisory ratios under the German Banking Act (KWG)

	30 Jun 2011	31 Dec 2010	Change in %/pp
Core capital (EUR billion)	13.8	13.9	-1.0
Own funds (EUR billion)	18.9	19.2	-1.2
Risk positions under SolvV (EUR billion)	115.5	123.9	-6.7
Core capital ratio	11.9%	11.2%	+0.7 pp ¹
Overall ratio	16.4%	15.5%	+0.9 pp ¹

Employees

	30 Jun 2011	31 Dec 2010	Change in %
Number of active employees	10,754	10,853	-0.9

Current ratings

	Long-term	Short-term	Pfandbriefs ²
Fitch Ratings	A+	F1+	AAA
Moody's Investors Service	A1	Prime-1	Aaa

¹ Percentage points

² Applies to public-sector and mortgage Pfandbriefs

Overview

Germany's economy continued to rebound strongly during the first half of 2011. Towards the middle of the year, however, there were increasing signs of a slowdown in the global recovery. Firstly, the huge rise in commodity prices was a drag until April 2011. Secondly, many countries had run up large deficits in 2009 to support growth and stabilise the financial system, a policy which is now having an increasingly negative effect as fiscal consolidation gets under way. The eurozone is also extremely unsettled by the government debt crisis in some countries, which remains unresolved and is in some instances even worsening. Corporate sentiment was not immune to these various stress factors and deteriorated somewhat at the start of the year, although it remains at a high level.

In Germany, which is once again one of the top performers amongst developed economies in terms of GDP growth in 2011, personal consumption, borne by a sustained improvement in the labour market, is a counterweight to the deteriorating prospects for exports. By the middle of the year, a quarter of a million more people were in work than at the end of 2010 and the number of registered unemployed had fallen by around 150,000. This provides a solid foundation for higher consumption, boosting domestic demand. Low interest rates have also stimulated residential construction. Corporate investment is again increasing strongly in 2011. Many industries are now seeing above-average capacity utilisation and good profitability, which are encouraging them to install more plant and machinery. In some cases, a shortage of qualified staff is having the same effect.

Renewed upward pressure on prices triggered fears of inflation among some parts of the population, but these subsided towards mid-year. Consumer prices are expected to go up by 2.25 percent in 2011, more than last year (1.1 percent) and above the ten-year average of 1.6 percent. Once energy price rises are stripped out, however, inflation remains well under control.

Fiscal policy in Germany has clearly swung in the direction of consolidation in 2011, supported by higher tax revenues from the economic upswing and lower government expenditure. The total public-sector deficit this year is likely to be less than 2 percent of GDP. The "debt brake" in the constitution requires the budget to be almost in balance by 2016; if the recovery continues, this will be achieved without any need for further measures.

Financial markets in the first half of the year were initially fuelled by better-than-expected economic indicators and corporate earnings that beat estimates, but attention then began to shift towards the increasing signs of a slowdown in growth and the ongoing high level of uncertainty caused by the sovereign debt crisis in the eurozone countries. This initially resulted in increased volatility, followed by a market slump in August 2011.

Financial position and financial performance

After stabilising, the BayernLB Group's earnings from business with customers continued on a satisfactory growth track in the first half of 2011. Factors weighing on earnings included in particular an impairment of EUR 79 million taken on Greek government bonds, and a charge of EUR 88 million for bank levies in Germany and Hungary. Pre-tax earnings for the first six months of 2011 were EUR 244 million. The comparable figure for the same period last year was EUR 554 million, which included a non-recurring restructuring gain of EUR 166 million.

Non-core activities, which are largely grouped in the Restructuring Unit (RU), continue to be proactively wound down. Total assets and risk positions have been reduced by more than 10 percent since 30 June 2010. Regulatory equity ratios have improved accordingly. The core capital ratio as at 30 June 2011 was 11.9 percent (11.2 percent as at 31 December 2010), and the equity ratio was 16.4 percent (15.5 percent as at 31 December 2010).

Income statement

Despite the planned reduction in business volume, net interest income remained at around last year's level at EUR 976 million (H1 2010: EUR 983 million). Lower contributions from foreign branches and MKB were offset by higher earnings in Germany, especially at DKB.

Risk provisions in the credit business in the first half of 2011 were well below both forecasts and last year's level. The low level of provisions was the result of the good portfolio quality stemming from a conservative risk policy and the favourable economic environment in large parts of the eurozone, especially Germany. Although MKB was able to significantly reduce its provisions compared to last year, they remained above the average for the years before, not least because the economic situation in eastern and south-eastern Europe is still problematic.

Net commission income was up slightly by EUR 4 million to EUR 125 million. Commission income from credit cards did particularly well in spite of the focused reduction of business. BayernLB also used its good liquidity to buy back early part of the bond guaranteed by the Special Fund for Financial Stabilisation (SoFFin). The fee payable to SoFFin fell to EUR 18 million (H1 2010: EUR 24 million).

Gains or losses on fair value measurement (including hedging gains) were in line with forecasts at EUR 197 million. The figure of EUR 454 million in the first half of 2010 was due in part to large reversals of write-downs on the investment portfolio as a result of the favourable market environment. Measurement effects on cross-currency swaps weighed on results by the amount of EUR -78 million in the first half of 2011. Cross-currency swaps are instruments which BayernLB uses for funding in dollars and sterling and to hedge exchange rate risks. Even though the currency risk is covered by the swaps and the future payment streams are known, the value of the cross-currency swaps is measured as at the reporting date and is subject to relatively sharp upwards or downwards movements depending on the supply and demand for currencies in the market. The results of these valuation swings are recognised in the gains or losses on fair value measurement item. Over time, however, these measurement swings are evened out via the payment streams. As the Restructuring Unit continues to wind down its foreign currency positions and by means of greater direct funding in foreign currencies, it will be possible to cut back on the use of cross-currency swaps and the volatility associated with them.

A EUR 73 million gain in the value of the umbrella guarantee agreement with the Free State of Bavaria was slightly outweighed by corresponding losses on financial investments. The aim of the umbrella is to offset losses and measurement changes in the ABS portfolio, where, for measurement reasons, earnings are reported in different periods, and interdependencies with the gains or losses on financial investments arise. Customer-driven trading business accounted for EUR 117 million (H1 2010: EUR 161 million). Losses from the fair value option came to EUR –9 million (H1 2010: EUR zero million).

Losses on financial investments (including income from interests in companies valued at equity) were EUR –106 million and include the above mentioned writedowns as well as the EUR –79 million impairment charges on Greek government bonds held by Banque LBLux S.A., Luxembourg, and Deutsche Kreditbank AG, Berlin (DKB). The bonds, which are classified as available for sale, were written down to market value as at 30 June 2011. Altogether, the writedowns represent around 50 percent of the nominal value of the Greek government bonds. Given the restructuring of Greek government debt as a result of the summit of the eurozone heads of state and government on 21 July 2011, the impact on earnings recorded on 30 June 2011 could exceed the actual losses expected.

Administrative expenses of EUR –733 million were as planned and 2.5 percent below last year's figure of EUR –751 million. Staff costs of EUR –346 million were close to last year's level of EUR –348 million. Other income and expenses covers both the activities of the real estate subsidiaries and the gains or losses from buying back own issues, and amounted to an expense of EUR –8 million in the first half of 2011 (H1 2010: income of EUR 43 million).

The expense for bank levies was EUR –88 million in the first half of 2011 (H1 2010: EUR zero million). Of this amount, EUR –51 million related to MKB, EUR –34 million to BayernLB and EUR –3 million to DKB. The structure of the Hungarian bank levy is such that the full amount was taken as an expense at the start of the year. Half of the full-year amount for the German bank levy has been recognised.

Losses on restructuring at the BayernLB Group were EUR –7 million. The large gain of EUR 134 million seen last year included EUR 166 million of non-recurring gains arising from the recognition of actuarial gains following changes to pension plans as a result of restructuring.

Return on equity (RoE)¹ was 5.2 percent (H1 2010: 7.5 percent), the cost/income ratio (CIR)² was 56.8 percent. The previous year's figure of 46.9 percent was affected by the large gain on fair value measurement.

¹ Earnings before taxes (excluding non-controlling interests, expenses for the bank levy and gains or losses on restructuring) / subscribed capital + hybrid capital instruments + capital reserve and retained earnings. Excludes the earnings and share in Group equity of BayernLabo which is a non-competitive business.

² CIR = administrative expenses/net interest income + net commission income + gains or losses on fair value measurement + gains or losses on hedge accounting + other income and expenses.

Balance sheet

As at 30 June 2011, total assets had been reduced by a further 6.0 percent against end-2010 to EUR 297.4 billion. The reduction was primarily attributable to the interbank business, as well as assets and liabilities held for trading.

The planned downsizing of business abroad, combined with the simultaneous expansion of domestic activities, is particularly clear in relation to loans and advances to customers, which decreased by a total of 1.4 percent to EUR 153.3 billion. Loans and advances to foreign customers fell by 8.8 percent to EUR 41.9 billion, while loans and advances to domestic customers rose by a further 1.7 percent to EUR 111.3 billion.

Liabilities to customers rose slightly by EUR 0.2 billion to EUR 92.0 billion, whereas securitised liabilities fell by EUR 2.8 billion to EUR 76.6 billion in line with the Group's lower refinancing needs. Thanks to its good liquidity, BayernLB made an offer to redeem the EUR 5 billion bond guaranteed by SoFFin in March 2011. The offer was well received, with around 40 percent of the bond being redeemed.

Subordinated capital fell EUR 0.6 billion to EUR 7.1 billion as a result of maturing issues. Equity rose slightly to EUR 14.3 billion (up EUR 0.4 billion).

Banking supervisory ratios and capital

In the first half of 2011, risk positions pursuant to the Solvency Ordinance, consisting of credit and market risk positions and operating risks, fell by a further 6.7 percent to EUR 115.5 billion. Own funds also saw a slight drop to EUR 18.9 billion as at 30 June 2011 (EUR 19.2 billion as at 31 December 2010). The core capital was EUR 13.8 billion, down EUR –0.1 billion from 31 December 2010.

The sharp reduction in risk positions led to a further rise in capital ratios. The core capital ratio is a solid 11.9 percent (11.2 percent as at 31 December 2010), while the own funds ratio is 16.4 percent (15.5 percent as at 31 December 2010).

Segments

Core and non-core businesses of the BayernLB Group

Core and non-core businesses were defined under Project Hercules. Non-core activities are being wound down to free up liquidity and capital.

Earnings before taxes were completely generated from the Group's core business

1 Jan – 30 Jun 2011	Core business (EUR million)	%	Non-core business (EUR million)
Total earnings	824	69.6	360
Risk provisions	–36	32.1	–76
Administrative expenses	–460	62.8	–273
Expenses for bank levies	–37	42.4	–51
Earnings before taxes	291	>100	–47
Risk assets (reference date)	67,760	73.1	24,947

Segment reporting

The segment report is based on the monthly internal management report and reflects the BayernLB Group's six segments. The structure of the "Corporates & Markets", "Mittelstand & Retail Customers" and the "Real Estate, Public Sector & Savings Banks" business segments in place at the end of 2010 was changed in 2011 as part of the Group's stronger customer focus. The new business segments are now "Corporates, Mittelstand & Retail Customers", "Markets", "Real Estate & Savings Banks/Association" and "Eastern Europe". The segments incorporate BayernLB's operating business areas, the legally dependent institutions Bayerische Landesbodenkreditanstalt (BayernLabo) and Bayerische Landesbausparkasse (LBS Bayern) and consolidated subsidiaries. In addition to these are two further segments: the Restructuring Unit and Central Areas & Others, including their respective consolidated subsidiaries.

The individual segments contributed to the first-half 2011 earnings before taxes of EUR 244 million (H1 2010: EUR 554 million) as follows:

EUR million	1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
Corporates, Mittelstand & Retail Customers	222	227
Real Estate & Savings Banks/Association	201	115
Markets	–86	255
Eastern Europe	–61	–175
Restructuring Unit	80	221
Central Areas & Others	–3	–6

Corporates, Mittelstand & Retail Customers

- Good half-year results with upward trend in business
- Longstanding customer relationships with large corporates strengthened and Mittelstand customer base expanded, with a strong upward trend
- DKB breaks through the 2.2 million customer threshold

In the first half of 2011, the segment produced earnings before taxes of EUR 222 million (H1 2010: EUR 227 million). Return on equity based on earnings before taxes was 7.3 percent (H1 2010: 7.4 percent) and the cost/income ratio improved to 43.7 percent (H1 2010: 45.9 percent). At EUR 460 million, net interest income increased 8 percent over the EUR 426 million reported for the same period of the year before. Risk provisions fell 7 percent compared with the same period in 2010 to EUR –77 million. Net commission income rose to EUR 77 million compared with EUR 64 million in the first half of 2010, mainly as a result of positive trends in the Mittelstand and credit card businesses. Earnings from customer business amounted to EUR 302 million (H1 2010: EUR 255 million), an increase of around 20 percent. Financial investments showed a loss for the reporting period of EUR –80 million, primarily due to impairments taken on Greek government bonds. The subsidiaries Banque LBLux and DKB acquired these government bonds in the years to 2006 as part of their then independent liquidity management. Earnings before taxes were weighed down by expenses for bank levies and losses on restructuring of EUR –5 million. In the previous year, the segment reported gains on restructuring of EUR 12 million.

The segment's earnings before taxes from business with Mittelstand and large corporate customers far exceeded forecasts, coming in at EUR 175 million. This was roughly in line with the figure for the same period in 2010 (H1 2010: EUR 191 million). In an environment of high pressure on margins and intense competition, total earnings were slightly below the figure for the previous year at EUR 298 million. BayernLB was able to sharply reduce its risk provisions for the credit business by EUR 33 million compared with the previous year. Additions to provisions during the reporting period were offset by releases, so risk provisions now stand at EUR 3 million. Despite a challenging market environment, the performance of the Corporates division was stable. The Mittelstand division's operating business was able to meet its ambitious targets, but one-off gains in 2010 meant that it still came in below the strong prior-year figure. The Mittelstand division managed to increase net commission income considerably over the reporting period. The continuing expansion of the customer base brought good results, with over 120 newly acquired customers by the end of June. The total credit volume also rose by 6 percent to almost EUR 16 billion. Strong earnings growth can be expected in the second half of 2011 on the basis of the significant rise in the number of business relationships.

In the main, DKB was able to benefit from its business model which focuses on retail customers, corporate customers and infrastructure. It is not just thanks to its 2.2 million retail customers that DKB is an established, strategic part of the BayernLB Group: it also makes a major contribution to the Group's Mittelstand business. With earnings before taxes of EUR 69 million (H1 2010: EUR 33 million), in the first half of 2011, DKB further increased its contribution to the earnings of the Corporates, Mittelstand & Retail Customers segment, despite the impairment of EUR –29 million taken on the Greek government bonds it acquired in 2006. Customer deposits rose by EUR 1.1 billion in the first half of the year. This enabled DKB to finance the growth in its lending business primarily through customer deposits and Pfandbrief issues. In infrastructure and corporates, the target customer sectors of residential, energy, utilities and renewable energies helped half-year earnings at DKB.

An essentially positive performance by Banque LBLux S.A. was heavily penalised by an impairment of EUR –50 million taken on Greek government bonds that were added to its portfolio in the years leading up to 2006. The positive trend in business with customers continued, with both new corporate and new retail banking mandates being won. Earnings before taxes were EUR –22 million (H1 2010: EUR 2 million).

Real Estate & Savings Banks/Association

- Good new business figures in Real Estate
- BayernLabo increases the volume of commitments by around 22 percent
- LBS Bayern beats the excellent new business figures from the first half of 2010

In the first half of 2011, the segment reported earnings before taxes of EUR 201 million (H1 2010: EUR 115 million), despite the absence of the gains on restructuring of EUR 26 million seen in 2010. The improvement compared with the results of the first six months of 2010 is due to a significant reduction in risk provisions (impact on earnings: EUR +72 million) and an increase in non-interest business of EUR 48 million. Return on equity was 25.8 percent (H1 2010: 14.0 percent) and the cost/income ratio was 43.5 percent (H1 2010: 49.9 percent).

In the Real Estate division, the good amount of new business in 2010 and the first half of 2011 drove earnings higher by around 23 percent compared to the same period in the previous year. 70 percent of new business related to property in Germany, with the remainder relating primarily to financing for German customers abroad. In addition, a number of impaired exposures were successfully settled or restructured, with a positive impact on risk provisions. This accounts for the sharp rise in earnings before taxes (EUR 87 million, H1 2010: EUR 6 million).

In addition to its business with the public sector, significant contribution to the earnings of the Savings Banks/Association division came from selling Markets' products and business in foreign notes and coins and precious metals. Although net interest and commission income was nearly unchanged, earnings before taxes fell. As expected, the excellent performance from foreign currency notes and coins and precious metals in the previous year could not be maintained.

The total volume of commitments of BayernLabo rose by around 22 percent to EUR 1.2 billion in the first half of 2011 compared with the same period last year, largely as a result of buoyant new business in Bavarian government and municipal lending. Thanks to its AAA rating, BayernLabo – as a legally dependent but financially independent entity within BayernLB – is able to access a broad financing base, which can then be used for its subsidised loans business.

During the period under review, LBS Bayern once again saw a sharp increase on the excellent new business figures recorded in the first six months of 2010. The number of contracts compared with the same period in the previous year again rose by 16 percent, while building savings were up 12 percent. However, earnings before taxes for the first half of 2011 were weighed down by the continuing unfavourable market interest rate situation for building societies, resulting in reduced net interest income, and the absence of the gains from restructuring. Based on current indications, original customer business should post better full-year results compared with full-year 2010.

With a global investment volume of EUR 7.8 billion, Real I.S. AG is one of the largest institutional fund sponsors, making it a major strategic partner and service provider for the S-Finanzgruppe in Bavaria (savings bank financial group). With the establishment of the capital investment company Real I.S. Investment GmbH in 2010, the product range was expanded to include special real estate funds.

Markets

- Reporting date-related mark downs on cross-currency swaps and a strategic decision to increase the liquidity reserve weigh on earnings
- Business conducted on behalf of customers on target
- Systematic focus on customers in the capital market business is continuing apace

The Markets segment reported a loss before taxes of EUR –86 million (H1 2010: EUR +255 million), mainly as a result of mark downs on the valuation of currency swaps on the reporting date – described in detail in the paragraph on gains or losses on fair value measurement – (Q1 2011: EUR –85 million, Q2 2011: EUR +7 million). Also weighing on earnings was an increase in the strategic liquidity reserve. The Board of Management instructed Markets at the beginning of the year to acquire several billion's worth of highly liquid German Bunds and US Treasury bonds as a liquidity reserve in case of turbulence in the markets.

Business conducted on behalf of customers in the Markets segment outperformed forecasts, with earnings of EUR 89 million. Customer sales units at BayernLB earned an additional EUR 69 million by cross-selling products in cooperation with Markets. Income from these activities is reported in the relevant business segment. BayernLB has continued the process of focusing its capital market business on serving customers during in 2011 as illustrated by the 40 percent increase in the number of benchmark lead mandates on fixed-income issues compared with 2010, itself a record-breaking year. Moreover, the product range has been expanded to include agricultural commodities such as wheat and rapeseed, physical gas trading and innovative special funds that invest in senior loans.

Eastern Europe

- Charge taken for Hungarian bank levy of EUR 51 million (the full amount for the year)
- Effects of the financial markets crisis hurt the credit business
- Sharp appreciation of the Swiss franc impacting on the loan portfolio

Earnings before taxes of EUR –61 million resulted from the bank levy, the surprisingly sharp rise in the Swiss franc and a market environment that remains challenging, but still represents a significant improvement on the first half of last year, when the segment reported earnings before taxes of EUR –175 million.

The full amount for the year of the comparatively high national bank levy, which is not related to earnings, was recognised as an expense of EUR 51 million in the first quarter of 2011 due to the specific legal structure in Hungary. In light of the current economic conditions in South Eastern Europe, risk provisioning requirements were a higher-than-planned EUR –76 million, although still well short of the previous year's figure of EUR –260 million.

Like many banks in CEE and Hungary in particular, MKB, anticipating a convergence of the Eastern European markets with the EU, issued loans in euros and often Swiss francs to a large number of retail customers to finance real estate investments, primarily for their own use. The benefit of much lower interest rates compared to loans in the local currency has been more than offset by the sharp rise in the Swiss franc. Accordingly, we will intensify the efforts to realign the business model already begun during the remainder of 2011 in order to achieve as near as possible a break-even result, despite the impact of the changes in the value of the Swiss franc against the Hungarian forint.

Restructuring Unit

- Risk assets in the credit and investment portfolio wound down by EUR 3.6 billion to EUR 11.5 billion in the current financial year, releasing more capital than planned
- Portfolio volumes wound down by around EUR 36 billion to EUR 31 billion since the Restructuring Unit was created in July 2009

The first half of 2011 ended with earnings before taxes of EUR 80 million (H1 2010: EUR 221 million). By strictly walling off its core business from non-core business, BayernLB is also implementing its new strategy in the Bank's structure. This has eased the burden on the business areas of the core Bank and freed up a large amount of capital and liquidity more quickly than expected from a steady winding down of the non-core business. Risk assets decreased by EUR 3.6 billion to EUR 11.5 billion in the first half of 2011.

Risk assets for the credit business fell in the first half of the year from EUR 8.4 billion to EUR 5.9 billion, meaning that the winding down targets of Project Hercules were therefore achieved more quickly than planned. The credit volume including commitments fell by 27 percent from EUR 17.8 billion to EUR 13.0 billion in the first six months of 2011. Portfolio management by the Restructuring Unit coupled with expected repayments contributed to the significant decrease.

Risk assets in the investment portfolio decreased by a total of around EUR 1.0 billion to EUR 5.5 billion in the first half of 2011. Most of the portfolio comprises the ABS portfolio hedged by the Free State of Bavaria. The Bank bears losses from the ABS portfolio up to a first loss of EUR 1.2 billion. In 2007/2008, this amount was already fully utilised and the loss recognised as an expense. Losses above this threshold and up to EUR 4.8 billion are hedged by the Free State of Bavaria in return for a premium. Up to EUR 6 billion is therefore hedged overall. As at 30 June 2011, the cash settlement amount – i.e. the actual losses realised so far – was EUR 555 million and thus considerably below BayernLB's first-loss level. As a result of repayments and the weakening US dollar, the volume of the structured securities portfolio fell by EUR 1.8 billion to EUR 12.4 billion in the first half of the year. The nominal volume of the portfolio containing non-structured securities of individual borrowers (single-name investments) and credit derivatives of individual borrowers was reduced by 27 percent from EUR 7.8 billion to EUR 5.7 billion.

Central Areas & Others

Business transactions that were executed in the overall interests of the Bank or Group and therefore could not be allocated to the individual segments are allocated to Central Areas & Others. The services performed by the central areas are almost entirely charged to the business areas, institutions and subsidiaries. Only investments that are directly related to the business operations of the central areas are assigned to them and recognised through profit or loss.

The first half of 2011 saw a EUR –3 million loss before taxes (H1 2010: EUR –6 million). The expense recognised in relation to the German bank levy (EUR –34 million) was offset by the book gains from the sale of shareholdings (Deka shares; EUR 41 million). Administrative expenses include charges for lawyers' fees and court costs amounting to several millions resulting from the bank-internal investigations into responsibilities for the acquisition of HGAA and the ABS portfolio.

Events after the balance sheet date

On 15 July 2011 the European Banking Authority (EBA) published the results of the stress test it had conducted. Although some of the criteria did not appear reasonable, the BayernLB Group achieved a solid core capital ratio of 7.1 percent under the stress scenario used.

On 21 July 2011 the heads of state and government of the euro member countries reached agreement at a summit meeting on the main elements of a new support package for Greece including voluntary involvement by private-sector creditors. On the basis of this agreement, the write-downs booked on 30 June 2011 could exceed the actual losses expected.

BayernLB is considering seeking damages from the sellers in connection with the acquisition of the shares of Hypo Group Alpe Adria, Klagenfurt (HGAA) in 2007. These deliberations have already been completed as regards Hypo Alpe Adria Mitarbeiter Privatstiftung (MAPS). As sufficient grounds have been uncovered to seek damages from MAPS, BayernLB filed a suit in the Vienna Commercial Court in July 2011 alleging wilful deception on the part of MAPS when selling its holding in HGAA. BayernLB is seeking to have the transaction rescinded and demanding damages. For economic reasons the damages being sought have been provisionally restricted to EUR 50 million.

Outlook

Although the risks for the world economy have risen sharply, as of late summer, there are still more signs for than against a continuation of the global recovery, although the rate of growth is likely to slow. The need to quickly consolidate public finances in some countries will strengthen the recessionary tendencies in them. Our forecasts call for growth of just under 3 percent in Germany in 2011 and indicate 1.5 percent is likely next year. The economy in the eurozone will continue to be held back by the need to consolidate government finances in the countries affected by the sovereign debt crisis (2011 growth forecast: just under 2 percent, 2012: 1.5 percent). Apart from the problems in the eurozone, fiscal policy in the USA, with its very large deficits and rapidly rising debt, represents a significant risk for the global economy and the world financial system. Meanwhile, emerging markets are being threatened by overheating, rising inflation and asset price bubbles. Economic policy must therefore continue to be made in close international coordination so in the medium term the recovery can continue. For the rest of 2011 and for 2012, we expect financial markets to be highly volatile. The ongoing discussions about the future of the euro and in favour or against greater European integration and/or a European transfer union, will keep all markets considerably unsettled. Above all, if the rapid deleveraging and de-risking of the financial system were to be pursued, it would constantly weigh on the real economy. This is particularly true, given that the current risk system and regulatory practices encourage or even force all market participants to behave in the same way.

Based on the environment in the forecast period, the BayernLB Group expects to see a further reduction in non-core activities and moderate business growth in its remaining core businesses. Earnings are still expected to stabilise in 2011, and this trend should continue into 2012 and gain pace. Significant issues which could affect the financial performance and position continue to be the above-mentioned impact of the sovereign debt crisis on the real economy.

BayernLB has made excellent progress in its transformation from an old-style Landesbank to a new customer-driven financial institution, and will continue to drive this forward. The long-term approach to business taken by the new BayernLB will focus on activities in the core business areas of corporate, retail and real estate customers, savings banks and the public sector.

A central element will be to concentrate on financing the often small and medium-sized companies that typify the German and Bavarian economies. Periods of high volatility on capital markets emphasise the importance for these customers (and therefore for the German economy) of a strong, reliable banking partner able to offer a full range of services.

The funding situation at BayernLB is good, as it was last year too. Despite early partial repayment in April 2011 of around EUR 2 billion of the bond guaranteed by SoFFin, funding in the banking book remains almost matched, with a slight overhang of liabilities. The successful placing of two jumbo Pfandbriefs also demonstrates that BayernLB has a good investor base. For the second half of 2011, requirements are expected to be in the low single-digit billions, and no problems in raising the funding on the capital market are currently anticipated.

The good outcome of the EBA stress test shows that the strict restructuring and downsizing of BayernLB is continuing to bear fruit, with major progress in cutting back both total assets and risk assets. Today the new BayernLB is already leaner, less risky and a more efficient user of capital. The second half of 2011 will see a clear customer focus and continued tight cost management as

the restructuring goes on, especially the planned winding down of non-core activities.

The forthcoming changes to regulatory requirements have been analysed. BayernLB intends to satisfy the requirements of Basel III in full by 2015.

BayernLB remains in constructive dialogue with the European Commission in the ongoing state aid proceedings. The Bank's Board of Management and owners attach great importance in this regard to reaching decisions and implementing measures on the basis of established facts and with the least possible damage to the core value of the Bank.

The BayernLB Board of Management still expects full-year earnings for 2011 to be positive, although they will not match the very good but upwardly skewed figures attained in the preceding financial year. This forecast is based on the assumption that the business cycle in the Bank's core markets will be dampened by the consolidation of government finances. However, it does not include an assumption that the economy will slide into recession in the second half of the year. This outlook is also predicated on BayernLB Group not being presented with extremely tough conditions from the state aid proceedings mentioned above which would require restructuring provisions to be established.

No specific statement can be made on further replenishments and subsequent payments in respect of hybrid capital instruments until BayernLB's HGB single-entity financial statements are prepared in March 2012. The HGB single-entity financial statements also show positive earnings at the halfway stage in 2011, and if the trend continues, these will be used to make further replenishments.

The statements made in this outlook section should be read in conjunction with the outlook given in the 2010 annual report. Changes in the general economic situation may, however, have a corresponding impact on the BayernLB Group and BayernLB.

Risk report

The risk report in the 2010 consolidated financial statements gives a detailed description both of the principles, methods, procedures and organisational structures of the risk management used within the BayernLB Group and of the internal control and risk management system for ensuring the accounts have been properly prepared and are reliable. The risk report section in the Group interim report therefore deals mainly with the changes in the first half of 2011.

Rounding differences may occur in the tables in the last digit.

Main changes in the first half of 2011 and outlook

Risk was further reduced in the first half of the year, in line with strategy. The risk capital requirement of the BayernLB Group was down 19 percent as a result. In view of the strong equity base, risk-bearing capacity requirements continued to be met. The latest events in the debt crisis affecting some EMU governments and the immediate consequences thereof will not change this in the second half.

BayernLB continually takes account of exceptional risk trends by examining a full range of stress scenarios. Thanks not least to the solidity of its capital base, none of the scenarios run in connection with the debt crisis in some EMU countries raised any doubts about BayernLB's risk-bearing capacity.

Credit risk in particular was wound down in line with strategy at BayernLB and LBLux. At DKB, by contrast, where the business model focuses on retail and Mittelstand customers, credit volumes rose. Credit volume at MKB declined by a modest 1 percent. Risk provisioning requirements overall were well down on last year. The current economic environment in south-eastern Europe is such that provisioning was slightly more than planned at MKB, but clearly better than in 2010.

Portfolios with elevated risk profiles as defined by the Financial Stability Board were cut back sharply in some cases: ABS exposure was trimmed by 13 percent to EUR 12.9 billion; monoliner exposure reduced by 18 percent to EUR 0.9 billion; and the leveraged finance portfolio slashed 38 percent to EUR 1.5 billion.

Risk-bearing capacity

Risk-bearing capacity is monitored using the Internal Capital Adequacy Assessment Process (ICAAP) at the BayernLB Bank level, the subsidiaries DKB, MKB and LBLux, and at Group level. ICAAP is used to assess whether there is sufficient economic capital for the risks assumed and planned.

The method for calculating risk-bearing capacity is assessed and refined on a regular basis to ensure it takes adequate account of external factors and internally-set strategic goals. BayernLB uses an ICAAP liquidation approach aimed at protecting senior creditors that applies a confidence interval derived from the strategic target rating. Accordingly, economic risk has been calculated since 2009 on the basis of a confidence level of 99.95 percent (corresponding to an A2 rating on Moody's ratings scale).

BayernLB Group risk capital requirements as at 30 June 2011 and 31 December 2010

EUR million	BayernLB Group	
	30 Jun 2011	31 Dec 2010
Risk capital requirements	5,405	6,526
• of which credit and country risk (counterparty risk)	3,000	3,580
• of which credit risk (specific interest-rate risk)	943	1,266
• of which market risk	751	1,115
• of which operational risk	474	359
• of which investment risk	190	173
• of which other risks	46	32

The declines in default risk and specific interest-rate risk are largely due to the continued reduction of the portfolio. Better portfolio quality and less spread volatility also reduced risk.

The lower risk capital requirement for price risk is due in equal measure to a change in the calculation method and an active running down of interest-rate risk at DKB.

A stress scenario based on a potential severe economic downturn (ICAAP stress scenario) is constantly calculated. Based on the assumption of a possible severe recession, the risk capital requirement for the various risk types totals EUR 10,917 million, which is considerably higher than the EUR 5,405 million under the non-stress scenario.

The BayernLB Group holds sufficient available economic capital to cover risk capital requirements. The BayernLB Group had adequate risk-bearing capacity as at 30 June 2011.

Management of the individual risk types in the Group

Credit risk

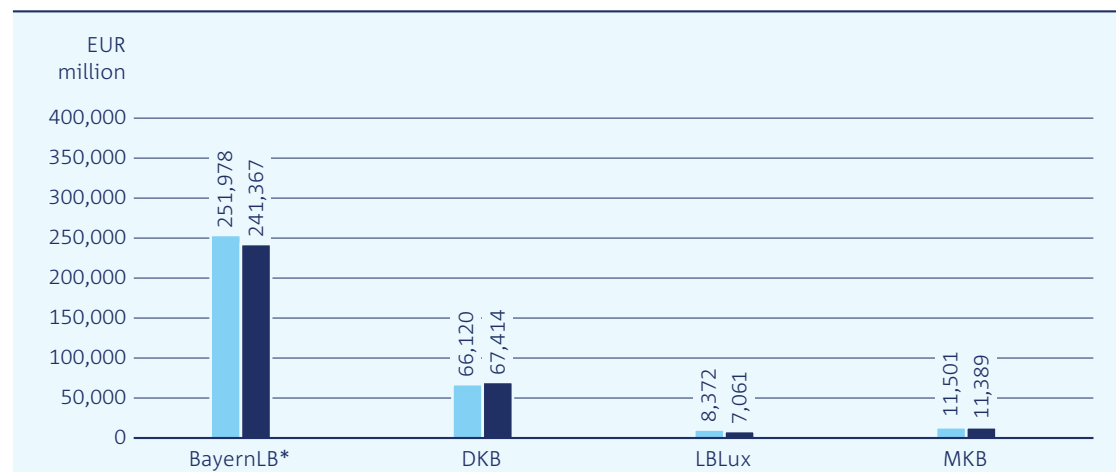
Credit risk is the biggest risk for the BayernLB Group in terms of amount. The instruments and methods used to measure, manage and monitor credit risk in the first half of 2011 have not materially changed from the description provided in the risk report in the consolidated financial statements for 2010.

The following account of the changes in credit risk at the BayernLB Group in the first half of 2011 was created using both the management approach, which is based on the figures used for internal reporting, and the balance sheet approach, which is based on the balance sheet figures and focuses on the value of the assets shown in the statement of financial position.

Credit volume is defined differently in some respects for the purposes of internal risk management than it is for balance sheet purposes; for example, the former includes revocable lending commitments, while the latter does not. Similarly, the materiality thresholds for consolidating subsidiaries as part of the risk inventory for internal risk management may differ from those used when setting the scope of consolidation. The figures under the management approach therefore differ from those under the balance sheet approach.

Portfolio overview pursuant to IFRS 7.34 a (management approach)

Gross credit risk by BayernLB Group unit



■ 31 Dec 2010 Total: EUR 337,971

■ 30 Jun 2011 Total: EUR 327,230

* incl. BayernLabo and LBS Bayern

In line with the downsizing strategy, Group gross credit risk (credit volume plus the risk weightings from trading, not allowing for collateral) has come down by a substantial EUR 10,741 million since the end of 2010, from EUR 337,971 million to EUR 327,230 million. This occurred mainly at the BayernLB core Bank (down EUR 10,612 million or 4.2 percent) and LBLux (down EUR 1,311 million or 15.7 percent). Exposure at MKB has been stable over the same period, declining by a modest 1 percent, while Deutsche Kreditbank DKB, where the business model is focused on retail and Mittelstand customers, saw a small 2 percent rise.

Credit risk in the BayernLB Group is broken down below by sub-portfolio, rating class, region and amount.

Credit risk by sub-portfolio within the BayernLB Group

Sub-portfolio EUR million	30 Jun 2011		31 Dec 2010	
	Gross	Net	Gross	Net
Total	327,230	219,703	337,971	230,898
Real Estate	49,182	10,565	49,863	12,120
Financial Institutions (FI) incl. ABS	159,075	133,074	167,033	140,537
• of which sovereigns/public sector and non-profit organisations	57,775	48,752	53,609	44,869
Corporates	75,922	58,619	77,867	61,223
Other	43,051	17,444	43,208	17,017
• of which retail customers	42,664	17,308	42,927	16,959

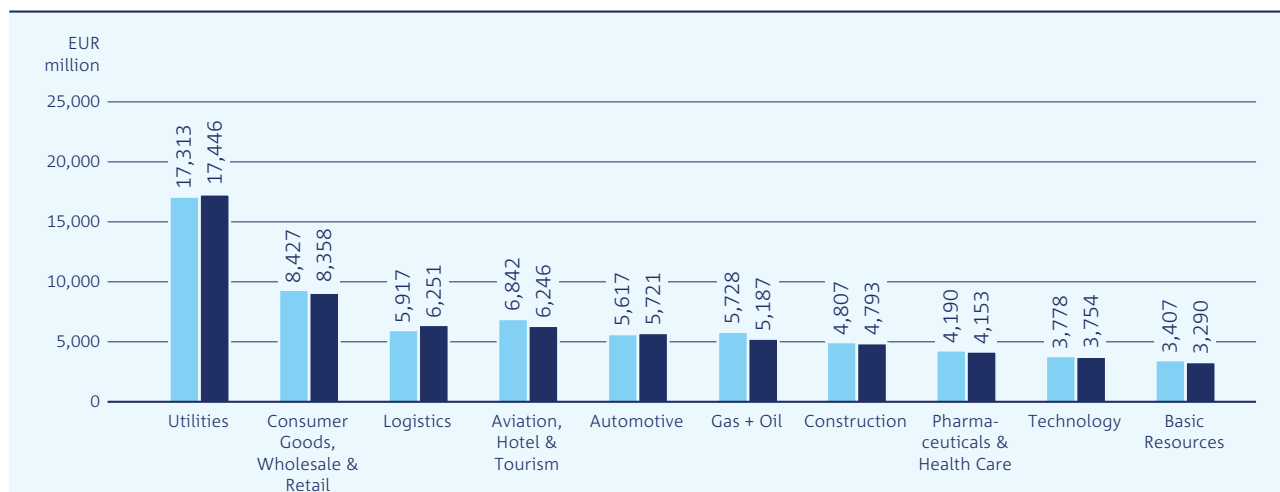
All the sub-portfolios shown above reported a fall, although the public sector, which comes under Financial Institutions, saw a rise of EUR 4.2 billion in gross exposure. The focus of investment here was in Germany, where the BayernLB Bank added on roughly EUR 5 billion.

Real Estate has scarcely changed since end-2010, declining EUR 0.7 billion. Most of the reduction came as planned in the RU portfolio, mainly in Western Europe and the US.

The reduction in Financial Institutions continues the trend seen in the second half of 2010; this segment remains the largest strategic focus for downsizing. The overall cut was EUR 8 billion gross. Special mention should be made of the large reduction in the portfolio relating to the EMU member states Portugal, Ireland, Italy, Greece and Spain, which has been cut by 22 percent from EUR 10.8 billion to EUR 8.5 billion. Exposure to Italian banks in particular has been lowered since end-2010, by EUR 1.1 billion or 33 percent. The portfolio relating to Portugal, Ireland, Greece and Spain saw a 16 percent reduction of EUR 1.2 billion.

The reduction in the Corporate Customers segment took place mainly amongst large customers. By contrast, growth was seen with Mittelstand customers (especially at DKB), as had been the case in the second half of 2010. Overall, DKB posted growth of 8 percent, or EUR 1.1 billion, in its Corporate Customers segment. Especially noteworthy in this case was the continued expansion in the renewable energy sector, up roughly EUR 0.7 billion or 13.6 percent. At Group level there were marked cutbacks in aerospace and defence (down 26 percent), oil and gas (down 9 percent), aviation, hotels and tourism (down 9 percent) and telecoms (down 9 percent), making a combined reduction of EUR 2.1 billion. Gross credit risk in the auto industry, utilities and logistics sectors rose by a total of EUR 0.6 billion.

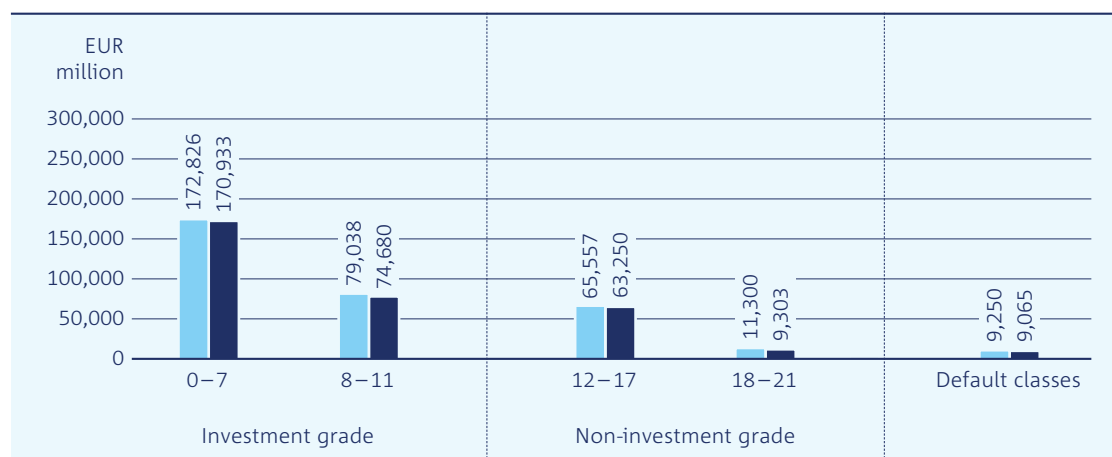
The ten largest sectors within the Corporates sub-portfolio



■ 31 Dec 2010
■ 30 Jun 2011

The ten largest sectors within the Corporate Customers sub-portfolio (gross credit risk) account for 86 percent of the sub-portfolio.

Gross credit risk by rating class within the BayernLB Group



■ 31 Dec 2010 Total: EUR 337,971

■ 30 Jun 2011 Total: EUR 327,230

The quality of the active portfolio (master ratings 0–21) was higher at the end of the first half of 2011. Amongst other things, this resulted in a rise in the investment-grade share from 74.5 percent to 75.1 percent. This was primarily due to improvements in corporate customers' ratings.

Non-performing assets as a percentage of all assets rose only slightly, to 2.8 percent (31 December 2010: 2.7 percent).

Net credit risk by sub-portfolio and rating class

30 Jun 2011					
Rating class (net, EUR million)	Real Estate	FI/ABS	Corporates	Other*	Total
Total	10,565	133,074	58,619	17,444	219,703
0–7	2,352	120,863	13,527	3,635	140,378
8–11	3,766	7,583	25,964	8,095	45,408
12–14	1,965	2,339	10,965	3,281	18,550
15–18	1,010	928	6,029	1,290	9,258
19–21	375	111	804	541	1,831
Default classes	1,097	1,250	1,328	603	4,278

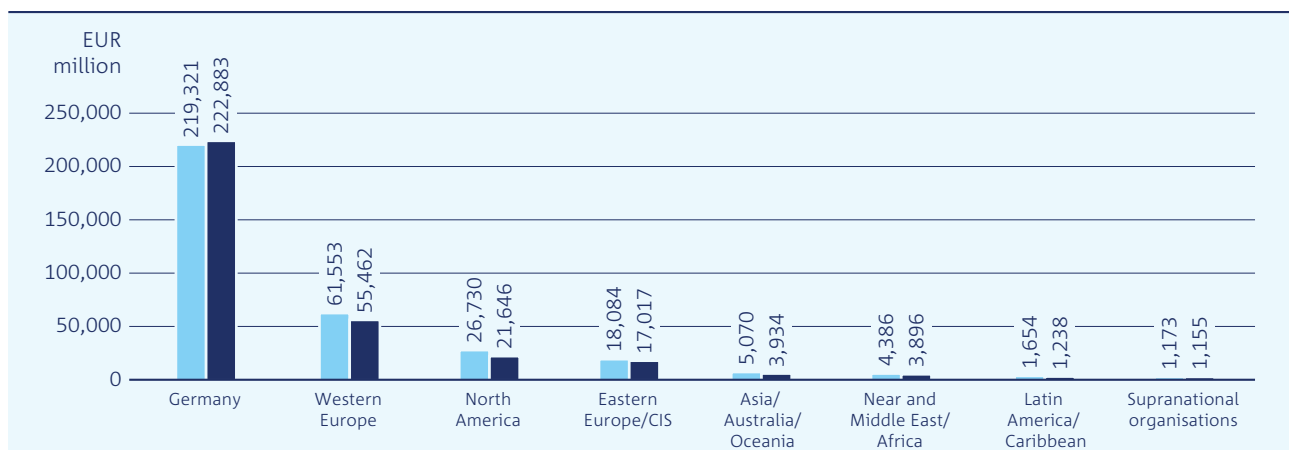
31 Dec 2010					
Rating class (net, EUR million)	Real Estate	FI/ABS	Corporates	Other*	Total
Total	12,120	140,537	61,223	17,017	230,898
0–7	2,778	124,641	11,608	3,276	142,304
8–11	4,307	9,939	29,297	7,946	51,489
12–14	2,265	2,510	11,475	3,357	19,607
15–18	1,009	2,027	6,499	1,330	10,866
19–21	663	77	1,053	579	2,372
Default classes	1,097	1,344	1,291	529	4,260

* of which retail customers in 2010: EUR 16,959 million; in 2011: EUR 17,308 million

Net credit risk (i.e. gross credit risk less collateral) shows the exposure that is not covered by collateral. A welcome development was the rise in exposures in the high-quality 0–7 rating classes for Corporate Customers and Others/Retail Customers, which was mainly a result of improvements in ratings. This took the share in rating classes 0–7 from 19 percent to 23 percent for Corporate Customers and from 19 percent to 21 percent for Others/Retail Customers.

Regions

Gross credit risk by region within the BayernLB Group



■ 31 Dec 2010 Total: EUR 337,971

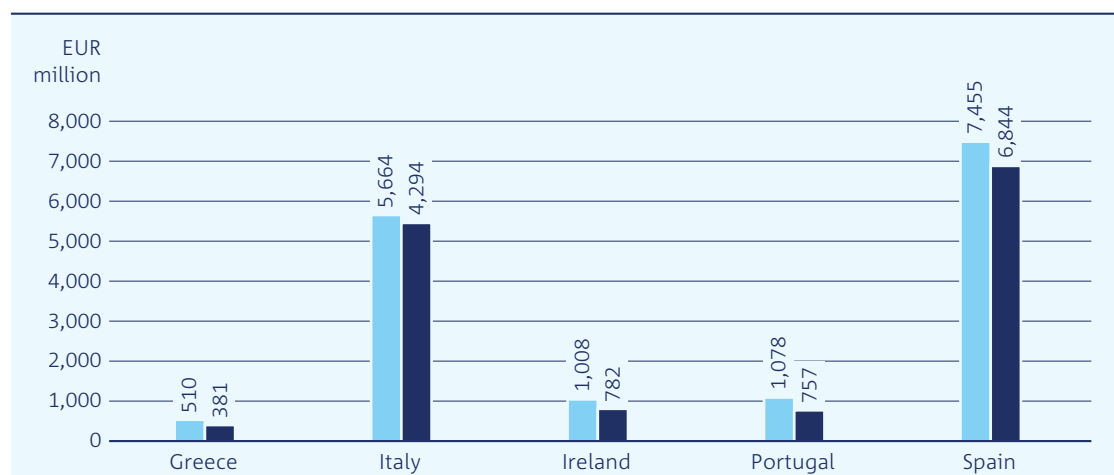
■ 30 Jun 2011 Total: EUR 327,230

The BayernLB Group uses the official Bundesbank classification to break down gross credit risk by country. Countries are grouped into regions on the basis of global and regional economic relationships.

The BayernLB Group's strategic realignment is reflected in the regional distribution of gross exposure. Foreign volumes fell significantly once again in the first half of 2011, by EUR 14.4 billion to EUR 104.3 billion, and now account for only 32 percent of the total portfolio (31 December 2010: 35 percent). The share of domestic exposure rose further in line with this, increasing in absolute terms by 2 percent or EUR 3.6 billion.

While the downsizing continues to focus on the US and Canada (EUR 5.1 billion or 19 percent), volumes were also slashed further in western European countries such as the UK and Italy. The significant decline in the portfolio of EUR 2,657 million in those EU member states currently feeling the effects of the debt crisis most acutely is illustrated below.

Gross credit risk in selected EMU states



■ 31 Dec 2010 Total: EUR 15,715

■ 30 Jun 2011 Total: EUR 13,058

Gross credit risk in these EMU states was cut by a further 17 percent in the first half of 2011.

The following table gives an overview of the changes in the IFRS carrying amounts for exposures to the EMU countries particularly affected by the debt crisis. Nominal exposure at 30 June 2011 remained unchanged compared with 31 December 2010.

Exposure to selected EMU central states

EUR million	Nominal exposure 30 Jun 2011	IFRS carrying amounts 30 Jun 2011	IFRS carrying amounts 31 Dec 2010
Greece	165	101	128
Italy	485	496	503
Ireland	20	16	20
Portugal	0	0	0
Spain	0	0	0
Total	670	613	651

The IFRS carrying amount for all exposures held by the BayernLB Group to EMU states particularly affected by the debt crisis amounts to EUR 613 million, which is of minor importance compared to the BayernLB Group's gross credit risk.

Only in Spain is there an additional gross credit risk of EUR 610 million (31 December 2010: EUR 662 million); this stems from transactions with Spanish municipalities and state-owned companies.

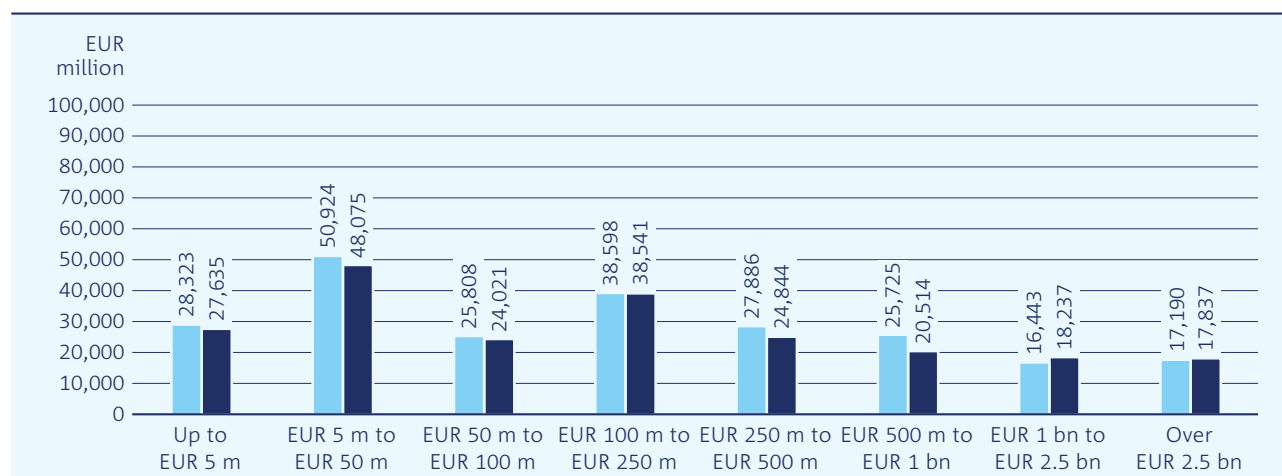
Maturity structure and changes in value of exposures to the Greek central government

Year of maturity EUR million	Nominal exposure 30 Jun 2011	Impairments 30 Jun 2011	IFRS carrying amounts 30 Jun 2011	IFRS carrying amounts 31 Dec 2010
2013	50	19	36	46
2014	65	31	43	52
2017	50	29	22	30
Total	165	79	101	128

In view of the planned restructuring of Greek government debt, the BayernLB Group wrote down its position in Greek government bonds at 30 June 2011. With a nominal exposure of EUR 165 million, the impairment in the first half of 2011 resulted in a writedown of EUR 79 million.

The BayernLB Group's holdings of Greek government bonds are all classified as available for sale under IFRS and measured at fair value, i.e. market value. The carrying amount of the position is therefore the market value on the reporting date. When an impairment is recognised, market value losses previously shown in the revaluation reserve in reported equity are taken to income through gains and losses on financial investments.

Net credit risk by amount



■ 31 Dec 2010 Total: EUR 230,898

■ 30 Jun 2011 Total: EUR 219,703

Portfolio concentration has hardly changed since the end of 2010.

Amongst large customers in the EUR 1 billion or more categories, the rise in net exposure came mainly in public-sector lending in Germany. All other size categories saw a fall.

At the end of December 2010 there were 53 customers with net credit risk in excess of EUR 500 million each, totalling EUR 59.3 billion. This accounted for 25 percent of the total net credit risk of the Group.

The number of these large customers fell to 46 over the first half of 2011, representing EUR 56.6 billion. The share of Group net credit risk remained unchanged at 25 percent.

The remaining large customers as at 30 June 2010 were mainly banks that provide liquidity and hedging for BayernLB as a key component of liquidity management, and the savings banks. Corporate customers are principally large listed German companies. The customer portfolio is very low-risk.

Exposures larger than EUR 2.5 billion exist only in the BayernLB Bank's portfolio. These are solely low-risk receivables from Landesbanks and the Free State of Bavaria.

Portfolio overview (balance sheet approach)

Financial assets that are neither past due nor impaired

30 Jun 2011 Financial assets that are neither past due nor impaired EUR million	Maximum credit risk (balance sheet approach)						
	Rating classes						Total
	0-7	8-11	12-17	18-21	Default classes	Unrated	
Cash reserves	2,282	151	0	18	2	39	2,492
Loans and receivables	1,110	137	0	18	0	38	1,303
Available for sale	1,172	0	0	0	2	1	1,175
Loans and advances to banks	43,219	5,475	4,354	296	29	105	53,477
Loans and receivables	43,159	5,413	4,354	296	29	104	53,354
Fair value option	60	0	0	0	0	0	60
Loans and advances to customers	53,983	43,527	34,085	6,979	363	7,000	145,936
Loans and receivables	53,240	43,551	34,085	6,979	363	7,000	145,218
Available for sale	10	0	0	0	0	0	10
Fair value option	733	78	0	0	0	0	811
Assets held for trading	28,995	4,872	1,099	41	122	11	35,141
Held for trading	28,995	4,872	1,099	41	122	11	35,141
Positive fair values from derivative financial instruments	3,249	24	0	0	0	0	3,273
Held for trading	3,249	24	0	0	0	0	3,273
Financial investments	34,809	2,020	1,349	1,014	665	1,017	40,874
Available for sale	14,123	392	654	78	634	23	15,904
Fair value option	1,080	100	24	9	0	984	2,198
Loans and receivables	19,606	1,586	671	927	31	10	22,831
Contingent liabilities	6,408	3,131	2,753	232	123	458	13,104
Irrevocable loan commitments	9,320	9,174	5,620	508	64	121	24,807
Total	182,265	68,373	49,259	9,090	1,367	8,750	319,105

31 Dec 2010	Maximum credit risk (balance sheet approach)						
Financial assets that are neither past due nor impaired	Rating classes						
EUR million	0–7	8–11	12–17	18–21	Default classes	Unrated	Total
Cash reserves	2,362	194	0	9	0	41	2,606
Loans and receivables	1,816	182	0	9	0	41	2,047
Available for sale	546	0	0	0	0	0	547
Loans and advances to banks	49,679	6,610	3,941	302	8	244	60,784
Loans and receivables	49,615	6,555	3,941	302	8	243	60,664
Fair value option	64	0	0	0	0	0	64
Loans and advances to customers	54,131	43,695	34,979	8,356	473	5,734	147,368
Loans and receivables	53,623	43,725	34,979	8,356	473	5,734	146,890
Available for sale	4	0	0	0	0	0	4
Fair value option	750	80	0	0	0	0	830
Assets held for trading	34,158	5,459	1,103	56	14	37	40,826
Held for trading	34,158	5,459	1,103	56	14	37	40,826
Positive fair values from derivative financial instruments	3,984	6	21	0	0	0	4,010
Held for trading	3,984	6	21	0	0	0	4,010
Financial investments	37,796	2,839	1,313	1,344	440	36	43,767
Available for sale	15,388	746	688	93	464	31	17,410
Fair value option	872	146	9	8	0	0	1,036
Loans and receivables	21,535	2,003	615	1,242	–24	5	25,377
Contingent liabilities	6,403	3,595	3,171	314	78	307	13,870
Irrevocable loan commitments	10,798	11,079	6,312	724	37	48	28,997
Total	199,311	73,477	50,839	11,106	1,049	6,447	342,228

Total financial assets at the BayernLB Group that are neither past due nor impaired fell by around 7 percent in the first half of 2011 due to the portfolio reduction. Unrated volumes come predominantly from BayernLabo, whose subsidised loan business is not rated.

Financial assets that are past due but not impaired*

30 Jun 2011	Maximum credit risk (balance sheet approach)					Fair value collateral
	Past due by					
	< 30 days	30 days to 3 months	3 months to 1 year	> 1 year	Total	
Financial assets that are neither past due nor impaired						
EUR million						
Cash reserves	0	0	0	0	0	0
Loans and advances to banks	32	1	30	24	87	0
• Loans and receivables	32	1	30	24	87	0
Loans and advances to customers	234	339	253	36	862	328
• Loans and receivables	234	186	161	36	617	328
Assets held for trading	0	0	0	0	0	0
Positive fair values from derivative financial instruments	0	0	0	0	0	0
Financial investments	0	0	0	0	0	0
Contingent liabilities	0	0	0	0	0	0
Irrevocable loan commitments	5	0	0	0	5	0
Total	271	340	283	60	953	328
Fair value collateral	195	24	68	41	328	0

31 Dec 2010	Maximum credit risk (balance sheet approach)					Fair value collateral
	Past due by					
	< 30 days	30 days to 3 months	3 months to 1 year	> 1 year	Total	
Financial assets that are neither past due nor impaired						
EUR million						
Cash reserves	0	0	0	0	0	0
Loans and advances to banks	26	27	19	8	81	0
• Loans and receivables	26	27	19	8	81	0
Loans and advances to customers	293	367	187	61	908	233
• Loans and receivables	293	194	112	61	660	233
Assets held for trading	0	0	0	0	0	0
Positive fair values from derivative financial instruments	0	0	0	0	0	0
Financial investments	0	0	0	0	0	0
Contingent liabilities	1	0	0	0	1	0
Irrevocable loan commitments	4	0	0	0	4	0
Total	323	394	206	70	993	233
Fair value collateral	107	27	66	33	233	0

* The portfolio reflects the creation of portfolio loan loss provisions: "not impaired" in this context means "no specific loan loss provision made"

Total financial assets past due but not impaired as at the reporting date were roughly 4 percent lower than at the end of 2010. The portion covered by collateral was also boosted from 23 percent as at 31 December 2010 to 34 percent as at 30 June 2011.

Financial assets that are impaired

Financial assets that are impaired EUR million	30 Jun 2011		31 Dec 2010	
	Maximum credit risk	Fair value collateral	Maximum credit risk	Fair value collateral
Cash reserves	0	0	0	0
Loans and advances to banks	98	0	126	0
• Loans and receivables	98	0	126	0
Loans and advances to customers	4,651	4,582	5,146	4,262
• Loans and receivables	4,603	4,534	5,098	4,214
• Available for sale	47	49	47	48
Assets held for trading	0	0	0	0
Positive fair values from derivative financial instruments	0	0	0	0
Financial investments	2,346	0	2,389	0
• Available for sale	1,460	0	1,183	0
• Loans and receivables	887	0	1,206	0
Contingent liabilities	101	14	95	14
Irrevocable loan commitments	87	1	150	1
Total	7,283	4,597	7,906	4,278

Total impaired financial assets fell 7.9 percent in the first half of 2011. The non-performing loan ratio for amounts due from customers declined slightly from 3.3 percent as at 31 December 2010 to 3.1 percent as at 30 June 2011.

Portfolios with elevated risk profiles (Financial Stability Board recommendations)

The Financial Stability Board, which was established by the supervisory authorities and governments of countries in which the world's leading financial centres are located, issued recommendations in 2008 on the disclosure of information on portfolios with elevated risk profiles in order to strengthen trust between financial market participants through the transparency that would be created. Portfolios with elevated risk profiles pursuant to the Financial Stability Board recommendations are the asset-backed securities (ABS) portfolio, the leveraged finance portfolio and the exposure to US monoliners.

The BayernLB Group's ABS portfolio

The portfolio of securitised transactions can be broken down into two segments: transactions structured exclusively by BayernLB for customers (customer transactions) and investments in asset-backed securities (ABSs).

Asset-backed securities

The nominal volume of the ABS securities held by the BayernLB Group fell from EUR 14.8 billion as at 31 December 2010 to EUR 12.9 billion as at 30 June 2011, mainly as a result of redemptions. The majority of the portfolio (98.5 percent; 31 December 2010: 98.6 percent) is in the BayernLB portfolio, with the rest being held by Banque LBLux S.A.

The ABS portfolio of Banque LBLux S.A. (EUR 0.2 billion) mainly comprises assets in the prime RMBS (EUR 0.1 billion) and CMBS (EUR 0.1 billion) categories. The rating of 94 percent of the securities is between AAA and A.

The BayernLB Bank's ABS portfolio is secured by third-party guarantees (EUR 0.3 billion) and the guarantee agreement with the Free State of Bavaria (EUR 12.4 billion).

Guarantee agreement with the Free State of Bavaria

On 19 December 2008, a guarantee agreement was entered into between the Free State of Bavaria as the protection seller and BayernLB as the buyer. 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 guarantee for the ABSs covers insolvency, non-payment of capital and interest, capital write-downs and losses incurred from any sales before maturity. It also smooths out the market price volatility of the ABSs through offsetting changes in the guarantee's value and reduces the rise in risk assets when ratings change.

Since 1 July 2009 this ABS portfolio has been managed by the Restructuring Unit, which has been systematically reducing the portfolio while ensuring losses are kept to a minimum.

The amount of realised losses from defaults and sales of ABSs was EUR 555 million as at 30 June 2011 (31 December 2010: EUR 453 million), which is within the first loss amount. Under all scenarios currently applied, the losses projected by both the Bank as at 31 March 2011 and the external portfolio advisers who were appointed under the guarantee agreement are within the guarantee limits over the full remaining term of the portfolio.

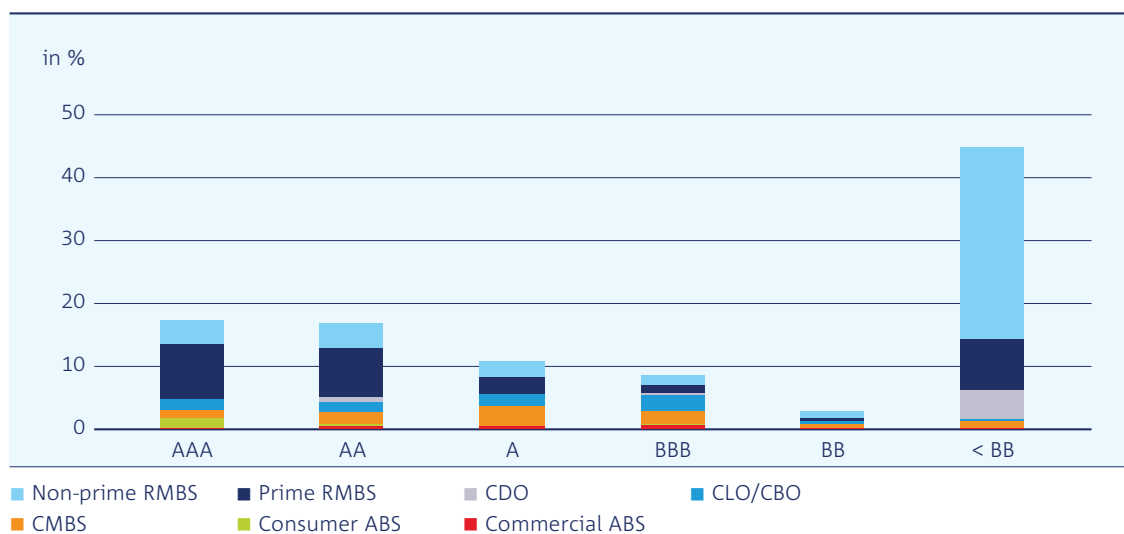
Measurement of the ABS portfolio

In its ongoing assessment of the credit quality of ABSs, BayernLB focuses largely on the value and expected change in value of the underlying pool of securitised receivables and the suitability of the collateralised structural elements available (credit enhancements). Based on asset-class and country-specific methods, impairment classifications are carried out and loss estimates compiled. The assumptions used are continually checked for suitability and the plausibility is verified in different ways including against the measurement outcomes of the appointed portfolio advisers. In addition, the impact of structural factors and influence of parties involved at individual transaction level are factored in.

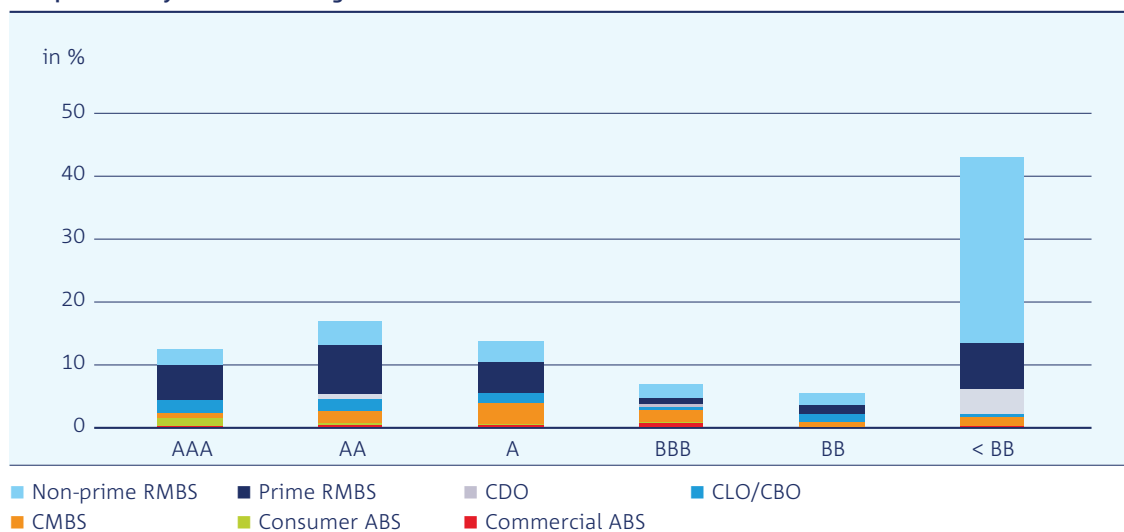
In the current market environment, BayernLB has primarily been using indicative prices to measure the balance sheet value of asset-backed securities. These are obtained from market data providers, counterparties, brokers and the portfolio advisers. Prices from different price sources are checked for plausibility using statistical methodology. If a security has a wide range of prices compared with similar securities, it is assessed separately and implausible prices eliminated. After this quality assurance is conducted, the relevant price for the valuation is calculated through averaging.

The following portfolio information relates to BayernLB's EUR 12.4 billion portfolio of asset-backed securities covered by the guarantee agreement with the Free State of Bavaria.

ABS portfolio by asset and rating class as at 31 December 2010



ABS portfolio by asset and rating class as at 30 June 2011



The chart is based on the nominal values in euro and the lowest rating of each asset-backed security by Standard & Poor's and Moody's. As at 30 June 2011, 50.3 percent (31 December 2010: 52.8 percent) of the portfolio was rated investment grade (rating classes AAA to BBB) and 49.7 percent (31 December 2010: 47.2 percent) as sub-investment grade (rating classes BB and lower).

The shift since 31 December 2010 was mainly due to repayments in the investment-grade segment. The rating migration in the sub-investment grade segment took place principally in non-prime RMBSs and prime RMBSs linked to the US market and CDOs. Most of these securities were rated AAA on issue. Since the start of the financial crisis in 2007, the original credit enhancement that was provided has not been large enough to absorb in full the losses already realised and still expected from the underlying securitised portfolios, particularly in these segments.

The losses have been the result of the turmoil on the US mortgage and real estate markets (in respect of RMBSs) and the high number of credit events related largely to banks in the US and Europe (in respect of CDOs). Based on current perspectives, the credit enhancement for ABSs in other asset classes should, however, be large enough in most cases to cover rising losses in the underlying portfolios.

Changes in IFRS carrying amounts and impairments in the ABS portfolio of the BayernLB Group by asset class

EUR million	30 Jun 2011	31 Dec 2010
Non-prime RMBS	3,119	3,520
of which impaired	990	1,096
Prime RMBS	3,183	3,675
of which impaired	737	840
CDO	1,240	1,463
of which impaired	234	245
CMBS	1,579	1,762
of which impaired	68	59
Commercial ABS	162	205
of which impaired	0	0
Consumer ABS	233	310
of which impaired	0	0
Total	9,517	10,935
of which impaired	2,029	2,240

The total IFRS carrying amount of EUR 9.5 billion as at 30 June 2011 relates to the EUR 12.9 billion total nominal volume of ABSs at the BayernLB Group mentioned above. Please refer to the above paragraph entitled "Guarantee agreement with the Free State of Bavaria" for further details on losses actually incurred and the effects of the guarantee by the Free State of Bavaria.

Customer transactions

Over the course of the first half of 2011, the nominal volume of transactions structured for customers fell from EUR 1.2 billion as at 31 December 2010 to EUR 1.1 billion as at 30 June 2011. EUR 0.5 billion of this was in non-core customer transactions due to be wound down and therefore allocated to the Restructuring Unit. They are predominantly medium and long-term transactions entered into with the objective of reducing positions rapidly in a way that protects value in line with specific wind-down strategies, and are closely monitored. EUR 0.6 billion of transactions for financing receivables portfolios for core customers was retained in Corporates and is subject to strict risk strategy requirements.

Leveraged finance

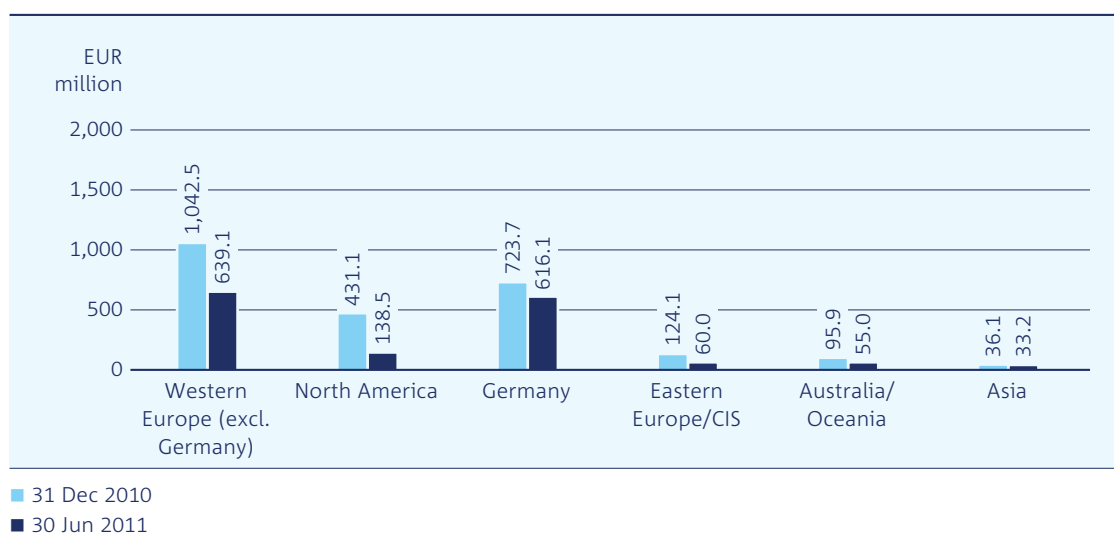
Leveraged finance transactions generally have comparatively high leverage ratios, are serviced from the operating cash flows of the financed entity, and have relatively long terms (normally more than five years). This definition therefore covers not only corporate acquisition financing, but also other forms of financing with these features.

The BayernLB Group's overall exposure was EUR 1.5 billion as at 30 June 2011, in contrast to EUR 2.4 billion as at 31 December 2010.

In line with the refocusing of the business model, much of this portfolio has been administered by BayernLB's Restructuring Unit since 1 July 2009, where it is being steadily wound down. Financing is now only provided for Mittelstand customers and certain projects due to stringent risk-strategy standards.

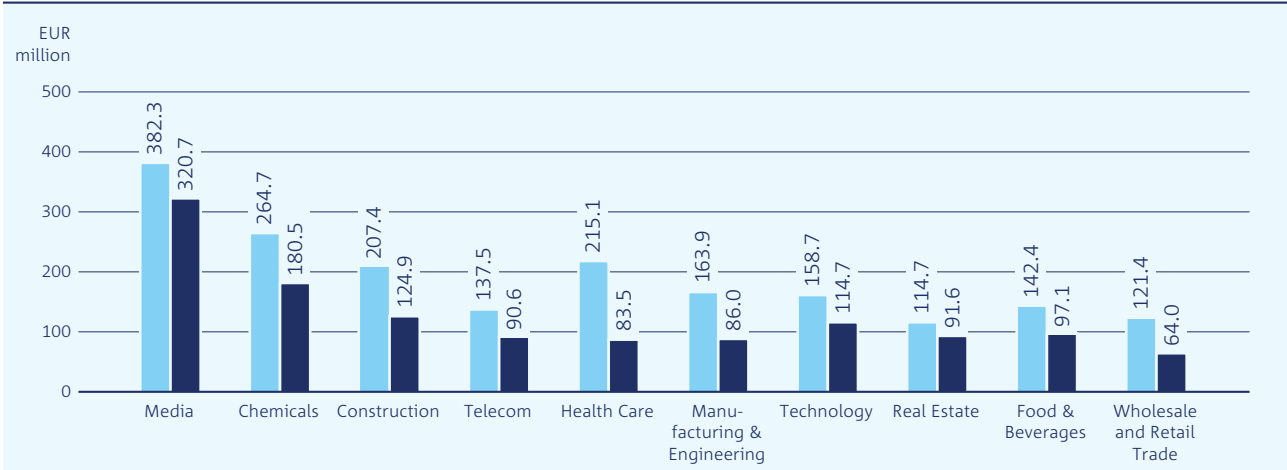
The charts below give a breakdown of the BayernLB Group's leveraged finance transactions by region, sector and rating.

Geographical breakdown



In line with strategy, the 38 percent reduction in the portfolio in the first half of 2011 came mainly in North America, Western Europe and Eastern Europe. Consequently, 40 percent of financing volume is now in Germany, compared to 17 percent as at 31 December 2008, when the restructuring project was launched.

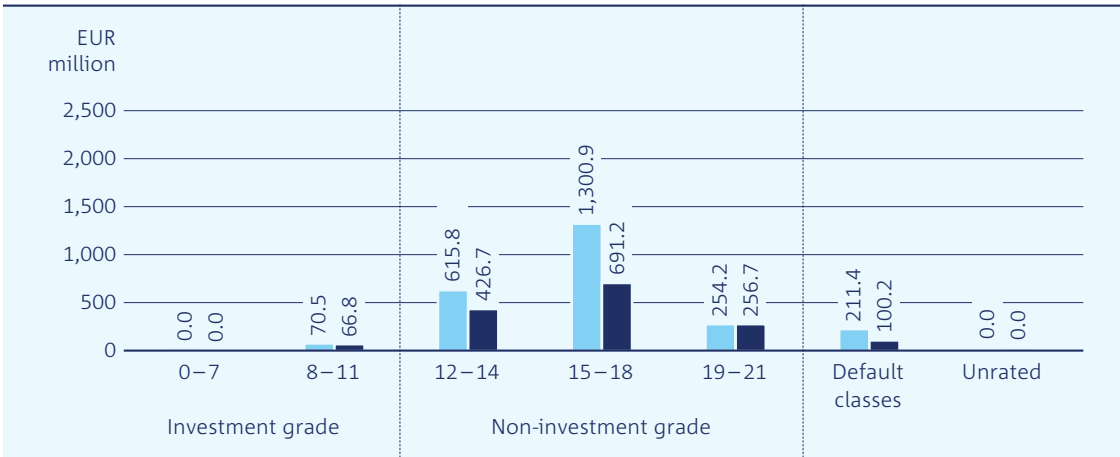
Ten largest sectors



■ 31 Dec 2010
 ■ 30 Jun 2011

The portfolio was reduced across all sectors, but to differing degrees: the focus continues to be on the media and the chemicals industries.

Rating class breakdown



■ 31 Dec 2010
 ■ 30 Jun 2011

The rating structure improved further as secondary markets continued to recover, making it possible to sell non-strategic parts of the portfolio of as low as rating class 18. There was only a slight rise in exposure in rating classes 19 to 21, as a result of a deterioration in ratings.

Impairments as at 30 June 2011 were EUR 71 million, in line with the EUR 72 million as at 31 December 2010.

Monoliner exposure

The BayernLB Group's exposure, in nominal volumes, to US monoliners – insurers that specialise in guaranteeing structured securities – totalled EUR 868 million as at 30 June 2011 (31 December 2010: EUR 1,056 million) and is almost exclusively booked at BayernLB.

BayernLB's direct exposure, which was unchanged in USD, was EUR 89 million as at 30 June 2011 (EUR 95 million as at 31 December 2010).

EUR 774 million (31 December 2010: EUR 962 million) of this exposure is indirect, i.e. where monoliners are not direct borrowers, but act as guarantors. The Bank based its credit decision primarily on the creditworthiness of the actual borrower, issuer or financing structure; the monoliner's guarantee was viewed only as an additional protection instrument at the time the transaction was entered into. The reduction in exposure in the reporting period is due to scheduled repayments, sales on the secondary market, and restructurings which BayernLB either initiated itself or was a party to.

As at 30 June 2011, the volume of ABSs which BayernLB anticipates will not be repaid in full by the actual borrowers or issuers, but which are guaranteed by monoliners, stood at EUR 175 million (31 December 2010: EUR 211 million).

EUR 26 million (31 December 2010: EUR 90 million) of the indirect exposure relates to the last liquidity facility still in place for US municipal bonds guaranteed by monoliners.

Market risk

Several instruments are used at the BayernLB Group to monitor and set limits for market risk, including value at risk (VaR), risk sensitivity and stress tests of various kinds to assess risk-bearing capacity.

Calculating market risk

Market risk is normally calculated using a correlated VaR method based on a one-day holding period and confidence level of 99 percent. In the subsidiaries, besides the historical simulation approach mainly applied by BayernLB, methods such as the scenario matrix method (Banque LBLux S.A.) and the variance-covariance approach (MKB) are also used.

The reliability of market risk measurement methods is assessed through regular backtesting, where the efficacy and quality of the risk methods are checked individually. As at 30 June 2011, these methods yielded high-quality forecasts using the Basel traffic light system.

Interest-rate risk in the banking book

For the interest-rate risk in the banking book, an interest rate shock scenario of +130/–190 basis points, in addition to other scenarios, is calculated at both Bank and Group level. As at the reporting date, the calculated change in the ratio of net present value to liable capital at BayernLB and the BayernLB Group was below the outlier criterion of 20 percent. Both BayernLB and the BayernLB Group will continue to comply with the outlier criterion even after the impending change in the interest rate shock to +/-200 basis points announced by the banking regulators for 2011.

Total market risk over the year as at 30 June 2011

EUR million	12-month comparison as at 30 Jun 2011			12-month comparison as at 31 Dec 2010		
	Average	High	Low	Average	High	Low
Specific interest-rate VaR	67.3	94.7	56.0	72.1	110.1	54.4
General interest-rate VaR	100.9	143.2	76.1	115.0	143.3	90.4
Currency VaR	9.6	16.2	5.0	12.5	28.0	5.0
Alternative investments VaR	0.4	0.6	0.0	1.5	3.6	0.4
Equity VaR	4.0	5.0	2.8	4.6	5.3	1.7
Volatility VaR	1.1	2.1	0.6	1.2	2.2	0.5
Commodity VaR	2.3	4.3	1.4	2.3	4.3	1.3
Total VaR	155.5	245.4	104.3	197.3	269.3	155.3

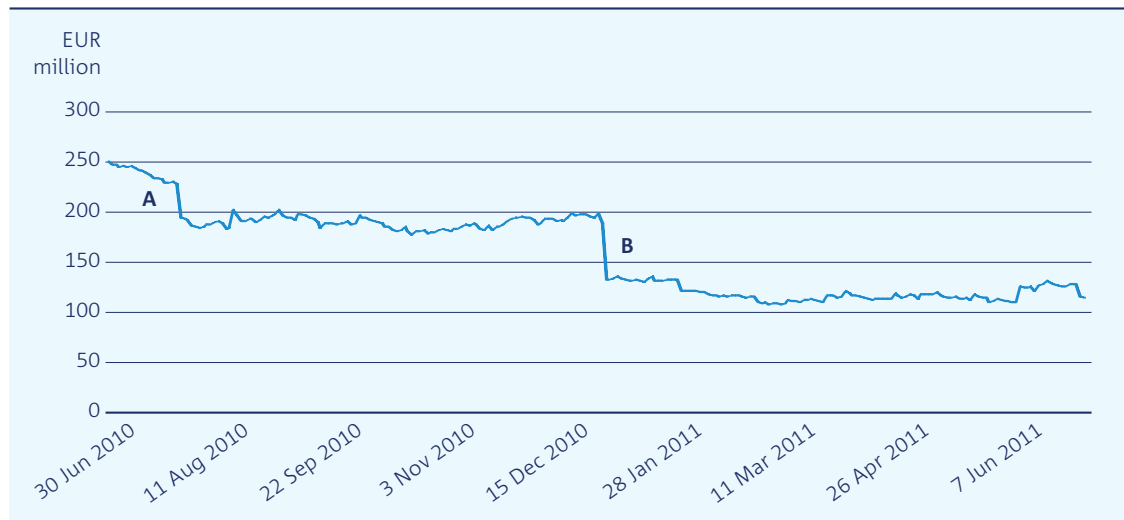
Since 31 December 2010, BayernLB calculates a correlated total VaR; previously, specific interest-rate risk was also added in to total VaR.

Since 30 June 2010, the average market risk in BayernLB has been EUR 155.5 million in the trading and banking books (value at risk with a one-day holding period and 99 percent confidence level). Compared with the previous year's figure, the VaR was 21 percent lower on average and fluctuated between EUR 104.3 million and EUR 245.4 million over the course of the year.

The BayernLB Group's value at risk was mainly affected by specific and general interest-rate risk, followed by currency risk. Commodity risk, equity risk, risk from alternative investments and volatility risk are of secondary importance in relation to overall market risk.

Within the Group, BayernLB has the largest share of market risk.

Value at risk over the year



The fall in total VaR at the end of July 2010 (A) is due to methodological changes at BayernLB: changes in BayernLB's own credit spreads (and thus its funding cost) are no longer included in the daily market risk calculation. Instead, they are directly incorporated in the risk-bearing capacity calculation and in liquidity risk.

Putting in place a correlated total VaR calculation at BayernLB that takes account of specific interest-rate risk correlated with other types of market risk in the total VaR reduced the total VaR at the start of 2011 by EUR 65 million (B).

The trend for total Group VaR was dominated by the VaR trend for BayernLB.

Liquidity risk

Liquidity overviews are drawn up each day across all currencies and separately for the major currencies to manage and monitor liquidity risk on a consistent basis across the Group. This involves calculating the short-term (up to 180 days) and long-term (up to ten years) liquidity surplus by subtracting in each maturity band the cumulative liquidity gaps from on-balance sheet items, commitments and guarantees, termination rights, and derivatives from the realisable liquidity counterbalancing capacity in each case.

In addition, time-to-wall figures for stress scenarios are calculated and monitored. These show the length of time before the liquidity surplus becomes negative under stressed conditions. All Group units with allocated limits must keep time-to-wall above 60 days at all times.

For further details on the measurement, management and monitoring of liquidity risk, please refer to the relevant sections of the risk report as at 31 December 2010.

The table below shows an overview of the liquidity situation at BayernLB as at 30 June 2011 compared to 31 December 2010:

30 Jun 2011	Up to	Up to	Up to	Up to
Cumulative figures in EUR million	1 month	3 months	1 year	5 years
Liquidity surplus	26,474	29,197	29,005	25,737
• arising from				
– liquidity counterbalancing capacity	42,003	47,395	41,736	7,321
• less				
– liquidity gap from balance sheet items				
– liquidity gap from commitments and guarantees	13,558	13,365	6,245	–22,280
– liquidity gap from termination rights	4,408	6,201	6,980	3,231
– liquidity gap from derivatives	–1,566	–1,233	–1,339	–757
	–870	–135	844	1,390
31 Dec 2010	Up to	Up to	Up to	Up to
Cumulative figures in EUR million	1 month	3 months	1 year	5 years
Liquidity surplus	26,325	28,166	29,761	23,480
• arising from				
– liquidity counterbalancing capacity	47,338	43,789	45,773	9,657
• less				
– liquidity gap from balance sheet items				
– liquidity gap from commitments and guarantees	17,428	7,384	6,442	–18,611
– liquidity gap from termination rights	4,860	9,289	10,463	4,111
– liquidity gap from derivatives	–1,575	–1,345	–1,805	–740
	300	294	911	1,417

The liquidity position at BayernLB was comfortable at all times during the period under review. It should be noted that BayernLB has reduced its participation in the European Central Bank's refinancing tenders (borrowings) from EUR 5 billion to zero during the reporting period and despite early partial repayment in April 2011 of around EUR 2 billion of the bond guaranteed by SoFFin, funding in the banking book remains almost matched, with a slight overhang of liabilities. The proven methods applied across the Group to limit and manage liquidity risk are being constantly checked and refined, helping to optimise liquidity management.

The Liquidity Ordinance ratio (which must always exceed 1.0) was 1.87 at BayernLB on 30 June 2011, having varied between 1.56 and 1.87 over the first half of the year; for the whole of 2010 the range was 1.47 to 1.84.

In anticipation of the Basel III liquidity requirements, BayernLB has launched a project to monitor and manage the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) in the future.

By the end of 2011 the additional requirements for managing and monitoring liquidity risk under the third revision to MaRisk will have been fully integrated into the liquidity risk management process. The increase and restructuring of the security portfolio to provide collateral that is eligible under Basel III is driving forward the optimisation of short-term liquidity management.

Liquidity management and monitoring at BayernLB will continue to be based on the available funding options and on ensuring there is an ample liquidity reserve under stressed conditions.

Given its stable domestic investor base and its subsidiary DKB, BayernLB feels its long-term wholesale business and growing retail deposits mean that it is well placed to meet rising regulatory requirements.

As had been the case in the previous year, BayernLB's funding situation in the first half of 2011 remained sound. For the second half of 2011, requirements are expected to be in the low single-digit billions, with no problems anticipated for funding through the capital market.

Obtaining liquidity will not be difficult given the current rating of the holding company of the BayernLB Group. The ongoing debate over the state of the entire Landesbank sector coupled with the repercussions of the decision by the European Commission on BayernLB's business model could have negative consequences on the rating and therefore on the costs of refinancing.

Operational risk

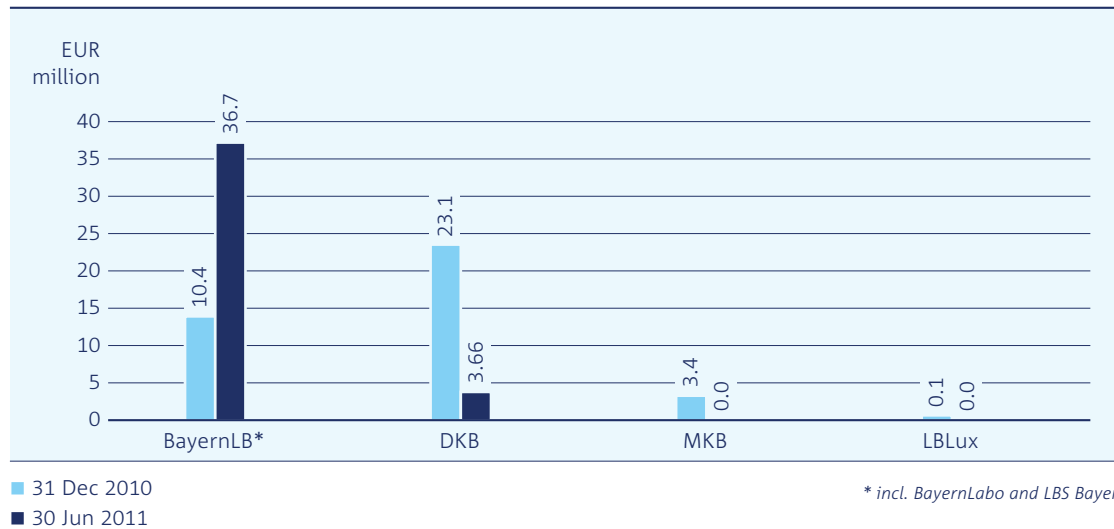
For the purposes of disclosure under the Solvency Ordinance (SolvV) and Basel II, BayernLB has applied the standardised approach (STA) since 1 January 2007 to calculate capital requirements for operational risk at Group and Bank level.

BayernLB also uses the standardised approach applied for SolvV reporting to compute the OpRisk risk capital requirement in the Bank's internal risk-bearing capacity calculation (ICAAP).

OpRisk capital requirements at the BayernLB Group under the standardised approach in accordance with the Solvency Ordinance (SolvV) were EUR 597 million as at 31 March 2011. To calculate under the standardised approach, the earnings for the previous three years are used. As the impact of the financial crisis, which lowered earnings, recedes, the capital required for OpRisk will rise.

The graph below shows the trend in OpRisk losses recorded at the main units of BayernLB in the first half of 2011 compared to the whole of 2010.

Net losses by Group unit



The sharp rise in losses at the BayernLB Bank is due to potential liability for a product offered up to 2004.

As at 30 June 2011, quantifiable litigation risks from proceedings in which the Bank is being sued amounted to EUR 163 million (31 December 2010: EUR 147 million).

Statement of comprehensive income

Income statement

EUR million	Notes		1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
• Interest income		5,711		5,891
• Interest expenses		–4,734		–4,909
Net interest income	(4)		976	983
Risk provisions in the credit business	(5)		–112	–392
Net interest income after risk provisions			864	591
• Commission income		377		406
• Commission expenses		–252		–285
Net commission income	(6)		125	121
Gains or losses on fair value measurement	(7)		151	443
Gains or losses on hedge accounting	(8)		46	11
Gains or losses on financial investments	(9)		–114	–35
Income from interests in companies valued at equity			8	–2
Administrative expenses	(10)		–733	–751
Expenses for bank levies	(11)		–88	–
Other income and expenses	(12)		–8	43
Gains or losses on restructuring	(13)		–7	134
Earnings before taxes			244	554
Income taxes			–48	–68
Earnings after taxes			196	486
Non-controlling interests			10	28
Consolidated net income/loss			205	514

Rounding differences may occur in the tables.

Statement of comprehensive income

EUR million	1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
Earnings after taxes as per the income statement	196	486
Other comprehensive income not recognised in profit or loss:		
• Changes in the revaluation surplus	171	199
– change in measurement	–33	21
– reclassification adjustment due to realised gains and losses	205	177
• Currency-related changes	29	–52
– change in measurement	29	–52
– reclassification adjustment due to realised gains and losses	–	–
• Share in other comprehensive income of associates and joint ventures	–3	–3
Other comprehensive income before taxes	198	143
Tax not recognised in profit or loss	12	7
Other comprehensive income after taxes	210	150
Total reported comprehensive income recognised and not recognised in profit or loss	406	636
• Attributable:		
– to BayernLB shareholders	413	655
– to non-controlling interests	–7	–18

Other comprehensive income – tax

EUR million	1 Jan – 30 Jun 2011			1 Jan – 30 Jun 2010		
	Amount before taxes	Taxes	Amount after taxes	Amount before taxes	Taxes	Amount after taxes
Changes in the revaluation surplus	171	11	182	199	6	205
Currency-related changes	29	–1	28	–52	1	–51
Share in other comprehensive income of associates and joint ventures	–3	3	–	–3	–	–3
Other comprehensive income	198	12	210	143	7	150

Rounding differences may occur in the tables.

Balance sheet

Assets

EUR million	Notes	30 Jun 2011	31 Dec 2010
Cash reserves	(14)	2,490	2,609
Loans and advances to banks	(15)	54,440	61,688
Loans and advances to customers	(16)	153,251	155,414
Risk provisions	(17)	-2,816	-2,979
Portfolio hedge adjustment assets		687	798
Assets held for trading	(18)	35,212	40,924
Positive fair values from derivative financial instruments (hedge accounting)	(19)	3,332	4,062
Financial investments	(20)	44,093	47,188
Interests in companies valued at equity	(21)	167	162
Investment property	(22)	2,740	2,773
Property, plant and equipment	(23)	689	693
Intangible assets	(24)	223	208
Current tax assets		74	78
Deferred tax assets		1,675	1,709
Non-current assets and disposal groups held for sale	(25)	162	163
Other assets	(26)	980	865
Total assets		297,399	316,354

Rounding differences may occur in the tables.

Liabilities

EUR million	Notes	30 Jun 2011	31 Dec 2010
Liabilities to banks	(27)	76,119	83,171
Liabilities to customers	(28)	91,964	91,734
Securitised liabilities	(29)	76,634	79,468
Liabilities held for trading	(30)	22,511	30,918
Negative fair values from derivative financial instruments (hedge accounting)	(31)	2,009	2,498
Provisions	(32)	3,992	4,002
Current tax liabilities		219	197
Deferred tax liabilities		1,616	1,653
Liabilities from disposal groups	(33)	67	73
Other liabilities	(34)	878	1,002
Subordinated capital	(35)	7,065	7,727
Equity	(36)	14,325	13,911
• Equity excluding non-controlling interests		14,104	13,684
– subscribed capital		6,241	6,241
– specific-purpose capital		612	612
– hybrid capital instruments		345	346
– capital reserve		4,688	4,688
– retained earnings		2,960	2,952
– revaluation surplus		–903	–1,087
– foreign currency translation reserve		–44	–68
– consolidated net income/loss		205	–
• Non-controlling interests		221	227
Total liabilities		297,399	316,354

Rounding differences may occur in the tables.

Statement of changes in equity

EUR million	Parent								Non-controlling interests	Consolidated equity	
	Subscribed capital	Specific-purpose capital	Hybrid capital instruments	Capital reserve	Retained earnings	Revaluation surplus	Currency translation reserve	Consolidated net income/loss			Equity before non-controlling interests
As at 1 Jan 2010	5,914	612	514	4,688	3,526	-1,537	-42	-	13,674	387	14,061
Changes in the revaluation surplus						200			200	5	206
Currency-related changes							-55		-55	4	-51
Changes from companies valued at equity						-1	-2		-3		-3
<i>Other comprehensive income</i>						199	-58		142	9	151
Consolidated net income/loss								514	514	-28	486
<i>Total consolidated net income/loss</i>						199	-58	514	655	-18	637
Transactions with owners									-		-
Capital increase/capital decrease									-		-
Changes in the scope of consolidation and other			-2		-15				-17	-130	-147
As at 30 Jun 2010	5,914	612	512	4,688	3,511	-1,338	-100	514	14,312	239	14,551
As at 1 Jan 2011	6,241	612	346	4,688	2,952	-1,087	-68	-	13,684	227	13,911
Changes in the revaluation surplus						180			180	2	182
Currency-related changes							28		28	1	28
Changes from companies valued at equity						4	-4		-		-
<i>Other comprehensive income</i>						184	24		208	3	210
Consolidated net income/loss								205	205	-10	196
<i>Total consolidated net income/loss</i>						184	24	205	413	-7	406
Transactions with owners					-5				-5		-5
Capital increase/capital decrease			-1						-1	1	-
Changes in the scope of consolidation and other			1		12				13		13
As at 30 Jun 2011	6,241	612	345	4,688	2,960	-903	-44	205	14,104	221	14,325

Rounding differences may occur in the tables.

Cash flow statement (condensed)

EUR million	1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
Cash in hand at end of previous period	2,609	3,512
+/- cash flow from operating activities	86	-327
+/- cash flow from investment activities	78	122
+/- cash flow from financing activities	-638	-450
+/- change in cash in hand due to exchange rates, scope of consolidation and measurement	355	-43
Cash in hand at end of period	2,490	2,814

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Notes to the interim financial statements

The BayernLB Group interim financial statements as at 30 June 2011 have been prepared in accordance with Commission Regulation 1606/2002 (IAS Regulation) of the European Parliament and of the European Council of 19 July 2002 (including all amendments) on the application of international financial reporting standards, and in conjunction with Section 315a (1) of the German Commercial Code (HGB). The interim financial statements comply with the requirements of IAS 34.

Unless otherwise stated, all amounts are given in EUR million and rounded. Rounding differences may occur in the tables. Figures are not preceded by a plus or minus symbol if it can be deduced from the context.

Accounting policies

(1) Basis

The accounting methodology used for the interim financial statements as at 30 June 2011 was essentially the same as that used for the 2010 consolidated financial statements. Information provided in these interim financial statements is to be read in conjunction with the information in the published and audited consolidated financial statements as at 31 December 2010.

Income tax expenses for the interim financial statements are calculated on the basis of the expected income tax ratio for the full year.

In the reporting period, the following revised standards and interpretations had to be applied for the first time: IAS 24 Related Party Disclosures; IAS 32 Financial Instruments: Presentation; IFRS 1 First-time Adoption of International Financial Reporting Standards; IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction; and changes under the annual improvements project of the International Accounting Standards Board as at 6 May 2010. These changes had no material impact on the interim financial statements of the BayernLB Group as at 30 June 2011. The same is true for IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, which became applicable for the first time in the period under review.

(2) Scope of consolidation

In addition to the parent company, the group of companies consolidated within BayernLB comprises 49 subsidiaries (31 December 2010: 48), of which two (31 December 2010: two) are special-purpose entities and four (31 December 2010: four) are special funds that are fully consolidated in accordance with IAS 27 and SIC 12. The interim financial statements do not contain any proportionately consolidated entities.

Three (31 December 2010: three) joint ventures and six (31 December 2010: six) associated companies are recognised at equity.

Changes to the sub-groups

GBW Regerhof GmbH, Munich was incorporated last year as a shelf company and included in the scope of consolidation of GBW AG, Munich for the first time with effect from 1 January 2011, when it commenced operations. This had no material impact on the financial position and financial performance of the BayernLB Group.

BayernLB's scope of consolidation is determined by materiality criteria. Due to their secondary importance individually and as a group in relation to the financial position and financial performance of the Group, 213 companies (31 December 2010: 223) were neither consolidated nor valued at equity. The impact on the balance sheet from the contractual relationships between Group companies and these non-consolidated companies is reported in the interim financial statements.

Segment reporting

(3) Notes to the segment report

The segment report reflects the business structure of the BayernLB Group. Six segments are shown: the operating business areas including the dependent entities Bayerische Landesbodenkreditanstalt (BayernLabo) and Bayerische Landesbausparkasse (LBS Bayern), the Group's strategic subsidiaries, the Restructuring Unit and the Central Areas & Others segment. The earnings of the consolidated subsidiaries and units are also allocated to the segment to which they have been assigned.

The structure of the Corporates & Markets, Mittelstand & Retail Customers and the Real Estate, Public Sector & Savings Banks business segments in place in 2010 was changed in 2011 as part of the Group's tighter focus on customers. Under the new structure, the Corporates and Mittelstand units and the strategic subsidiaries Deutsche Kreditbank Aktiengesellschaft, Berlin (sub-group) and Banque LBLux S.A., Luxembourg have been grouped together in a segment called Corporates, Mittelstand & Retail Customers. Markets is now a separate segment. LBS Bayern was previously part of Mittelstand & Retail Customers but will now appear under Real Estate & Savings Banks/ Association. The comparative figures have been adjusted to reflect the new segments.

Segment reporting is based on IFRS 8 and therefore on the monthly management reports submitted to the Board of Management, which functions as the chief operating decision maker pursuant to IFRS 8.7. The management reports and therefore the segmentation is based on the accounting methodology used in the consolidated financial statements under IFRS. Segment reporting does not therefore need to be reconciled with the IFRS accounting methodology used in the consolidated financial statements. The earnings contributions reported under the segments are generated predominantly from financial services. The additional information about products and services required under IFRS 8.32, the information under IFRS 8.33 (a) and on non-current assets by geographical region required under IFRS 8.33 (b) is not available and the costs of providing the information would be disproportionately high. Consolidation items are shown under the relevant segment where they can be directly allocated.

Segment reporting as at 30 June 2011

EUR million	Corporates, Mittelstand & Retail Customers	Real Estate & Savings Banks/Association	Markets	Eastern Europe	Restructuring Unit	Central Areas & Others	Consolidation	Group
Net interest income	460	243	79	156	74	44	-79	976
Risk provisions in the credit business	-77	18	6	-76	18	3	-4	-112
Net commission income	77	22	-7	30	15	-11	-1	125
Gains or losses on fair value measurement	113	37	-57	13	73	-4	-23	151
Gains or losses on hedge accounting	10	-	29	-	11	3	-6	46
Gains or losses on financial investments	-80	3	1	1	-73	40	-6	-114
Income from interests in companies valued at equity	-	-	-	-	-1	-	9	8
Administrative expenses	-301	-138	-99	-131	-35	-27	-1	-733
Expenses for bank levies	-3	-	-	-51	-	-34	-	-88
Other income and expenses	29	16	-38	-3	-	-14	2	-8
Gains or losses on restructuring	-5	-	-	-	-	-2	-	-7
Earnings before taxes	222	201	-86	-61	80	-3	-110	244
Income taxes	-40	-17	-9	-9	-20	46	1	-48
Earnings after taxes	182	184	-94	-71	61	43	-109	196
Risk positions	58,146	12,640	21,145	7,176	12,116	4,087	-	115,310
Average economic/ reported equity	5,909	1,308	2,032	747	1,684	575	1,975	14,230
Return on equity (RoE) (%)	7.3	25.8	-7.9	-2.1	4.8	-	-	5.2¹
Cost/income ratio (CIR) (%)	43.7	43.5	>100.0	66.8	20.5	-	-	56.8
Average number of employees (FTE)	2,329	1,179	449	3,708	173	2,164	-	10,001

1 BayernLabo's earnings and share in Group equity are not included in the return on equity (expressed in percent) at Group level.

Segment reporting as at 30 June 2010

EUR million	Corporates, Mittelstand & Retail Customers	Real Estate & Savings Banks/Association	Markets	Eastern Europe	Restructuring Unit	Central Areas & Others	Consolidation	Group
Net interest income	426	252	12	169	103	77	-57	983
Risk provisions in the credit business	-84	-54	11	-260	9	-13	-	-392
Net commission income	64	12	-14	38	19	1	-	121
Gains or losses on fair value measurement	92	5	279	16	118	-41	-26	443
Gains or losses on hedge accounting	-2	-6	23	-	-1	-3	1	11
Gains or losses on financial investments	-28	3	13	12	-15	-1	-18	-35
Income from interests in companies valued at equity	-	-	-	-4	-	-	1	-2
Administrative expenses	-277	-139	-100	-138	-33	-64	-	-751
Expenses for bank levies	-	-	-	-	-	-	-	-
Other income and expenses	23	17	21	-7	-	-27	16	43
Gains or losses on restructuring	12	26	10	-	21	64	-	134
Earnings before taxes	227	115	255	-175	221	-6	-83	554
Income taxes	-35	-27	-43	-9	-43	86	3	-68
Earnings after taxes	192	88	212	-184	178	80	-80	486
Risk positions	62,318	13,989	20,569	8,835	20,155	4,447	-	130,312
Average economic/ reported equity	4,980	1,111	1,643	711	2,135	841	3,211	14,633
Return on equity (RoE) (%)	7.4	14.0	29.3	-44.2	11.0	-	-	7.5¹
Cost/income ratio (CIR) (%)	45.9	49.9	31.2	64.0	13.7	-	-	46.9
Average number of employees (FTE)	2,369	1,184	486	3,793	201	2,630	-	10,663

¹ BayernLabo's earnings and share in Group equity are not included in the return on equity (expressed in percent) at Group level.

For the purposes of internal management, economic capital is allocated to the segments on the basis of risk positions assumed in accordance with the German Solvency Ordinance (Solvabilitätsverordnung (SolV)). In the Consolidation column, economic capital is reconciled with equity on the balance sheet.

The return on equity shown is calculated at segment level by dividing earnings before taxes less expenses for bank levies and gains or losses on restructuring by economic capital. For the segments, economic capital is derived from the higher of actual allocated economic capital or budgeted equity. The cost/income ratio is the ratio of administrative expenses to the sum of net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedging transactions (hedge accounting), and other income and expenses.

For all units for which external income tax figures are available from interim financial statements, these have been incorporated into the segment report. If the figures for a unit are not available, a standard tax rate is applied. The resulting income tax residual balance of EUR +52 million (30 June 2010: EUR +91 million) compared to the Group figure has been recognised in the Central Areas & Others segment under income taxes.

Organisational changes with an impact across segments have been reflected in the comparative values.

Scope of the segments

Corporates, Mittelstand & Retail Customers covers business with large and mid-sized companies and retail banking operations. As part of the Group's stronger focus on customers, the Mittelstand and Corporates business segments, which were previously separate, have now been merged into a single unit. The segment also includes the Group's strategic subsidiaries Deutsche Kreditbank Aktiengesellschaft, Berlin (sub-group), and Banque LBLux S.A., Luxembourg, which are principally active in retail and private banking.

The new business segment will focus primarily on supporting large German and international corporate customers and German Mittelstand customers, with an emphasis on the Group's home market in Bavaria. These include DAX, MDAX and family-run companies based in Germany with international operations. The segment's core expertise lies in traditional lending, covering areas such as working capital loans, capital investment loans and trade financing with a diverse leasing product range. In addition, it also boasts recognised expertise in global project and export finance, particularly in the infrastructure, energy and renewable energy sectors. The segment successfully acts on behalf of customers as lead manager for syndicated loans and collaborates with the Markets segment to play a leading role in placing corporate bonds and Schuldschein notes on the market.

The holding in Banque LBLux S.A. offers BayernLB access to the financial centre in Luxembourg. Business activities are focused on international private banking and wealth management, and on corporate banking in the Benelux region.

The Group's subsidiary Deutsche Kreditbank AG (DKB) operates in the retail customer segment as "your bank on the web". In addition to internet banking, DKB concentrates on the growing markets of environmental technology, health and health care, and training and research. Its target audience includes commercial customers and customers in the infrastructure sector, particularly in eastern Germany.

Real Estate & Savings Banks/Association comprises dealings with commercial and residential real estate customers in Germany and abroad and business with savings banks and the public sector. To step up cooperation with the Bavarian savings banks within the Group in relation to business with Bavarian municipalities, the Public Sector unit was integrated into the Savings Banks division in April 2011. The new division is called Savings Banks & Association. The segment also includes the legally dependent institutions BayernLabo and LBS Bayern, the consolidated special funds LBMUE I-III/V, Munich, and the subsidiary Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich.

Real Estate concentrates on long-term commercial real estate loans in Bavaria and Germany and on dealings with home builders and property developers in the residential real estate sector. BayernLB offers commercial real estate customers an extensive range of real estate financing services.

Savings Banks & Association now forms the central hub for collaboration with savings banks and municipalities. BayernLB offers itself as a strong partner for governmental and municipal customers and public-sector organisations through its broad range of products, with solutions tailored to individual needs. In its lending and investment business with the public sector, BayernLB focuses on its core markets of Bavaria and Germany. The savings banks represent one of BayernLB's core customer groups and are major sales partners for a broad range of BayernLB products and services.

LBS Bayern represents another important aspect of the Group's collaboration with savings banks. It benefits particularly from their extensive regional presence, the excellent advisory expertise of the LBS sales force and savings bank employees and the high profile of the LBS brand.

BayernLabo conducts non-competitive residential construction and urban planning business for BayernLB on behalf of the public sector. It also finances local authorities in Bavaria.

Markets comprises the business area of the same name and the consolidated unit BayernInvest Kapitalanlagegesellschaft mbH, Munich, which contributes to the earnings of the segment. The segment combines all trading and issuing activities, as well as BayernLB's asset and liability management (ALM). In addition, Markets handles BayernLB's business relationships with banks, insurers and other institutional customers. The segment offers capital market and treasury products to support cross-selling to BayernLB's corporate, Mittelstand, savings bank and real estate customers. The range of services offered by the segment includes capital market products such as Schuldschein notes and corporate bonds. As one of the largest issuers on the euro market, BayernLB's presence stretches across all major currencies and the Group maintains close contacts with all important market participants. Risk and liquidity management are used to hedge currency, commodity, energy price, interest rate and default risk and market fluctuations.

The Eastern Europe segment handles business activities conducted in Eastern and South-Eastern Europe. It includes the Group's strategic subsidiary MKB Bank Zrt., Budapest (sub-group). MKB Bank Zrt. is one of Hungary's largest universal banks and enjoys a strong market position in the retail and large corporate customers sectors.

In keeping with internal management procedures, selected portfolios (non-core activities) are split off from the operating activities of the business segments in the Restructuring Unit. This segment also includes asset-backed securities affected by the financial market crisis including the hedges taken out for them and individual positions from problem securities portfolios. The consolidated units Giro Balanced Funding Corporation, Delaware, Giro Lion Funding Limited, Jersey, and KGAL GmbH & Co. KG, Grünwald (valued at-equity) which contribute to the segment's performance, are also allocated to this segment.

Central Areas & Others comprises the earnings contributions from Corporate Center, Financial Office, IT & Operations, and Risk Office. This mainly relates to the earnings from the relevant investments and expenditure for refinancing and managing these investments. The refinancing costs of the Group's strategic subsidiaries are also allocated to this segment. The segment also includes cross-divisional transactions whose earnings contributions cannot be allocated to either a business area or a central area. The consolidated subsidiaries BayernLB Capital LLC I, Wilmington, and the sub-group GBW AG, Munich are also allocated to this segment. The comparative values include Landesbank Saar, Saarbrücken (sub-group).

The Consolidation column shows consolidation entries not allocated to any segment.

Earnings from typical banking operations after risk provisioning (net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedging transactions (hedge accounting), gains or losses on financial investments, and income from interests in companies valued at equity) were EUR 1,080 million (30 June 2010: EUR 1,128 million), of which EUR 147 million (30 June 2010: EUR 53 million) relates to Europe excluding Germany, EUR 77 million (30 June 2010: EUR 199 million) to America, and EUR 0 million (30 June 2010: EUR 6 million) to Asia/Pacific.

Notes to the statement of comprehensive income

(4) Net interest income

EUR million	1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
Interest income	5,711	5,891
• From credit and money market transactions	3,444	3,650
• From bonds, notes and other fixed-income securities	465	540
• Current income from equities and other non-fixed income securities	3	3
• Current income from interests in non-consolidated subsidiaries, joint ventures, associates and other interests	10	9
• Current income from other financial investments	4	–
• From hedge accounting derivatives	1,228	1,206
• From derivatives in economic hedges	555	483
Interest expenses	4,734	4,909
• For liabilities to banks and customers	1,983	2,093 ¹
• For securitised liabilities	1,060	1,246
• For subordinated capital	169	213
• For hedge accounting derivatives	930	829
• For derivatives in economic hedges	459	387
• Other interest expenses	133	140 ¹
Total	976	983

¹ Adjustment of comparative value.

(5) Risk provisions in the credit business

EUR million	1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
Additions	427	688
Direct writeoffs	30	24
Releases	304	253
Recoveries on written off receivables	25	63
Other gains or losses on risk provisions	16	4
Total	112	392

The amounts comprise on-balance sheet and off-balance sheet credit business.

(6) Net commission income

EUR million	1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
Securities business	30	29
Broker fees	-7	-6
Credit business	88	93
Payments	9	13
Foreign commercial operations	2	1
Home loan savings business	-19	-18
Trust transactions	10	9
Other	12	-
Total	125	121

(7) Gains or losses on fair value measurement

EUR million	1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
Net trading income	160	443
• Interest-driven transactions	116	251
• Equity-related and index-related transactions and transactions with other risks	-3	-1
• Currency-related transactions	7	71
• Credit derivatives	76	144
• Other financial transactions	7	22
• Refinancing of trading portfolios	-33	-15
• Trading-related commission	-3	-4
• Fair value adjustments	-9	-25
Fair value gains or losses from the fair value option	-9	-
Total	151	443

(8) Gains or losses on hedge accounting

EUR million	1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
Gains or losses on micro fair value hedges	35	2
• Measurement of underlying transactions	412	-753
• Measurement of hedging instruments	-377	755
Gains or losses on portfolio fair value hedges	11	8
• Measurement of underlying transactions	-61	374
• Measurement of hedging instruments	72	-366
Total	46	11

(9) Gains or losses on financial investments

EUR million	1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
Gains or losses on loans and receivables financial investments	-27	-102
• Gains or losses on sales	6	-32
• Income from write-ups	23	18
• Expenses from writedowns	56	87
Gains or losses on available-for-sale financial investments	-88	85
• Gains or losses on sales	-18	-44
• Income from write-ups	62	156
• Expenses from writedowns	132	27
Gains or losses on deconsolidation	-	-18
Total	-114	-35

The losses on financial investments include impairments on Greek government bonds of EUR 79 million. At the reporting date, the carrying amount of these securities, which are classed as “Available for sale”, was EUR 101 million.

(10) Administrative expenses

EUR million	1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
Staff costs	346	348
• Salaries and wages	293	297
• Social security contributions	33	34
• Expenses for pensions and other employee benefits	20	17
Other administrative expenses	352	363
Amortisation and depreciation of property, plant and equipment and intangible assets (not including goodwill)	35	39
Total	733	751

(11) Expenses for bank levies

EUR million	1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
Expenses for bank levies	88	-
Total	88	-

Expenses for bank levies comprises the special tax levied in Hungary on credit and financial institutions and the pro-rata amount for the German bank levy, which first fell due in 2011.

(12) Other income and expenses

EUR million	1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
Other income	369	421
Other expenses	377	378
Total	-8	43

(13) Gains or losses on restructuring

EUR million	1 Jan – 30 Jun 2011	1 Jan – 30 Jun 2010
Income from restructuring measures initiated	1	166
Expenses for restructuring measures initiated	8	32
Total	-7	134

The Gains or losses on restructuring item mainly consists of expenditure for the reduction in the workforce as part of restructuring programmes. In the first half of 2010, the Group also reported gains from restructuring-related pension plan changes resulting in particular from the recognition of actuarial gains.

Notes to the balance sheet

(14) Cash reserves

EUR million	30 Jun 2011	31 Dec 2010
Cash	223	263
Deposits with central banks	1,094	1,799
Debt instruments issued by public entities and bills of exchange eligible for refinancing with central banks	1,173	548
Total	2,490	2,609

(15) Loans and advances to banks

EUR million	30 Jun 2011	31 Dec 2010
Loans and advances to domestic banks	35,057	41,586
Loans and advances to foreign banks	19,382	20,101
Total	54,440	61,688

(16) Loans and advances to customers

EUR million	30 Jun 2011	31 Dec 2010
Loans and advances to domestic customers	111,328	109,431
Loans and advances to foreign customers	41,923	45,983
Total	153,251	155,414

(17) Risk provisions

EUR million	30 Jun 2011	31 Dec 2010
Specific loan loss provisions	2,418	2,527
Portfolio provisions	398	452
Total	2,816	2,979

Changes in specific loan loss provisions

EUR million	Loans and advances to banks		Loans and advances to customers		Other asset items		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
As at 1 Jan	684	792	1,841	1,502	1	1	2,527	2,295
Changes recognised in profit or loss	-9	3	147	418	-	-	137	421
• Additions	-	8	395	608	-	-	395	615
• Releases	9	2	203	148	-	-	212	149
• Unwinding	-	3	46	42	-	-	46	45
Changes not recognised in profit or loss	-28	-25	-217	-239	-1	-	-246	-265
• Currency-related changes	-3	9	4	15	-	-	1	25
• Changes in the scope of consolidation	-	-27	-	-127	-	-	-	-154
• Utilisation	25	27	239	154	-	-	264	181
• Transfers/ other changes	-	19	18	26	-1	-	17	45
As at 30 Jun	647	770	1,771	1,680	-	1	2,418	2,451

Changes in portfolio provisions

EUR million	Loans and advances to banks		Loans and advances to customers		Other asset items		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
As at 1 Jan	86	47	366	478	-	-	452	525
Changes recognised in profit or loss	-9	-2	-13	-	-	-	-23	-2
• Additions	11	5	32	65	-	-	43	69
• Releases	20	6	45	65	-	-	65	71
Changes not recognised in profit or loss	-8	-	-24	-35	-	-	-32	-35
• Currency-related changes	-	-	-2	11	-	-	-2	11
• Changes in the scope of consolidation	-	-	-	-20	-	-	-	-20
• Utilisation	8	-	22	24	-	-	30	24
• Transfers/ other changes	-	-	-	-2	-	-	-	-2
As at 30 Jun	69	45	329	443	-	-	398	488

Risk provisions for contingent liabilities and other liabilities are shown as provisions for risks in the credit business (see note 32).

(18) Assets held for trading

EUR million	30 Jun 2011	31 Dec 2010
Bonds, notes and other fixed-income securities	10,504	7,574
Equities and other non-fixed income securities	115	131
Receivables held for trading	732	1,170
Positive fair values from derivative financial instruments (not hedge accounting)	23,860	32,049
Total	35,212	40,924

Assets held for trading includes the fair value from the guarantee agreement with the Free State of Bavaria ("Umbrella") in the amount of EUR 1,877 million (31 December 2010: EUR 2,098 million).

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

EUR million	30 Jun 2011	31 Dec 2010
Positive fair values on micro fair value hedges	3,295	4,029
Positive fair values on portfolio fair value hedges	37	33
Total	3,332	4,062

(20) Financial investments

EUR million	30 Jun 2011	31 Dec 2010
Fair value option financial investments	2,198	1,092
• Bonds, notes and other fixed-income securities	2,197	1,035
• Equities and other non-fixed income securities	1	56
Loans and receivables financial investments	23,649	26,591
• Bonds, notes and other fixed-income securities	23,649	26,591
Available-for-sale financial investments	18,246	19,505
• Bonds, notes and other fixed-income securities	17,362	18,549
• Equities and other non-fixed income securities	223	191
• Interests in non-consolidated subsidiaries, joint ventures, associated companies and other interests	526	624
• Other financial investments	135	140
Total	44,093	47,188

(21) Interests in companies valued at equity

EUR million	30 Jun 2011	31 Dec 2010
Joint ventures	25	27
Associates	141	135
Total	167	162

(22) Investment property

EUR million	30 Jun 2011	31 Dec 2010
Land and buildings leased	2,699	2,720
Undeveloped land	41	51
Unused buildings	–	1
Total	2,740	2,773

(23) Property, plant and equipment

EUR million	30 Jun 2011	31 Dec 2010
Land and buildings for own use	572	572
Furniture and office equipment	117	121
Total	689	693

(24) Intangible assets

EUR million	30 Jun 2011	31 Dec 2010
Goodwill	94	94
Intangible assets produced in-house	18	7
Other intangible assets	111	106
Total	223	208

(25) Non-current assets and disposal groups held for sale

EUR million	30 Jun 2011	31 Dec 2010
Financial investments	15	15
Investment property	3	2
Property, plant and equipment	95	94
Intangible assets	1	1
Deferred tax assets	4	5
Other assets	45	45
Total	162	163

(26) Other assets

EUR million	30 Jun 2011	31 Dec 2010
Claims from reinsurance	221	221
Precious metals	114	111
Property as inventory	108	115
Deferred charges	39	37
Other assets	498	382
Total	980	865

(27) Liabilities to banks

EUR million	30 Jun 2011	31 Dec 2010
Liabilities to domestic banks	56,263	62,151
Liabilities to foreign banks	19,857	21,020
Total	76,119	83,171

(28) Liabilities to customers

EUR million	30 Jun 2011	31 Dec 2010
Liabilities to domestic customers	80,420	78,925
Liabilities to foreign customers	11,543	12,809
Total	91,964	91,734

(29) Securitised liabilities

EUR million	30 Jun 2011	31 Dec 2010
Bonds and notes issued	73,390	76,863
Other securitised liabilities	3,244	2,605
Total	76,634	79,468

The reporting period saw the issue of debt instruments (including money market securities) to the value of EUR 19,732 million. Repurchases amounted to EUR 7,090 million, while repayments totalled EUR 14,886 million.

(30) Liabilities held for trading

EUR million	30 Jun 2011	31 Dec 2010
Trading portfolio liabilities	478	166
Negative fair values from derivative financial instruments (not hedge accounting)	21,901	30,628
Fair value adjustments	132	125
Total	22,511	30,918

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

EUR million	30 Jun 2011	31 Dec 2010
Negative fair values from micro fair value hedges	1,194	1,515
Negative fair values from portfolio fair value hedges	815	983
Total	2,009	2,498

(32) Provisions

EUR million	30 Jun 2011	31 Dec 2010
Provisions for pensions and similar obligations	2,393	2,386
Other provisions	1,599	1,617
• Provisions for the credit business	155	179
• Restructuring provisions	255	281
• Miscellaneous provisions	1,189	1,156
Total	3,992	4,002

(33) Liabilities from disposal groups

EUR million	30 Jun 2011	31 Dec 2010
Liabilities to banks	25	27
Liabilities to customers	1	1
Provisions	4	3
Current tax liabilities	–	1
Deferred tax liabilities	3	3
Other liabilities	34	38
Total	67	73

(34) Other liabilities

EUR million	30 Jun 2011	31 Dec 2010
Accruals	232	255
Prepaid income	98	106
Distributions on hybrid capital instruments	–	211
Other liabilities	548	430
Total	878	1,002

(35) Subordinated capital

EUR million	30 Jun 2011	31 Dec 2010
Subordinated liabilities	5,570	5,603
Profit participation certificates (debt component)	369	951
Dated capital contributions from silent partners (debt component)	457	462
Hybrid capital	670	710
Total	7,065	7,727

Profit participation certificates in the amount of EUR 595 million were repaid in the period; otherwise there were no significant changes to subordinated capital.

(36) Equity

EUR million	30 Jun 2011	31 Dec 2010
Equity excluding non-controlling interests	14,104	13,684
• Subscribed capital	6,241	6,241
– statutory nominal capital	2,300	2,300
– undated capital contributions from silent partners	3,941	3,941
• Specific-purpose capital	612	612
• Hybrid capital instruments	345	346
– profit participation capital (equity component)	180	180
– dated capital contributions from silent partners (equity component)	166	165
• Capital reserve	4,688	4,688
• Retained earnings	2,960	2,952
– statutory reserve	1,268	1,268
– other retained earnings	1,692	1,684
• Revaluation surplus	–903	–1,087
• Foreign currency translation reserve	–44	–68
• Consolidated net income/loss	205	–
Non-controlling interests	221	227
Total	14,325	13,911

As they are compound financial instruments, dated capital contributions from silent partners, including those that are callable by the lender, and profit participation certificates, must be divided into their equity and debt components (split accounting). As a residual interest in the assets as defined in IAS 32.11, the equity component is equivalent to the net present value of expected future distributions. Because no distributions were made as at the end of the first half of the year, the value of the equity component was – with the exception of repurchases and resales in the first half of 2011 – the same as the measured value as at 31 December 2010. For a detailed description of the accounting methodology, see note 26 in our 2010 Annual Report.

Notes on financial instruments

(37) Fair value of financial instruments

EUR million	Fair value	Carrying amount	Fair value	Carrying amount
	30 Jun 2011	30 Jun 2011	31 Dec 2010	31 Dec 2010
Assets				
• Cash reserves	2,490	2,490	2,609	2,609
• Loans and advances to banks ¹	55,078	54,440	62,049	61,688
• Loans and advances to customers ¹	153,409	153,251	156,420	155,414
• Assets held for trading	35,212	35,212	40,924	40,924
• Positive fair values from derivative financial instruments (hedge accounting)	3,332	3,332	4,062	4,062
• Financial investments	43,579	44,093	46,433	47,188
• Non-current assets and disposal groups held for sale	15	15	15	15
Liabilities				
• Liabilities to banks	77,691	76,119	84,243	83,171
• Liabilities to customers	92,410	91,964	93,020	91,734
• Securitised liabilities	76,849	76,634	79,800	79,468
• Liabilities held for trading	22,511	22,511	30,918	30,918
• Negative fair values from derivative financial instruments (hedge accounting)	2,009	2,009	2,498	2,498
• Liabilities from disposal groups	25	25	27	28
• Subordinated capital	6,628	7,065	7,529	7,727

¹ Carrying amount before deducting risk provisions for loans and advances to banks in the amount of EUR 715 million (31 December 2010: EUR 770 million) and loans and advances to customers in the amount of EUR 2,100 million (31 December 2010: EUR 2,207 million).

(38) Financial instrument measurement categories

EUR million	30 Jun 2011	31 Dec 2010
Assets		
• Financial assets measured at fair value through profit or loss	38,281	42,909
– held-for-trading financial assets	35,212	40,924
assets held for trading	35,212	40,924
– fair value option	3,069	1,985
loans and advances to banks	60	64
loans and advances to customers	811	830
financial investments	2,198	1,092
• Loans and receivables	231,726	244,808
– cash reserves	1,317	2,062 ²
– loans and advances to banks ¹	54,380	61,624
– loans and advances to customers ¹	152,381	154,531
– financial investments	23,649	26,591
• Available for sale financial assets	19,493	20,120
– cash reserves	1,173	548 ²
– loans and advances to customers	59	53
– financial investments	18,246	19,505
– non-current assets and disposal groups held for sale	15	15
• Positive fair values from derivative financial instruments (hedge accounting)	3,332	4,062
Liabilities		
• Financial liabilities measured at fair value through profit or loss	31,020	39,110
– held for trading financial liabilities	22,511	30,918
liabilities held for trading	22,511	30,918
– fair value option	8,509	8,191
liabilities to banks	634	731
liabilities to customers	3,418	3,425
securitised liabilities	4,335	3,905
subordinated capital	122	130
• Financial liabilities measured at amortised cost	243,298	253,936
– liabilities to banks	75,485	82,440
– liabilities to customers	88,546	88,309
– securitised liabilities	72,298	75,563
– liabilities from disposal groups	25	28
– subordinated capital	6,943	7,596
• Negative fair values from derivative financial instruments (hedge accounting)	2,009	2,498

¹ Not including deductions of risk provisions.

² Adjustment of comparative value.

(39) Reclassification of financial assets

Pursuant to the IASB's amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets and to EU Commission Regulation 1004/2008, selected available-for-sale and held-for-trading assets were reclassified by BayernLB as loans and receivables as at 1 July 2008. There were no further reallocations during the reporting period.

The fair values and the carrying amounts of the reclassified securities broken down by category at the end of the reporting period in accordance with IAS 39 in conjunction with IFRS 7.12A (b) were:

EUR million	Fair value	Carrying amount	Fair value	Carrying amount
	30 Jun 2011	30 Jun 2011	31 Dec 2010	31 Dec 2010
Available-for-sale securities reclassified as loans and receivables	22,966	23,432	25,641	26,356
Held-for-trading securities reclassified as loans and receivables	170	175	180	187
Total	23,135	23,607	25,820	26,543

The nominal volume of reclassified securities was EUR 25,063 million as at the balance sheet date (31 December 2010: EUR 28,100 million).

In the following table, in accordance with IAS 39 in conjunction with IFRS 7.12A, the changes in value recognised and not recognised in profit or loss, and current income "without reclassification" are compared with the corresponding "with reclassification" values. All effects on earnings including current earnings components have been recognised.

EUR million	Without reclassification ¹	With reclassification ²	Without reclassification ¹	With reclassification ²
	1 Jan–30 Jun 2011	1 Jan–30 Jun 2011	1 Jan–30 Jun 2010	1 Jan–30 Jun 2010
Reclassification from the available-for-sale category				
• Net interest income	222	215	232	232
• Gains or losses on hedge accounting	–39	–39	48	48
• Gains or losses on financial investments	4	–19	–112	–110
• Change in the revaluation surplus	280	134	763	300
Total	466	291	931	470
Reclassification from the held-for-trading category				
• Net interest income	–	2	– ³	2
• Gains or losses on fair value measurement	4	–	1 ³	–
Total	4	2	1	2

¹ Taking account of former categories.

² Taking account of categories after reclassification.

³ Adjustment of comparative value.

(40) Financial instruments measured at fair value

The following table shows the basis on which the fair values of the financial instruments recognised in the balance sheet at fair value were calculated. A division is made into the following three-level hierarchy:

- Level 1:
Measurement is conducted using prices quoted on active markets (no adjustments).
- Level 2:
Fair value is calculated using measurement methodology whose measurement parameters are observable either directly (as prices) or indirectly (derived from prices) and do not come under level 1.
- Level 3:
Fair value is calculated using measurement methodology whose key measurement parameters are not based on observable market data.

EUR million	Level 1		Level 2		Level 3		Total	
	30 Jun 2011	31 Dec 2010	30 Jun 2011	31 Dec 2010	30 Jun 2011	31 Dec 2010	30 Jun 2011	31 Dec 2010
Assets								
• Cash reserves	1,173	548	–	–	–	–	1,173	548
• Loans and advances to banks	–	–	60	64	–	–	60	64
• Loans and advances to customers	–	–	870	883	–	–	870	883
• Assets held for trading	7,558	3,965	27,119	36,428	536	531	35,212	40,924
• Positive fair values from derivative financial instruments (hedge accounting)	–	–	3,332	4,062	–	–	3,332	4,062
• Financial investments ¹	8,039	7,886	7,232	8,705	4,513	3,240	19,783	19,832
Total	16,770	12,399	38,611	50,141	5,049	3,772	60,430	66,312
Liabilities								
• Liabilities to banks	–	–	634	731	–	–	634	731
• Liabilities to customers	–	–	3,418	3,425	–	–	3,418	3,425
• Securitised liabilities	621	621	3,715	3,284	–	–	4,335	3,905
• Liabilities held for trading	592	361	21,410	29,948	510	610	22,511	30,918
• Negative fair values from derivative financial instruments (hedge accounting)	–	–	2,009	2,498	–	–	2,009	2,498
• Subordinated capital	–	–	122	130	–	–	122	130
Total	1,212	982	31,306	40,017	510	610	33,028	41,608

¹ Excluding participations.

During the reporting period, financial investments totalling EUR 53 million were reclassified from Level 2 to Level 1, as it was once again possible to measure these using prices quoted on active markets. Furthermore, financial investments totalling EUR 498 million were reclassified from Level 2 to Level 3, as measurement parameters for these investments are no longer observable on the market.

(41) Financial instruments designated at fair value through profit or loss

The maximum default risk for loans and receivables in the fair value option category was EUR 871 million (31 December 2010: EUR 894 million) at the end of the reporting period. Rating-related changes in the fair value of these financial assets in the reporting period were EUR –1 million (30 June 2010: EUR 5 million¹), and EUR 2 million (30 June 2010: EUR 3 million¹) since designation.

For financial liabilities in the fair value option category, the rating-related changes in fair value in the reporting period were EUR 5 million (30 June 2010: EUR –26 million), and EUR 26 million (30 June 2010: EUR –23 million) since designation. The difference between the carrying amount of the financial liabilities and the redemption amount at maturity is EUR 211 million (31 December 2010: EUR 342 million).

The credit rating-related changes in fair value are determined by subtraction, in which the fair value based on the credit spreads at the end of the reporting period is compared with the fair value based on the credit spreads at the beginning of the reporting period.

(42) Derivatives transactions

The table below shows interest rate and foreign currency-related derivatives and other forward transactions and credit derivatives not yet settled as at the balance sheet date. Most were concluded to hedge fluctuations in interest rates, exchange rates or market prices or were trades on behalf of customers.

EUR million	Nominal value		Positive fair value	Negative fair value
	30 Jun 2011	31 Dec 2010	30 Jun 2011	30 Jun 2011
Interest-rate risks	1,459,992	1,556,894	21,245	19,898
Currency risks	129,607	134,758	3,664	3,047
Equity and other price risks	2,977	2,608	344	406
Credit derivative risks	12,528	12,050	1,939	559
Total	1,605,103	1,706,310	27,192	23,910
of which:				
Derivatives for trading purposes	1,552,876	1,652,379	22,620	20,918

¹ Adjustment of comparative value.

Supplementary information

(43) Trust transactions

EUR million	30 Jun 2011	31 Dec 2010
Assets held in trust	12,275	11,895
• Loans and advances to banks	112	120
• Loans and advances to customers	6,075	6,222
• Other assets	6,089	5,552
Liabilities held in trust	12,275	11,895
• Liabilities to banks	23	24
• Liabilities to customers	6,164	6,318
• Other liabilities	6,089	5,552

(44) Contingent liabilities and other liabilities

EUR million	30 Jun 2011	31 Dec 2010
Contingent liabilities	12,595	14,131
• Liabilities from guarantees and indemnity agreements	12,487	14,105
• Liabilities from collateral furnished for third-party liabilities	108	26
Other liabilities	24,936	29,217
• Placement and underwriting commitments	101	155
• Irrevocable loan commitments	24,835	29,062
Total	37,532	43,348

(45) Administrative bodies of BayernLB

Board of Administration

Georg Fahrenschon

Chairman
State Minister
Bavarian State Ministry of Finance
Munich

Alexander Mettenheimer

First Deputy Chairman
Former banker
Munich

Walter Strohmaier

Second Deputy Chairman
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Dr. Michael Bauer

Deputy Secretary
Bavarian State Ministry of Finance
Munich

Professor Dr. Georg Crezelius

Professor
University of Bamberg
Bamberg

Dr. Dr. Axel Diekmann

Partner of the
Verlagsgruppe Passau GmbH
Passau

Ralf Haase

since 16 August 2011
Chairman of the General Staff Council
since 1 August 2011
BayernLB
Munich

Joachim Herrmann

State Minister
Bavarian State Ministry of the Interior
Munich

Diethard Irrgang

until 16 August 2011
Chairman of the General Staff Council
until 31 July 2011
BayernLB
Munich

Dr. Klaus von Lindeiner-Wildau

Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Hans Schaidinger

Lord Mayor
Regensburg

Martin Zeil

State Minister
Bavarian State Ministry of Economic Affairs,
Infrastructure, Transport and Technology
Munich

Board of Management (including allocation of responsibilities from 1 May 2011)

Gerd Haeusler

Chief Executive Officer
Corporate Center Central Area
(excluding Group Compliance)

Dr. Edgar Zoller

Deputy Chief Executive Officer
since 1 May 2011
Real Estate &
Savings Banks/Association Business Area
Bayerische Landesbodenkreditanstalt¹
Bayerische Landesbausparkasse¹

Jan-Christian Dreesen

Corporates, Mittelstand &
Retail Customers Business Area

Marcus Kramer

Risk Office Central Area
Restructuring Unit Central Area
Group Compliance

Stephan Winkelmeier

Financial Office & Operations Central Area
Eastern Europe segment

Nils Niermann

Markets Business Area
IT Central Area

Stefan Ermisch

until 30 April 2011
Deputy Chief Executive Officer
until 30 April 2011

¹ Institution of the Bank.

(46) Related party disclosures

Relationships with the Free State of Bavaria

EUR million	30 Jun 2011	31 Dec 2010
Loans and advances	3,557	3,184
Assets held for trading	1,913	2,138
Liabilities	135	220
Liabilities held for trading	3	6
Liabilities held in trust	5,634	5,753
Contingent liabilities	2	2

Relationships with investees

EUR million	30 Jun 2011	31 Dec 2010
Loans and advances to banks	2,104	2,203
Loans and advances to customers	470	389 ¹
Risk provisions	64	65 ¹
Assets held for trading	79	71
Financial investments	2,521	2,422
Non-current assets and disposal groups held for sale	15	15
Other assets	25	28 ¹
Liabilities to banks	751	897
Liabilities to customers	77	60 ¹
Securitised liabilities	491	407
Liabilities held for trading	22	31
Negative fair values from derivative financial instruments (hedge accounting)	21	26
Provisions for the credit business	1	2
Other liabilities	2	3
Subordinated capital	13	14
Contingent liabilities	27	28 ¹
Other liabilities	16	26 ¹

¹ Adjustment of comparative value.

Loans and advances to other related parties stood at EUR 25 million at the end of the reporting period (31 December 2010: EUR 29 million).

With the exception of the guarantee agreement with the Free State of Bavaria (“Umbrella”), business with related parties is transacted in the course of ordinary activities at standard market conditions.

(47) Events after the balance sheet date

On 21 July 2011 the heads of state and government of the euro member countries reached agreement at a summit meeting on the main elements of a new support package for Greece involving voluntary participation by private-sector creditors.

Responsibility statement by the Board of Management

To the best of our knowledge, and in accordance with the applicable principles for interim financial reporting, the consolidated interim financial statements give a true and fair view of the financial performance and financial position of the Group, and the interim consolidated management report contains a fair review of the development and performance of the business and the position of the Group, including the principal opportunities and risks associated with the expected performance of the Group.

Munich, 23 August 2011

Bayerische Landesbank
The Board of Management

Gerd Haeusler

Dr. Edgar Zoller

Jan-Christian Dreesen

Marcus Kramer

Stephan Winkelmeier

Nils Niermann

Review Report

To Bayerische Landesbank, Munich

We have reviewed the condensed consolidated interim financial statements – comprising the statement of comprehensive income (including income statement), the statement of financial position, statement of changes in equity, condensed statement of cash flows and selected explanatory notes – and the interim group management report of the Bayerische Landesbank for the period from 1st January, 2011 to 30th June, 2011 which are part of the half-year financial report pursuant to § (Article) 37w WpHG (“Wertpapierhandelsgesetz”: German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company’s Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Munich, 23 August 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Sven Hauke
Wirtschaftsprüfer
(German Public Auditor)

ppa. Dr. Andreas Russ
Wirtschaftsprüfer
(German Public Auditor)