

As a result of the extensive realignment of the credit book in 2002 and 2003, **risk provisions** improved significantly in the first half of 2004 (budget value of EUR -250 million largely unsubstantiated after pro rata actual value of EUR -477 million in 2003). As per 30 June 2004, the **revaluation result** amounted to EUR -78 million (previous year: EUR -26 million). This was primarily due to the further eradication of unrealised losses in participations. Irrespectively of achievements to date, we will continue to systematically implement the adjustments still required in the credit book and participations portfolio this year as well.

The **operating profit** is EUR 359 million, a year-on-year increase of 31.4%. The Global Markets business area and the consolidated subsidiaries made above-average contributions to this profit (see segment report).

Business development

The 5.7% growth in the **consolidated balance sheet total** in the first half of 2004 (EUR 18.0 billion) to EUR 331.4 billion is primarily a result of the measures to increase liquidity for new liabilities in the period following the discontinuation of the state liability instruments from mid-2005.

Customer deposits increased by 4.8% to EUR 68.5 billion and **securitised liabilities** rose by 7.8% to EUR 103.0 billion. New funds were invested both on the interbank market (+ EUR 16.2 billion to EUR 121.9 billion) and in fixed income securities (+ EUR 3.8 billion to EUR 61.4 billion).

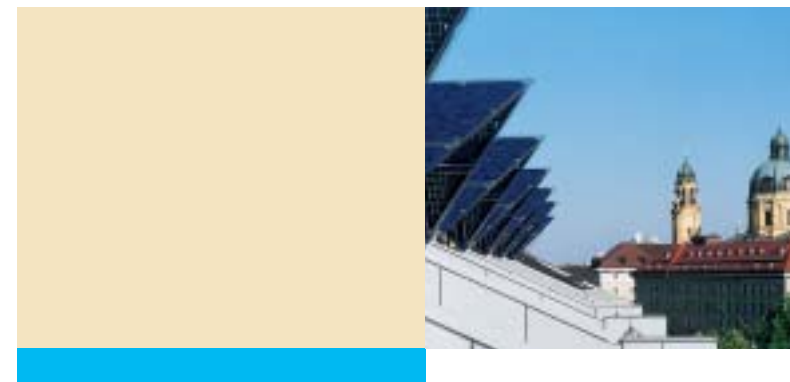
Amounts due from customers in the Group declined slightly (-1.4% to EUR 127.0 billion), with increases in this item at subsidiaries being more than offset by the further decline at the Bank.

Equity increased slightly by 1.0% to EUR 17.4 billion. As a result of the ongoing reduction of risk assets in the first half of 2004, there was further improvement in the equity ratios of BayernLB. The core capital ratio rose from 7.8%

to 8.2%, the equity ratio (overall ratio) is 12.1% (as per 31 December 2003: 11.3%).

Outlook for the annual result in 2004 as a whole

For the whole of 2004, we do not anticipate any major deviations from the trend observed over the first six months, and so we expect a higher operating profit than last year's. Now that the measures for improving the cost and risk situation at the Group are bearing visible fruit, our efforts will be focussing on stabilising earnings and increasing them successively. We are confident that we will be able to achieve this together with the Bavarian savings banks and the other partners in the Sparkassen-Finanzgruppe Bayern.



Interim report as per 30 June 2004

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Performance	1/1 – 30/6/2004 EUR m	6/12 of 2003 EUR m	Change in %
Net interest income	1,063	1,085	-2.0
Net commission income	172	171	0.6
Administrative expenses	-595	-593	0.4
Net result from financial transactions	34	52	-35.7
Balance of other operating expenses and income	13	61	-76.6
Risk provisions	-250*	-477	-47.4
Revaluation result	-78	-26	> 100.0
Operating profit	359	273	31.4
Cost-income ratio (CIR)	46.9%	45.3%	3.5 (1.6 pp**)
Return on equity (RoE)	9.2%	4.9%	87.8 (4.3 pp**)

Balance sheet figures	30/6/2004 EUR bn	31/12/2003 EUR bn	Change in %
Total assets	331.4	313.4	5.7
Lending volume	229.3	224.0	2.4
Total deposits	194.2	185.2	4.8
Securitized liabilities	103.0	95.6	7.8
Equity disclosed	17.4	17.2	1.0

Derivatives business	30/6/2004 EUR bn	31/12/2003 EUR bn	Change in %
Nominal volume	1,054.0	934.2	12.8
Credit risk equivalent (after netting)	3.6	4.5	-21.3

Key banking regulatory ratios pursuant to the German Banking Act	30/6/2004	31/12/2003	Change in %
Core capital ratio	8.2%	7.8%***	5.1 (0.4 pp**)
Equity ratio (at Group level)	12.1%	11.3%***	7.1 (0.8 pp**)

Number of employees	30/6/2004	31/12/2003	Change in %
Bank	5,282	5,543	-4.7
Group	8,848	9,061	-2.4

* Planned figure, currently non fully substantiated

** Percentage points

*** Based on balance sheet figures

Ladies and Gentlemen,

Bayerische Landesbank (BayernLB) took steps early to prepare for the adjustments to be made from mid-2005 to the framework conditions applicable to operations of German landesbanks and is introducing (or already carrying out) **thorough modifications to its business model**. The 2003 figures and the interim results for the first half of 2004 show that BayernLB is on the right track. Thus, it was possible for the Bank to sharply reduce the two critical spending factors, “net risk provisions” and “administrative expenses”, while keeping revenues stable. Our focus is now on an additional stabilisation of earnings.

In implementing the new business model, the **selective enhancement of the market position** of BayernLB as a bank for

- medium- and large-sized corporate customers
- institutional and real estate customers
- savings banks
- syndicate partners
- Bavarian local governments, the Free State of Bavaria and non-Bavarian local and national governments
- and specific private customers

is one of the Bank’s basic strategic duties. From a regional perspective, the Bank will lay even greater emphasis in the future on the core market of Bavaria and the bordering regions. Moreover, BayernLB will continue to serve its customers in selected economic and financial centres around the world (London, Paris, Milan, New York, Hong Kong and Shanghai).

A major feature of BayernLB’s new strategy is the intensified cooperation within the **Sparkassen-Finanzgruppe Bayern**. Thus, the Association of Bavarian Savings Banks and BayernLB signed a framework agreement on their collaboration as a basis for a market development together with the savings banks and for the establishment and use of a joint centre of competence. Building on this, BayernLB has already succeeded in concluding individual agreements with more than 85% of the Bavarian savings banks (as per 31 July 2004).

In order to adapt business activities and achieve the Bank’s cost targets in Germany and abroad, BayernLB will systematically continue to implement its restructuring programme and, by the end of 2004, will have largely completed key measures originally planned to the end of 2006. This comprises the **concentration of the foreign business** and the **extensive finalisation** of layoff measures. The Singapore, Labuan, Tokyo and Toronto branches and BLB Asia Pacific Ltd. will be closed down in 2004 with operations being transferred to the Hong Kong, Shanghai and New York branches in charge. Following the layoffs of around 600 employee capacities (FTE) in 2003, approx. 400 FTE will be cut this year, both in Germany and abroad (excluding LBS and Landesbodenkreditanstalt) – around half of which abroad.

BayernLB feels that the progress of its strategic reorientation has been borne out by the “A” grade **unguaranteed rating** by the agencies Standard & Poor’s (S&P) and Fitch Ratings published in July 2004. BayernLB will continue to systematically implement its strategic reorientation in order to achieve its desired target rating of **A + minimum** with all agencies. Our two owners, the Free State of Bavaria and the Bavarian savings banks, have given us their full support in this.

Sincerely,
The Board of Management

Segment report

Figures in EUR m	Corporates	Real Estate	Global Markets	Financial Institutions & Sovereigns	Savings Banks, Bavarian Municipals/ Corporates	Labo/LBS	Subsidiaries	Other/ Consolidations	Group
Net interest income	205	104	294	53	40	127	364	-124	1,063
Net commission income	47	14	16	21	6	14	48	8	172
Administrative expenses	-66	-22	-161	-21	-40	-78	-173	-34	-595
Net result from financial transactions	1	0	17	2	6	0	9	0	34
Other operating result	-1	0	-2	0	0	4	6	7	13
Risk provision/ revaluation result *)	-72	-79	29	-9	-25	-9	-112	-52	-328
Operating profit	114	17	192	45	-14	58	141	-195	359
Segment assets	41,697	20,374	121,367	40,967	36,277	22,062	59,776	-11,083	331,438
Segment liabilities	40,316	19,806	120,136	40,638	35,912	20,077	57,078	-8,971	324,992
Risk positions	33,975	13,960	30,259	8,090	8,977	4,209	34,240	-2,398	131,312
Equity capital disclosed	1,382	568	1,230	329	365	1,985	2,698	-2,111	6,446
Return of equity (RoE) **)	14.9%	6.1%	49.4%	25.8%	-7.1%	9.5%	13.9%	-	9.2%
Cost-income ratio	26.0%	18.6%	39.1%	28.2%	77.6%	55.4%	41.2%	-	46.9%
Employees	228	143	478	100	231	867	3,426	2,913	8,386

* Planned figure, currently not fully substantiated

** Based on avg. equity capital disclosed

Performance and business development in the first half of 2004

Performance development

BayernLB performed well in the first half of 2004 with an **improvement in operating profits of almost one third** as against the pro rata value for the previous year. A key factor in this was the impressive results of the subsidiaries, as well as the risk policy and measures of previous years.

The slight decline in **net interest income** (-2.0% to EUR 1,063 million) reflects the further reduction of receivables (EUR -1.8 billion) as well as the fact that all liquidity gaps in the maturity range to 2005 were closed with a view to the new liabilities entered into after the discontinuation of the liability instruments on 18 July 2005. New business is being fully refinanced at matching maturities, measures to increase liquidity are being implemented. While this strategy is hurting net interest income for the current year, it is helping BayernLB to secure its liquidity and revenues in the long term from mid-2005 on. At EUR 172 million, **net commission income** rose slightly by 0.6%.

As per 30 June 2004, the **net result from financial transactions** amounted to EUR 34 million – down EUR 18 million on the same period of the previous year. However, we are forecasting a stronger positive contribution in the second half of 2004.

Despite the continued expansion of the Group subsidiaries, whose operations lie chiefly within the retail business, **administrative expenses** were contained at the previous year’s level, which itself had already been sharply reduced (1H03 to 1H02: -15.2 percent). The continuing scheduled personnel reduction at the Munich head office and at the foreign branches and representative offices kept the Bank’s costs in check, allowing it to almost maintain the corresponding figure for the previous year (+0.4% to EUR 595 million).