Expenditure on **risk provisioning and revaluation measures** amount to EUR 11 million, after a figure of EUR 280 million in the comparable period of the previous year. The latter amount reflected streamlining measures in the credit and participations portfolio in the 2004 financial year.

The **operating profit** totals EUR 596 million, thus EUR 189 million (46.4 percent) in excess of the previous year's figure.

In the first half of 2005, the BayernLB Group more than met its target results, particularly with regard to its RoE target of 15 percent before taxes and including partial profit utilisation (interest on silent capital contributions). Thus, as per the reporting date of 30 June 2005, the return on equity is 15.7 percent, compared with 9.2 percent in 2004.

Business development

The **consolidated balance sheet total** grew by 7.8 percent to reach EUR 359 billion. There were increases in both **interbank liabilities** (up 6.1 percent to EUR 134.8 billion) and, particularly pleasingly, in **customer deposits** (up 6.3 percent to EUR 74.8 billion). Sales of **securitised liabilities** continued to develop successfully, rising by EUR 12.7 billion to EUR 116.5 billion since year-end.

Additional funds raised were invested primarily in **securities,** leading to a EUR 17.5 billion increase in the securities portfolio to EUR 82.2 billion. **Amounts due from banks** rose by EUR 6.5 billion to EUR 131.2 billion. **Amounts due from customers,** similarly, were up slightly (by 0.6 percent), totalling EUR 128.6 billion as at 30 June 2005.

Capital ratios fell due to the increase in risk assets, while equity remained practically unchanged at EUR 16.6 billion. The **core capital ratio** fell by 0.7 percentage points to 7.6 percent; the **equity ratio** (at Group level) stands at 11.2 percent (12.5 percent as at 31 December 2004).

Outlook for the financial year

Extraordinary charges, such as those experienced in 2004 due to the provisions set up for the restitution of EUR 320 million to the Free State of Bavaria in the context of the EU state aid proceedings, are not anticipated. For this reason, we expect an operating profit in excess of EUR 1 billion for the 2005 financial year, alongside a net income for the year of over EUR 500 million. From today's standpoint, the return on equity before tax and including partial profit utilisation will also exceed the target of 15 percent for 2005 as a whole.

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Bayern LB

Group Interim Report

as per 30 June 2005

Finanzgruppe Bayern

Bayern LB

BayernLB Group – first half of 2005 at a glance

Performance

(EUR million)	01.01.– 30.06.2005	01.01.– 30.06.2004	Change in %
Net interest income	1,037	1,063	−2.4
Net commission income	169	172	−1.6
Administrative expenses	−663[1)]	−595	11.5
Net result from financial transactions	53[2)]	34[2)]	54.5
Balance of other operating expenses and income	11	13	−22.1
Risk provisions / revaluation result	−11	−280[3)]	−96.1
Operating profit	**596**	**407**	**46,4**
Net income for the year	**334**	**(49[4)])**	
Cost-income ratio[5)]	49.3 %	46.4 %	2.9 pp
Return on equity (RoE)	15.7 %	9.2 %	6.5 pp

Balance sheet figures

(EUR billion)	30.06.2005	31.12.2004	Change in %
Total assets	359.0	333.1	7.8
Credit volume	239.2	242.0	−1.1
Total deposits	209.6	197.4	6.2
Securitised liabilities	116.5	103.8	12.2
Equity disclosed	16.6	16.7	−0.5

Key banking regulatory ratios pursuant to the German Banking Act

	30.06.2005	31.12.2004	Change
Core capital ratio[6)]	7.6 %	8.3 %	−0.7 pp
Equity ratio (at Group level)	11.2 %	12.5 %	−1.3 pp

Number of employees

	30.06.2005	31.12.2004	Change in %
BayernLB	4,970	5,047	−1.5
Group	8,876	8,940	−0.7

1) Includes one-off expenditure on projects necessitated by statutory requirements (e.g. Basel II, IFRS) (immediate expenditure totalling EUR 37 million, no capitalisation)
2) Imparity principle applied pursuant to the German Commercial Code (HGB)
3) Pro rata value for ease of comparison
4) Previous year's figure not comparable. Pro rata value of EUR 49 million calculated in consideration of the state aid expenditure of EUR 320 million a year as well as restructuring expenses of EUR 38 million a year
5) Administrative expenses / income from operational banking business (previous year's value adjusted); in 2005 excludes one-off expenditure on projects necessitated by statutory requirements (e.g. Basel II, IFRS)
6) Does not include the capital increase totalling EUR 320 million carried out on 1 August 2005

Ladies and Gentlemen,

Tuesday, 19 July 2005 is an important day for all German landesbanks and savings banks: it was on this day that public-sector banks lost their state guarantees, namely *Gewährträgerhaftung* (guarantee obligation) and *Anstaltslast* (maintenance obligation). All major rating agencies have awarded BayernLB ratings in the A category for their newly created unsecured liabilities. Grandfathered liabilities created on or before 18 July 2005, with terms which do not extend past 31 December 2015, retain their existing rating.

The following ratings apply for the unguaranteed, unsecured liabilities of BayernLB:

	long-term:	short-term:
• Standard & Poor's:	A flat	A-1
• Moody's:	Aa2	Prime-1
• FitchRatings:	A+	F1+

At the beginning of April of this year, Standard & Poor's awarded an AAA rating to BayernLB's public-sector covered bonds (*pfandbriefe*), which are of considerable importance for the Bank's future funding. This, the highest rating, continues to be valid for new issues after 18 July 2005. In July 2005, Fitch confirmed BayernLB's *pfandbrief* rating of AAA. Moody's, meanwhile, indicated an unchanged Aaa rating for future *pfandbrief* issues, based on BayernLB's unguaranteed long-term Aa2 rating.

These new ratings, particularly Standard & Poor's recent upgrade from the previous A- to A flat, are evidence of our successful endeavours of recent years in terms of the transformation of our business model:

Strategically, the Bank has developed into a wholesale bank that focuses on core regions and collaborates closely with the Bavarian savings banks and partners of the *Sparkassen-Finanzgruppe Bayern*. Market development activities are supplemented by the Group's strategic subsidiaries, such as DKB AG, SaarLB, MKB, Banque LBLux and LB(Swiss). These companies are entrusted with a considerable share of the Group's retail activities. Concentrating on its core competencies, the Bank aims to grow in its target markets of Bavaria, the neighbouring regions, and selected financial centres. As part of this process, the credit portfolio is being systematically geared towards income and risk aspects. The Bank's new marketing image as BayernLB introduced at the beginning of the year is a visible expression of this change.

It remains the explicit aim of the Bank to achieve a rating of at least A+ in the medium term from Standard & Poor's. Against this backdrop, it will be important to exploit market opportunities – in association with the Bavarian savings banks – and thus to enhance the Bank's earnings position further. Given the fact that BayernLB's owners (the Free State of Bavaria – the only federal state with an AAA / Aaa rating – and the Bavarian savings banks) fully support its chosen course, the Bank is extremely well equipped to approach this task. Measures initiated by the owners of BayernLB, namely the capital increase and Bavarian regional guarantee fund, will help to build on BayernLB's excellent position. Both of these initiatives illustrate the close relationship between the Bank and its owners, particularly the Bavarian savings banks.

Sincerely,
The Board of Management

Segment Report

(EUR million)	Corporates	Real Estate	Financial Markets	Financial Institutions & Sovereigns	Savings Banks & Bavarian Markets	Labo / LBS	Con-solidated Subsidiaries	Other / Consoli-dation	Group
Net interest income	204	108	140	51	51	130	393	−40	1,037
Net commission income	41	16	12	15	20	9	61	−5	169
Administrative expenses	−75	−47	−158	−25	−85	−74	−197	−2	−663
Result from financial transactions	0	0	36	0	3	0	14	0	53
Other operating result	1	0	2	0	0	3	0	5	11
Risk provisioning / revaluation result	114	−16	−37	0	0	−8	−45	−19	−11
Operating Result	**286**	**60**	**−4**	**41**	**−11**	**60**	**225**	**−61**	**596**
Segment assets	32,040	16,768	136,853	38,245	32,934	22,515	66,458	13,220	359,033
Segment liabilities	30,486	16,122	135,851	37,855	32,541	21,101	63,183	16,085	353,224
Risk positions	34,441	13,361	35,772	9,413	9,398	3,725	33,244	156	139,510
Av. equity capital disclosed	1,604	667	1,034	402	406	1,414	3,305	−2,889	5,943
Return on equity (RoE in %)	35.6%	17.9%	−0.8%	20.4%	−5.6%	8.5%	12.4%	–	15.7%
Cost-income ratio (%)	30.3%	38.4%	83.0%	38.1%	114.9%	51.9%	42.2%	–	49.3%*
Staff capacity	224	142	449	101	312	821	3,770	2,586	8,406

* Cost-income ratio (%) does not include one-off expenditure on projects necessitated by statutory requirements (e.g. IFRS, Basel II)

Performance and business development in the first half of 2005

Performance development

Performance during the first half of 2005 was marked by **an almost 50 percent increase in operating profit** against the comparable period of the previous year. This was due to considerably curtailed expenditure on risk provisioning and revaluation measures – the fruit of extensive streamlining of the credit and participations portfolio in previous years.

The resulting systematic reduction of risk assets, however, led to a slight decline in **net interest income** by the middle of the year (by 2.4 percent to EUR 1,037 million). New credit business has been approached with renewed vigour since the beginning of 2005, in tandem with the Bavarian savings banks and with strict regard for the specified customer and portfolio limits. **Net commission income** amounts to EUR 169 million, thus matching the previous year's level (EUR 172 million).

At EUR 53 million, the **net result from financial transactions** was up 54.5 percent on the comparable period of the previous year (applying the imparity principle).

Meanwhile, **administrative expenses** of EUR 663 million were posted (previous year: EUR 595 million, up EUR 68 million). This increase is due in particular to one-off factors resulting from the necessary implementation of large-scale IT projects dictated by statutory requirements (Basel II/IFRS), as well as global modernisation of IT systems, e.g. in the Financial Markets Division.