

Return on Equity (ROE) amounted to 15.2 percent for the first half of 2006, so that it was in line with the target figure (> 15 percent). The **cost-income ratio** improved slightly to 49.1 percent from 50.9 percent the year before.

Balance sheet

Consolidated total assets rose slightly by 2.6 percent to EUR 349.7 billion compared to year-end 2005. Although **amounts due from banks** fell by EUR 2.3 billion to EUR 114.1 billion, **amounts due from customers** increased by EUR 5 billion to EUR 132.3 billion and **investments in securities** rose by EUR 4.0 billion to EUR 82.4 billion. On the liabilities side, **amounts due to banks** were up by EUR 10.9 billion to EUR 129.4 billion. **Customer deposits** were down slightly as at the end of the first half by EUR 0.4 billion to EUR 77.4 billion. **Securitised liabilities** were also down by EUR 4.8 billion to EUR 106.7 billion.

Equity, which was down marginally by EUR 0.2 billion to EUR 16.6 billion on 30 June 2006, received a EUR 320 million top-up on 1 July 2006, representing the second tranche of the capital increase agreed on the year before. Taking this amount into account, the **core capital ratio** was 7.5 percent and the **equity ratio** was 10.5 percent.

Outlook for the full year

Operating income is expected to exceed EUR 1 billion again in 2006. This year, BayernLB will again set aside an additional amount to fund its unmet pension obligations under IAS rules. Under HGB (German Commercial Code) accounting rules, the additional amount is a voluntary contribution. Based on current estimates, annual net income after this provision should amount to roughly EUR 500 million.

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Group Interim Report

as per 30 June 2006

BayernLB Group – first half of 2006 at a glance

Income statement

EUR million	01. 01.– 30. 06. 2006	01. 01.– 30. 06. 2005 ¹⁾	Change in %
Net interest income	998	997	0.1
Net commission income	175	169	3.2
Administrative expenses	-767	-709	8.2
Net result from financial transactions	110	53	>100
Net of other operating income and expenses	181	102	77.2
Risk provisions/ revaluation	-76	-11	>100
Operating income	621	601	3.2
Group net income	234	213	10.3
Cost-Income-Ratio ²⁾	49.1%	50.9%	-1.8 pp
Return on Equity (RoE)	15.2%	15.7%	-0.5 pp

Balance sheet

EUR billion	30. 06. 2006	31. 12. 2005	Change in %
Total assets	349.7	340.9	2.6
Credit volume	238.5	236.5	0.9
Total deposits	206.8	196.2	5.4
Securitised liabilities	106.7	111.4	-4.3
Equity disclosed	16.6	16.8	-1.2

German Banking Act capital ratios

	30. 06. 2006 ³⁾	31. 12. 2005	Change
Core capital ratio	7.5%	7.7%	-0.2 pp
Equity ratio	10.5%	11.1%	-0.6 pp

Number of employees

	30. 06. 2006	31. 12. 2005	Change in %
BayernLB	5,082	5,039	0.9
Group	9,987	9,754	2.4

¹⁾ Previous year's figures adjusted for DKB subgroup and extraordinary increase in the pension provisions

²⁾ Without one-off expenditure amounting to EUR 48 million (EUR 37 million year before) necessitated by statutory requirements (e.g. Basel II, IFRS)

³⁾ Includes capital increase of EUR 320 million as per 1 July 2006

Ladies and Gentlemen,

BayernLB Group has got off to a solid start in 2006. We are on schedule with the implementation of our new business model. This has been possible due to our focus on our core competences: Drawing on our extensive product knowledge and market know-how to provide our customers with professional, tailor-made financial solutions. The results can be seen in two of the most important criteria: Higher profitability and strict control of risk costs.

BayernLB's current long-term, unguaranteed ratings from Standard & Poor's (A), Moody's (Aa2) and Fitch-Ratings (A+) confirm the success of our new business model. Two of the ratings agencies recently upgraded their ratings: Fitch raised its individual rating from D+ to C, while Moody's increased the Bank's outlook to positive. Moreover, BayernLB has an AAA rating from all three ratings agencies for both its public and mortgage-backed Pfandbriefe.

BayernLB has positioned itself as a bank focused on core regions such as its home market Bavaria, which it serves in close partnership with the Bavarian savings banks and other partners in the Sparkassenfinanzgruppe. To further strengthen our cooperation with the Bavarian savings banks, we have developed new business segments in terms of products and customers. We now have cooperative market development agreements with 75 of the 77 Bavarian savings banks. As a result, customers of these savings banks now have access to the extensive expert knowledge available in joint competence centers along with the entire range of BayernLB's products right in their own hometown savings bank.

In addition, BayernLB's business activities are focused selectively on Germany and bordering fast-growing markets. For example, our Hungarian subsidiary, MKB, will further strengthen its role as a bridgehead

into eastern Europe through selected acquisitions in Bulgaria and Romania. We feel that the growing integration and dynamic economic development of the Central and Eastern European (CEE) countries open up new vistas for BayernLB to grow and prosper.

Other core regions include international business and financial centres and emerging markets in Asia. Our German Centre in Shanghai together with our foreign office there serve to open the door to the Chinese markets for small and medium-sized enterprises (SMEs). By means of new partnerships with selected banks which are leaders in their home markets, we are able to offer our customers broad access to financial services and know-how in regions where BayernLB is not present with its own office. Examples of partnership agreements which have been signed so far this year include the Russian JSC Bank of Moscow and the Indian ICICI Bank Ltd. Additional

opportunities to expand our services in rapidly growing markets are being examined.

Strategic subsidiaries represent another crucial element in our strategy to tap earnings potential. In addition to MKB, BayernLB Group subsidiaries include SaarLB, LBLux, LBSwiss and Deutsche Kreditbank (DKB). These subsidiaries primarily develop growth opportunities in the retail market.

Sincerely,
The Board of Management

Performance and business development in the first half of 2006

Income statement

In the first half of 2006, the BayernLB Group was able to build on the good performance of the same period the year before. Operating income rose 3.2 percent to EUR 621 million.

Despite increased demand for loans, **net interest income** remained virtually unchanged at EUR 998 million compared to EUR 997 million in the same period the year before. Margins remained under pressure, particularly for loans to companies with good to very good credit ratings. **Net commission income** likewise did not change very much, rising slightly by EUR 6 million to EUR 175 million.

Major projects to implement statutory requirements such as IAS/IFRS and Basel II continued to weigh on **administrative expenses** in 2006. Driven primarily by non-personnel costs, administrative expenses rose 8.2 percent to EUR 767 million.

The **result from financial transactions** doubled year-on-year to EUR 110 million. The results include the release of some reserves established the year before.

Tax refunds contributed decisively to the sharp rise in the **net of other operating income and expenses** item (up 77.2 percent to EUR 181 million).

Expenses for **risk provisioning and revaluation measures** increased by EUR 65 million to EUR 76 million. The low amount reflects both the Bank's conservative credit policy as well as the results of the streamlining of the credit portfolio in the years before.

Operating income rose by EUR 20 million to EUR 621 million while net income grew 10.3 percent year-on-year to EUR 234 million.

Segment report

EUR million	Corporates	Real Estate	Financial Markets	Financial Institutions/Sovereigns	Savings Banks and Bavarian Market	Bayern-Labo/LBS Bayern	The Group's Strategic Subsidiaries	Other/Consolidation	Group
Net interest income	169	102	131	57	51	145	378	-34	998
Net commission income	48	18	5	23	31	2	55	-7	175
Administrative expenses	-81	-43	-174	-28	-66	-75	-265	-35	-767
Net result from financial transactions	0	0	89	0	3	0	19	0	110
Other operating income	3	0	14	0	0	3	101	61	181
Risk provisions/revaluation	79	11	-24	9	3	-24	-87	-44	-77
Operating income	218	88	41	60	22	51	201	-60	621
Segment assets	35,210	16,578	129,484	47,342	37,686	23,277	73,205	-13,051	349,732
Segment liabilities	33,692	15,975	128,585	46,844	37,287	21,943	70,508	-11,458	343,377
Risk positions	36,099	14,340	36,156	11,838	9,484	3,750	36,108	2,555	150,330
Ø Segment equity	1,570	624	930	515	413	1,334	2,641	-1,495	6,531
Return on Equity (in %)	25.9%	29.0%	9.3%	23.3%	10.7%	7.1%	13.4%	-	15.2%
Cost-Income-Ratio (%)	36.9%	36.2%	73.0%	35.1%	77.2%	50.0%	47.9%	-	49.1%*
Staff (full-time equivalents)	236	148	464	102	320	809	4,514	2,643	9,236

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