

08

Financial Stability Forum Report

Notes on the BayernLB Group portfolios affected
by the financial market crisis as at 30 June 2008

2 October 2008

 Finanzgruppe Bayern

 Bayern LB



Financial Stability Forum

In light of the ongoing financial market turmoil since the middle of last year, the Financial Stability Forum (FSF), which brings together 26 supervisory authorities (including the German Federal Financial Supervisory Authority, BaFin) from 12 countries and 11 international organisations, has put forward recommendations for increased disclosure aimed at gradually enhancing transparency on the risk situation in regard to structured credit products.

Although disclosure of the information specified by the FSF is not mandatory at this time, BayernLB is putting into practice the main FSF recommendations that apply to its portfolio.

The information on the Asset Backed Securities (ABS) portfolio given in Section I of this presentation complements the “Securitisation transactions and financial market crisis” section of the risk report in the BayernLB Group Interim Report as at 30 June 2008. In addition, Section II provides information on BayernLB’s leveraged finance portfolio and Section III on the exposure entered into with US monoliners, as recommended by the FSF.

I. BayernLB Group ABS portfolio

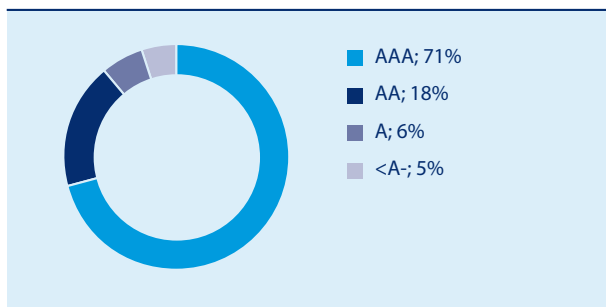
The Bank’s securitisation business is broken down into the following segments:

- Investment in Asset Backed Securities (ABS): BayernLB Group’s ABS portfolio amounted to around EUR 21 billion as at 30 June 2008, approximately 95 percent of which is accounted for by the core bank and around 5 percent relates to its subsidiaries (Hypo Group Alpe Adria, Landesbank Saar and Banque LBLux S.A.).
- Structuring securitisation transactions for BayernLB customers (ABS customer transactions) as part of its credit business with corporate customers and financial institutions: BayernLB Group’s ABS customer transactions amounted to around EUR 6.5 billion as at 30 June 2008 and were conducted exclusively in BayernLB or, more specifically, in conduits set up by the bank.

The amounts cited in connection with the ABS portfolio are nominal volumes of risk positions in the ABS business after hedging transactions.

BayernLB Group global ABS portfolio

Overview of the Group’s ABS portfolio as at 30 June 2008 (and 31 December 2007) by asset categories and rating categories.



Group as at 31 Dec 2007, in EUR million

| | Prime RMBS ⁴ | Non-prime RMBS ⁴ | CDO ² | CMBS ³ | Consumer ABS ¹ | Commercial ABS ¹ | Total |
|---------------|-------------------------|-----------------------------|------------------|-------------------|---------------------------|-----------------------------|-----------------|
| AAA | 7,144.9 | 6,293.5 | 3,544.0 | 2,568.0 | 1,076.2 | 864.2 | 21,490.9 |
| AA | 827.9 | 1,393.7 | 1,017.8 | 367.3 | 39.0 | 14.0 | 3,659.8 |
| A | 285.1 | 119.7 | 164.4 | 118.6 | 50.1 | 27.8 | 765.8 |
| <A- | 49.3 | 25.0 | 226.4 | 23.6 | 24.7 | 37.0 | 386.0 |
| | 8,307.2 | 7,832.0 | 4,952.7 | 3,077.5 | 1,190.1 | 942.9 | 26,302.4 |

1 ABS: Asset Backed Securities

2 CDO: Collateralised Debt Obligations

3 CMBS: Commercial Mortgage Backed Securities

4 RMBS: Residential Mortgage Backed Securities

Group as at 30 June 2008, in EUR million

| | Prime RMBS | Non-prime RMBS | CDO | CMBS | Consumer ABS | Commercial ABS | Total |
|---------------|------------|----------------|---------|---------|--------------|----------------|-----------------|
| AAA | 5,148.3 | 4,379.4 | 2,970.2 | 1,668.7 | 595.2 | 237.0 | 14,998.8 |
| AA | 815.3 | 1,257.1 | 1,118.2 | 343.8 | 66.4 | 49.8 | 3,650.5 |
| A | 279.3 | 511.8 | 206.1 | 114.1 | 112.0 | 92.7 | 1,316.0 |
| BBB | 44.1 | 203.2 | 29.1 | 22.9 | 23.0 | 46.1 | 368.4 |
| BB | 0.0 | 323.6 | 83.9 | 0.0 | 0.0 | 0.0 | 407.5 |
| <BB | 0.0 | 206.1 | 221.9 | 0.0 | 0.0 | 0.0 | 428.1 |
| | 6,286.9 | 6,881.3 | 4,629.4 | 2,149.5 | 796.7 | 425.6 | 21,169.3 |

All ABS securities are consolidated in the consolidated financial statements. There is no ABS risk, either direct or indirect, outside the group of consolidated companies.

The consolidated ABS portfolio of the Group as at 30 June 2008 amounts to approximately EUR 21 billion. This exposure covers risk positions in ABS securities as at 30 June 2008. The ABS portfolio has been reduced by around EUR 5 billion since 31 December 2007. The reduction is the result of repayments (EUR 2 billion), sales (EUR 0.9 billion), hedging transactions (EUR 1.2 billion) and currency translation effects (EUR 0.9 billion).

Impact of the ABS portfolio on the balance sheet and income statement under IFRS⁴:

| EUR million | Recognised through profit or loss ^{1/3} | | Not recognised through profit or loss ^{2/3} | |
|-----------------------|--|-----------------|--|---------------|
| | 30 June 2008 | 31 Dec 2007 | 30 June 2008 | 31 Dec 2007 |
| Asset category | | | | |
| Commercial ABS | -1.0 | -7.5 | -31.2 | -7.2 |
| Consumer ABS | -1.5 | -3.9 | -21.8 | -21.2 |
| CDO | -414.6 | -473.8 | -50.9 | -41.6 |
| CMBS | -27.9 | -5.9 | -123.1 | -63.0 |
| Non-prime RMBS | -754.1 | -579.6 | -618.5 | -634.9 |
| Prime RMBS | -107.2 | -42.6 | -254.8 | -188.1 |
| Total | -1,306.3 | -1,113.3 | -1,100.3 | -956.0 |

1 Recognised through profit or loss: carried in the income statement

2 Not recognised through profit or loss: reduction of the equity item as part of the revaluation reserve

3 The figures published here on 28 August 2008 were incorrect due to a transmission error.

Please accept our apologies.

4 Figures in the table are rounded which may cause minor differences.

The current financial market crisis has led to fair value losses which exceed the actual losses we expect to see in these portfolio items in the future. BayernLB classifies all its securities as Available for Sale or Held for Trading categories, plus a small proportion (< EUR 100 million) in Loans and Receivables. The bank is thus obliged to conduct a daily mark-to-market valuation of its positions, which impacts the financial statements accordingly.

Overview of the non-prime RMBS securities as at 30 June 2008:

Group as at 30 June 2008, in EUR million

| | Volume | Impact on the balance sheet and income statement in the first half of 2008: | |
|-------------------------------|---------|---|--|
| | | Recognised through profit or loss ¹ | Not recognised through profit or loss ² |
| Non-prime RMBS | 6,881.3 | | |
| of which Alt-A non-prime RMBS | 1,628.8 | -394.5 | -93.8 |
| of which US subprime RMBS | 3,356.2 | -357.0 | -270.0 |
| | | -751.5 | -363.8 |

1 Recognised through profit or loss: carried in the income statement

2 Not recognised through profit or loss: reduction of the equity item as part of the revaluation reserve

The two sub-asset categories Alt-A non-prime RMBS (23.7 percent) and US subprime RMBS (48.8 percent) have experienced the most significant reductions in market value. The other sub-asset categories (27.5 percent) in the non-prime RMBS segment are made up of non-conforming RMBS, HELOC/second lien RMBS, buy-to-let RMBS and other non-prime RMBS securities.

Overview of the CDO securities as at 30 June 2008:

Group as at 30 June 2008, in EUR million

| | Volume | Impact on the balance sheet and income statement in H1 2008: | |
|----------------------|---------|--|--|
| | | Recognised through profit or loss ^{1/3} | Not recognised through profit or loss ² |
| CDO | 4,629.4 | | |
| of which CDO of ABS | 569.1 | -105.8 | -2.4 |
| of which CDO squared | 186.2 | -31.7 | 0.0 |
| | | -137.5 | -2.4 |

1 Recognised through profit or loss: carried in the income statement

2 Not recognised through profit or loss: reduction of the equity item as part of the revaluation reserve

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The sub-asset category CDO of ABS (12.3 percent) has suffered the biggest decrease in prices in the CDO segment and, along with CDO squared securities (4.0 percent), is one of the riskier sub-asset categories in the CDO segment. About 25 percent of the underlying portfolios behind the CDO of ABS consists of US subprime exposure. The other sub-asset categories in the CDO segment are made up of 45.9 percent CLO transactions and 37.7 percent other CDO transactions.

Overview of ABS investments guaranteed by monoline insurers

Group as at 30 June 2008, in EUR million

| | AMBAC | MBIA | FGIC | FSA | CIFG | Total |
|----------------|--------------|--------------|--------------|-------------|-------------|---------------|
| Prime RMBS | 0.0 | 46.8 | 0.0 | 0.0 | 0.0 | 46.8 |
| Non-prime RMBS | 296.8 | 156.9 | 215.2 | 52.9 | 0.0 | 721.9 |
| CDO | 0.0 | 14.5 | 0.0 | 0.0 | 29.6 | 44.1 |
| Commercial ABS | 37.3 | 82.4 | 15.3 | 0.0 | 0.0 | 135.0 |
| Consumer ABS | 13.9 | 90.6 | 0.0 | 16.0 | 0.0 | 120.4 |
| | 347.9 | 391.2 | 230.6 | 68.9 | 29.6 | 1068.2 |

ABS investments with guarantees from monoliners (insurance companies that specialise in insuring structured securities) are exclusively most senior tranches, which are backed up by structural credit collateral as well as the guarantee.

BayernLB Group global ABS customer transactions

Overview of BayernLB Group ABS customer transactions by asset and rating categories (Standard & Poor's equivalent to internal ratings) as at 30 June 2008:

Group as at 30 June 2008, in EUR million

| | AAA | AA | A | BBB | Non-IG* | Total |
|----------------|--------------|--------------|----------------|--------------|------------|----------------|
| Prime RMBS | 0.0 | 0.0 | 161.8 | 0.0 | 0.0 | 161.8 |
| Non-prime RMBS | 0.0 | 0.0 | 517.5 | 0.0 | 0.0 | 517.5 |
| CMBS | 28.8 | 0.0 | 471.1 | 0.0 | 0.0 | 499.9 |
| CDO | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Consumer ABS | 358.4 | 16.6 | 3,676.8 | 47.6 | 0.0 | 4,099.4 |
| Commercial ABS | 0.0 | 194.1 | 931.7 | 134.7 | 1.3 | 1,261.7 |
| Total | 387.2 | 210.7 | 5,758.9 | 182.3 | 1.3 | 6,540.3 |

* Non-investment grade

The ABS customer transaction portfolio has remained unaffected by the current sharp market volatility, as the exposure is classed as original credit business and is therefore not subject to ongoing mark-to-market valuation.

BayernLB refinances transactions in its ABS customer transaction business via the asset backed commercial paper programmes Giro Balanced Funding Corporation and Giro Lion Funding Limited, which it set up for this purpose. Giro Balanced Funding Corporation is fully consolidated in the Group's consolidated accounts, while ABS customer transactions refinanced through Giro Lion Funding Limited are not consolidated in the Group's financial statements. BayernLB's existing liquidity lines and purchase obligations are also reported in BayernLB's risk positions.

II. Leveraged finance

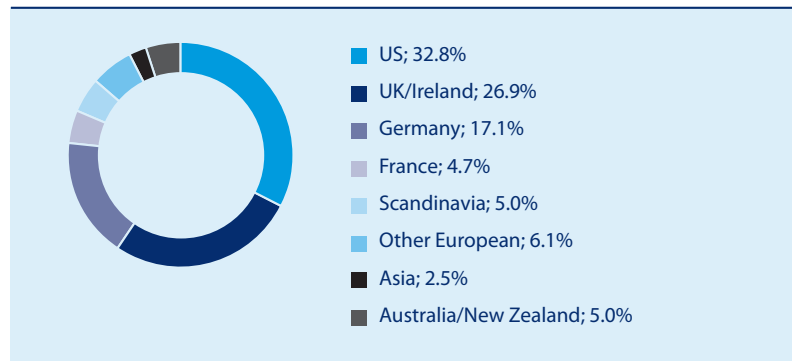
As a result of the tight liquidity situation caused by the financial market crisis, market conditions for financing transactions with higher risk profiles have deteriorated. However, BayernLB's portfolio suffered no material impairments in the first half of 2008.

BayernLB defines leveraged finance transactions as transactions in which the external debt is generally high (at least 60 percent) and is serviced exclusively from the operating cash flows of the target company. Other characteristics of leveraged finance are that they are long-term (usually more than five years) and require comprehensive contractual documentation, preceded by a due diligence process.

This definition therefore covers not only acquisition financing but also other financing transactions with the above features.

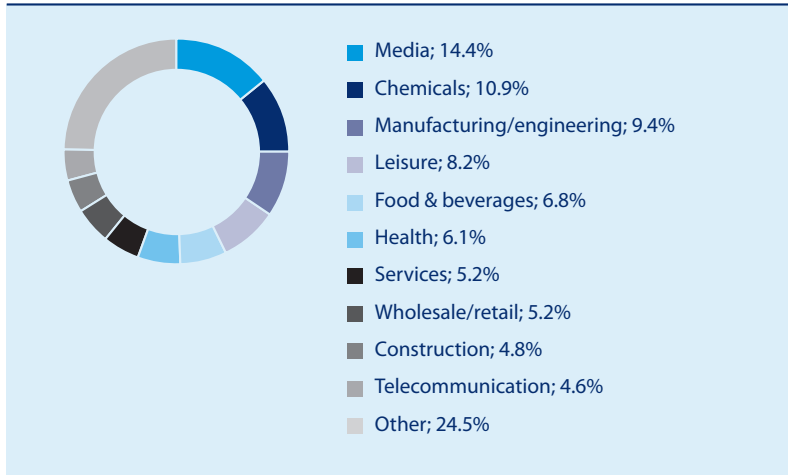
The tables below give a breakdown of BayernLB's leveraged finance transactions by country/region and sector. The total exposure in this portfolio amounts to EUR 2,989 million; drawings on the commitments are EUR 2,325 million.

Geographical split



Sector split:

The following table shows the top ten sectors.



III. Monoliner exposure

As at 31 May 2008, BayernLB had direct and indirect exposures to US monoliners with a total nominal volume of around EUR 4.8 billion; the indirect exposure amounted to around EUR 4.6 billion of this total.

The majority of the indirect exposure (EUR 2.9 billion) is related to liquidity facilities for US municipal bonds guaranteed by monoliners. Monoliner insurers do not insure the facilities but the securities, which works in favour of bond investors. The Bank has always based its credit decision on the credit standing of the issuer. If BayernLB is drawn on under these facilities, they are changed into credit facilities, secured by the (monoline-insured) securities. As a result, these credit facilities are not subject to any market fluctuations.

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