

08

Group Interim Report

First half of 2008

 Finanzgruppe Bayern

 Bayern LB



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BayernLB Group – the first half of 2008 at a glance

Key income statement figures

EUR million	1 Jan – 30 June 2008	1 Jan – 30 June 2007	Change in %/Pp
Net interest income	1,288	1,087	18.5
Risk provisions for credit business	-179	5	-
Net interest income after risk provisions	1,109	1,092	1.6
Net commission income	287	192	49.5
Result from fair value measurement	-145	264	-
Result from hedge accounting	29	58	-50.0
Result from financial investments	-915	134	-
Administrative expenses	-1,131	-781	44.8
Other result	171	72	>100.0
Operating result	-595	1,032	-
Restructuring expenses	-35	0	-
Earnings before taxes	-630	1,032	-
Cost-income ratio (CIR)*	52.7 %	46.6 %	6.1 Pp
Return on equity (RoE)*	19.1 %	22.2 %	-3.1 Pp

* First half of 2008 adjusted for the negative impact of the financial markets crisis. The unadjusted ROE as at 30 June 2008 is negative, the CIR is 69.4 %

Key balance sheet figures

EUR million	30 June 2008	31 Dec 2007	Change in %
Total assets	415,641	415,639	0.0
Business volume	502,606	510,065	-1.5
Credit volume	276,635	267,510	3.4
Total deposits	192,674	186,063	3.6
Securitised liabilities	121,598	122,895	-1.1
Subordinated capital	11,563	12,453	-7.1
Equity	11,546	12,893	-10.4

Banking supervisory ratios*

EUR million	30 June 2008	31 Dec 2007	Change in %/Pp
Core capital	12,457	11,923	4.5
Own funds	21,637	21,471	0.8
Risk positions	190,900	188,888	1.1
Core capital ratio	7.6 %	7.4 %	0.2 pp
Own funds ratio (at Group level)	11.3 %	11.4 %	-0.1 pp

* Calculated on basis of German Banking Act (KWG) and Solvency Ordinance (SolvV)

Employees

	30 June 2008	31 Dec 2007	Change in %
Number of employees	19,985	19,226	3.9

Ratings (as at 1 August 2008)

	Long-term	Short-term	Pfandbriefe*
Fitch Ratings	A+	F1+	AAA
Moody's Investors Service	Aa2	Prime-1	Aaa
Standard & Poor's	A	A-1	AAA

* Applies to public-sector Pfandbriefe and mortgage-backed Pfandbriefe

Quarterly review

The following overview shows the trend in earnings in the second quarter compared with the first quarter of 2008.

	Q2 2008	Q1 2008	Change in %
Net interest income	655	633	3.5
Risk provisions for credit business	-108	-71	52.1
Net interest income after risk provisions	547	562	-2.7
Net commission income	164	123	33.3
Result from fair value measurement	333	-478	-
Result from hedge accounting	13	16	-18.8
Result from financial investments	-414	-501	-17.4
Administrative expenses	-536	-595	-9.9
Other result	68	103	-34.0
Operating result	175	-770	-
Restructuring expenses	-35	0	-
Earnings before taxes	140	-770	-

Interim Group Management Report

Overview

The first half of 2008 was characterised by an unbroken rise in the price of crude oil, the continuing credit crunch and the real estate crisis in the US and a number of European countries. Although Germany was not able to avoid the impact of this negative environment, it made gains on its competitors. With the oil price doubling since mid-way through 2007 from USD 70 to USD 140, the German rate of inflation rose to 3.3 percent by the end of July 2008. First-half economic growth – benefiting from a particularly strong first-quarter rise in equipment and construction investment – rose a robust 2 percent year-on-year, but private consumption disappointed, stagnating over the same period despite the rise in disposable income.

The EU economy grew more weakly than Germany's in the first half of 2008 as Spain, the UK and Ireland had to contend with the bursting of their local real estate bubbles and Italy suffered from structural problems. The new members in Central and South Eastern Europe were the only countries to exceed Germany's GDP growth rates by any clear margin. The euro appreciated by an average of around 15 percent against the US dollar in the first half, with the trade-weighted gain a good 7 percent. Euro-zone inflation was markedly higher than Germany's at 4.1 percent in July. The ECB reacted by raising its key rate to 4.25 percent in order to prevent knock-on effects. The three-month Euribor, which is a more meaningful economic measure, was almost unchanged at just under 5 percent. Monetary policy therefore remained slightly restrictive.

Despite the hike in the price of crude oil, the economies of Asia and Latin America performed robustly, helping to stabilise the global economy. First-half real GDP in the US grew 2.2 percent year-on-year, a more moderate rate than expected due to the deteriorating real estate market. Although the situation is likely to be worse than the figures suggest, the economy has so far avoided the sharp slump that so many feared. What is more, the deterioration in the real estate crisis remained within expectations; and first tangible signs of stabilisation are even starting to emerge. But it will be years, not months, before the situation normalises.

The lowlights of the credit crunch were the collapse in share prices in response to the Société Générale fraud and the Bear Stearns crisis. The two key indicators of the crisis – the three-month Euribor spread over key rates and the yield premium on bank bonds over government bonds – are still at very high levels and show no sign of improvement.

The likely impact of these drags is a marked slowdown in the eurozone and German economies in the second half of 2008. Although this will not have a major negative impact on overall growth rates this year, growth in 2009 is now expected to be weaker. The more the global economy weakens and the longer this weakness endures, the more likely it is that risk provisioning relating to corporate loans will deteriorate. Economic and inflationary risks are balancing each other out in the fixed income markets, but the overall trend is towards a continuing slight rise in yields. Equity markets have already factored in economic weakness and are offering moderate upside a year down the line.

Results and financial position

Following on from the exceptionally high impact of the credit crunch in the first quarter of 2008, the second quarter closed with positive operating earnings of EUR 175 million, despite further negative effects.

The turbulence on international financial markets necessitated charges of around EUR 1.4 billion to the income statement in the first half of 2008. With profit from the stable core activities of the business areas and strategic group subsidiaries making up about EUR 800 million, overall operating profit came out at EUR -595 million.

BayernLB Group's capital adequacy remains strong and solid, as shown by the rise in the regulatory core capital ratio from 7.4 percent to 7.6 percent. The ratio's improvement was helped by a capital increase of EUR 500 million and a reduction in risk assets in the problematic securities portfolios.

Hypo Group Alpe Adria (HGAA) has been included in the BayernLB consolidated financial statements since the fourth quarter of 2007. The consolidation of HGAA, which employs over 7,000 staff at more than 350 locations, was a key reason for the year-on-year rise in income and expenses in the first half of 2008.

Net interest income increased by 18.5 percent to EUR 1,288 million, primarily as a result of consolidating HGAA. Subsidiaries MKB Bank Zrt (MKB) and Banque LBLux S.A. (LBLux) also posted a healthy increase, whereas the Financial Markets Business Area recorded a decline of EUR 109 million.

The first-half increase in risk provisions **for the credit business** of EUR -184 million to EUR -179 million was due not only to the acquisition of HGAA, which was required to bring its risk standards into line with those of the Group, but also to a growth-related increase in the provisioning requirements at MKB and Deutsche Kreditbank AG (DKB). This was offset by write-backs in BayernLB's Corporates and Real Estate Business Areas.

Net commission income rose around 50 percent to a new peak of EUR 287 million, an increase that is primarily due to HGAA. The second quarter of 2008 was particularly successful for syndication business in the Financial Institutions & Sovereigns segment, which more than doubled its net commission income year-on-year to EUR 49 million.

The credit crunch also had a markedly negative impact in the first half of 2008 on the **result from fair value measurement**, which was EUR -145 million, compared with a positive figure of EUR 264 million in the year-earlier period. This breaks down into a trading result of EUR -124 million (2007: EUR 279 million) and a result from the fair value option of EUR -21 million (2007: EUR -15 million).

Fair value changes caused by credit spreads impacted the trading result from interest-based transactions by EUR -516 million. Adjusted for this effect, which stems from the financial market crisis, the group's trading result was positive at EUR 392 million. Currency-related business contributed EUR 165 million (2007: EUR 139 million), with subsidiaries accounting for EUR 78 million of this. Interest-rate and other financial business generated EUR 226 million (2007: EUR 140 million), with EUR 192 million from interest rate derivatives, mainly at subsidiaries.

Like the result from fair value measurement, the **result from financial investments** was also impacted by the credit crunch. Whereas EUR 134 million was generated in the year-earlier period, EUR -915 million was posted in the first half of 2008. The result from financial investments was impacted by high net expenses arising from write-downs of EUR 919 million. These mainly concerned ABS investments related to the US real estate market. Most of the ABS investments in question are allocated to the Available for Sale securities portfolio (AfS).

Administrative expenses rose by EUR 350 million to EUR 1,131 million, with around 90 percent due to HGAA. Subsidiaries DKB and MKB continued to expand and also posted increases. BayernLB's efficiency programme helped reduce administrative expenses in domestic banking by about 6 percent or EUR 20 million.

The main items in **Other results** are the Group's real estate and leasing activities. The EUR 99 million rise to EUR 171 million was also largely due to HGAA.

Restructuring expenses totalling EUR 35 million were booked for personnel reductions due to restructuring and efficiency improvement in the Financial Markets and Savings Banks & Bavarian Market Business Areas, in Support Operations and in SaarLB.

Return on equity (RoE)¹ in the second quarter of 2008 was 7.1 percent, with an exceptionally good **Cost-income ratio (CIR)** of 43.5 percent. RoE in the first half of 2008 was negative due to the impact of the first quarter (2007: 22.2 percent), with CIR at 69.4 percent (2007: 46.6 percent).

1 Operating result – minority interests / subscribed capital + hybrid capital instruments + capital reserve and revenue reserves. The results and capital of non-competing BayernLabo are excluded.

At EUR 415.6 billion, **total assets** as at 30 June 2008 were virtually unchanged from the end of 2007 (EUR 415.6 billion). Loans and advances to customers increased by EUR 10.6 billion to EUR 186.2 billion, while assets held for trading and financial investments decreased by EUR 10.6 billion. This item also contains the effect of the reduction in the volume of structured securities portfolios booked to the balance sheet of just under EUR 4 billion. On the liabilities side, liabilities to banks rose by EUR 3.3 billion to EUR 96.7 billion, and customer deposits by EUR 3.3 billion to EUR 95.9 billion. Securitised liabilities edged down slightly, by 1.1 percent to EUR 121.6 billion.

Subordinated capital decreased by EUR 0.9 billion to EUR 11.6 billion, due in particular to maturities. Of the EUR 1.3 billion reduction in **equity** to EUR 11.5 billion, around EUR 1.2 billion was the result of write-downs on structured securities required by the credit crunch.

Segment reporting

Since 1 January 2008, the Financial Markets segment only reports the results of proprietary transactions. All prior income from customer business in Financial Markets, including related expenses, is now allocated to the customer business areas. This not only means in particular that the customer business areas make higher contributions to the result from fair value measurement but also that the administrative expenses are higher. As such, a direct comparison between the 2007 and 2008 figures is of only limited value. Further distortions are due to the transfer of units from support operations to the business areas.

The individual segments contributed to the first-half 2008 operating result of EUR -595 million (2007: EUR 1,032 million) as follows:

EUR million	1 Jan – 30 June 2008	1 Jan – 30 June 2007
Corporates	219	218
Real Estate	104	99
Financial Markets	-1,199	105
Financial Institutions & Sovereigns	103	78
Savings Banks & Bavarian Market	-15	28
BayernLabo/LBS Bayern	89	83
Group Strategic Subsidiaries	175	782
Support operations/Other and Consolidation	-71	-361

The following notes relate to the segment reporting in the Group interim report.

The **Corporates segment** comprises the Corporates Business Area and consolidated participations allocated to this area. The business area is broken down into the globally active Global Corporate Banking, Global Structured Finance and Global Asset Finance divisions and serves customers ranging from multinationals to large SMEs. Its core markets are Europe, North America and Asia, each of which has its own foreign entity.

First-half business with domestic and international companies was positive overall. Companies across the board showed a strong interest in borrowing as the credit crunch had removed a number of financial instruments from the market. Traditional corporate loans regained ground in this environment.

In Global Structured Finance, successful business in the Middle and Far East laid the foundations for follow-on transactions. The growth strategy in Asia-Pacific developed apace, and advances continued in US market positioning in terms of completed and pending transactions. This included BayernLB acting as Mandated Lead Arranger in a number of large infrastructure transactions. Notable examples include the Royal Air Force's GBP 2.3 billion Air Tanker financing, which will be used to renew the UK's fleet of strategic air tankers, and one of the largest Public Private Partnership projects in Holland, which will provide EUR 550 million of financing for the Second Coentunnel.

With its many years of experience in renewable energy, BayernLB is ideally placed in the market. This is exemplified both by the progress made in the first half and by the transactions already pending for the second half of 2008. The US market was one of the most notable successes, with BayernLB winning a total of eight lead mandates for syndications in the areas of wind and photovoltaics.

Within the Global Asset Finance area, overall performance in the Transportation Finance, Leasing/Factoring/Structured Products and Export Financing segments was positive. In the Transportation Finance segment, business in rolling stock and land-based transportation in Europe and the US expanded, as did activity in the aircraft and ship financing segments, especially in the growth regions of Asia and the Middle East.

The year-to-date results in net interest income and net commission income have been pleasing. This growth is based on greater cross-selling of financial market products and structured financing to existing customers. Examples include Schuldschein note loans in Germany for leading companies such as BMW and Metro, as well as acquisition financing for Lafarge/Orascom Cement and Pernod Ricard/Vin & Sprit.

The segment made a significant contribution to the consolidated results with operating profit of EUR 219 million (2007: EUR 218 million). Return on equity was 23.2 percent (2007: 24.9 percent), which was once again higher than the Group's target return of 15 percent.

Given the business opportunities identified in the areas mentioned, the second half of 2008 is also expected to post a solid performance.

The **Real Estate segment**, operating through its Real Estate Business Area, is responsible for BayernLB's real estate operations worldwide. Despite the difficult market environment, the first half of 2008 was positive.

New business volumes in the domestic market edged up slightly year-on-year. German open and closed real estate investment funds used the decline in demand from foreign investors to invest in German real estate on more moderate terms. The focus of activity in residential property development, aside from the core market of Greater Munich, was on acquisitions in the Frankfurt, Cologne/Dusseldorf and Berlin regions. As part of the cooperative market approach with the Bavarian savings banks, the Real Estate Business Area, including advisory services, was well received and this was reflected in the results for the first half of 2008. Examples of new business in Bavaria include project financing for the Pasing Arcaden shopping centre and financing for the acquisition of Heimgarten München.

In the international arena, BayernLB concluded numerous transactions with capital-rich customers. One particularly noteworthy transaction was the financing of the Hamerson plc office property in London as mandated lead arranger. The transactions, which were conservatively structured, tended towards smaller individual volumes.

The Real Estate Structured Finance unit continued to provide support to domestic and foreign private equity sponsors in acquiring real estate portfolios and companies in the new competitive environment. One of the strengths of a universal bank is a broad product offering, so BayernLB also offers real estate M&As across all business areas. Given the minimal liquidity of the secondary credit markets, BayernLB has switched more of its underwriting business to arranging or participating in large-volume club deals.

Real I.S. AG, a subsidiary wholly owned by BayernLB, is the asset management company for commercial real estate. An example of its success is the Bayernfonds Großbritannien 2 fund, which offered investors a participation in an office building in London's West End that is wholly leased to the UK House of Commons and was fully subscribed in double-quick time.

Return on equity for the segment was 37.0 percent (2007: 35.0 percent), significantly higher than the Group target. The operating result came out at EUR 104 million (2007: EUR 99 million). Net write-backs of credit risk provisions provided another boost to results.

The Real Estate Business Area's strategy is based on the assumption that, given the catching-up that German investors still need to do and the change in the way transactions are structured, the domestic market will throw up further good opportunities in the domestic market in the second half. In cooperation with the Bavarian savings banks, BayernLB's blanket coverage of the SME market is continuing to expand. The Bank is expecting to come across select, attractive financing opportunities in the second half as well.

The **Financial Markets segment** comprises the Financial Markets Business Area and those subsidiaries and special purpose vehicles that are subject to consolidation and contribute to the segment's performance. The Financial Markets Business Area supports BayernLB Group customers worldwide by handling transactions in securities, deposits, foreign exchange, energy derivatives and commodity derivatives. Its main target segments are savings banks, corporates, institutional customers and real estate customers.

The market environment for the segment was affected in the first half of 2008 by the turmoil on the international financial markets. With the result from the fair value measurement and the result from financial investments considerably lower as a consequence, operating profit was deep in the red at EUR -1.2 billion. As the negative impact of the credit crunch was not felt until the second half of 2007, the prior-year figure was still positive at EUR 105 million.

Nevertheless, the restructuring of the Financial Markets Business Area, which was decided at the end of January 2008, has produced initial benefits. The main aims of the restructuring are as follows: to increase revenue from customers, to achieve a tangible reduction in risks, to increase return on equity, to strengthen the Treasury function, to achieve cost reductions, and to streamline the organisational structure.

In the first half of 2008, income from customer business of approximately EUR 94 million was transferred to the customer business areas. Adjusted for the negative impact of the credit crunch, operating profit in the first half of 2008 was ahead of forecast by a clear margin, with administrative expenses below forecast.

Over the year as a whole, the segment's results will be affected by the revaluation of structured securities portfolios and will depend on the ownership support plan. Customer business is expected to remain buoyant. Administrative expenses will rise in the second half, but are projected to be below forecast for the whole year.

The **Financial Institutions & Sovereigns** Business Area manages BayernLB's business relations worldwide with banks, insurance companies, other institutional customers and the public sector (outside Bavaria). The credit business handled by this business area generates a high return on capital employed because of the comparatively low amount of capital backing required.

The Financial Institutions & Sovereigns Business Area posted a year-on-year increase in total revenue – after risk provisions – in the first half of 2008. This success is down to BayernLB's relationship approach, through which the Bank has proven its reliability as a partner, even in a difficult market environment.

International credit syndication markets were fairly subdued in the first quarter of 2008 in anticipation of the reporting season for the 2007 financial year, but high activity kicked off at the start of the second quarter and continued until the end of June.

The strong second quarter was the main reason BayernLB was able to build on the successful result in 2007 in the first half of 2008. It arranged 45 transactions in the first half of 2008 (first half of 2007: 44). In line with the general market trend, the volume of syndications was lower but interest and commission income was up.

As in previous years, most activity was in the target region of Central and Eastern Europe, specifically Russia but also selected CIS states such as the Ukraine.

The increase in tax receipts meant that the German public sector was in better financial shape. Thanks to its very good credit standing, this customer group obtained more refinancing via the capital markets at the expense of bank loans. Loans eligible for securitisation as Pfandbriefe gained in appeal, heaping further pressure on margins. Maturing large-ticket deals could not be fully offset under these market conditions, so the portfolio was slightly smaller.

It was a very successful half year for the institutional customer business. Performance was boosted by increased cooperation in respect of trading and deposit products and intense usage of credit products.

The segment also performed successfully in the first half of 2008, achieving a return on equity of 29.2 percent (2007: 27.6 percent) and holding its ground in a highly competitive market. Operating profit was EUR 103 million (2007: EUR 78 million).

The **Savings Bank & Bavarian Market** segment plays a key role within the BayernLB Group in working with the Bavarian savings banks to develop the target Bavarian market. This partnership is based on the master agreement between BayernLB and the Association of Bavarian Savings Banks, together with individual bilateral agreements with virtually all Bavarian savings banks.

Business in the four customer segments of Savings Banks, Bavarian Municipals, Bavarian Corporates and Private Customers/Credit Cards went according to plan in the first half of 2008.

Due to decreased demand from the savings banks, refinancing loans fell from EUR 13.7 billion to EUR 12.3 billion, whereas subsidised loans increased, topping the EUR 8 billion threshold in February 2008. Bavarian corporate banking posted a slight increase in credit volumes.

Retail customer business, including the staff employed in this area, will be transferred to DKB on 1 October 2008. The credit card business will also be bundled into DKB, and the transfer is already underway. As such, the results of the Retail Customer segment will in future be reported under DKB and therefore in the Strategic Subsidiaries segment. Operating profit was EUR -15 million (2007: EUR 28 million), which was partly due to the reallocation of Financial Markets' customer business and the transfer of the credit card business to DKB.

The **BayernLabo/LBS Bayern** segment covers Bayerische Landesbodenkreditanstalt (BayernLabo) and Bayerische Landesbausparkasse (LBS Bayern).

The BayernLabo/LBS Bayern segment is part of BayernLB's retail business and made another stable contribution to Group operating profit in the first half of 2008.

Although lower borrowing by the Free State of Bavaria meant that **BayernLabo's** Schuldschein business decreased considerably, increases were posted in trust transactions and subsidised interest rate and modernisation programmes.

In the first six months of 2008, **LBS Bayern** wrote 7.2 percent more new business in terms of the number of contracts, or 1 percent based on contract volume. This equates to approximately 128,000 contracts and a savings volume of EUR 3.6 billion, ensuring LBS Bayern consolidated its market leadership.

LBS Bayern is expecting business to be boosted by the inclusion of residential property in private pensions, whereby savings contracts will be recognised as pension plans. This is based on German legislation ("Eigenheimrentengesetz") passed on 4 July 2008. Due, however, to legal waiting periods, LBS Bayern will not be able to market certified pension products until November 2008 at the earliest.

Operating profit was EUR 89 million, EUR 6 million higher than the same period in 2007. Return on equity improved from 11.2 percent to 17.2 percent, which is primarily due to an increase in net interest income and income from financial investments.

The **Group Strategic Subsidiaries** segment covers Group activities in the domestic and international banking sector carried out by the subsidiaries DKB, HGAA, LBLux, MKB and SaarLB.

As HGAA was not consolidated until the fourth quarter of 2007, a direct comparison with the year before figures is not possible. Furthermore, the segment results as at 30 June 2007 contained an exceptional gain from an intra-group transfer.

Although net interest income was on target in the first half of 2008, risk provisioning expenses were above forecast, which impacted the segment's operating profit negatively. The increased risk provision requirement is mainly due to the first-time inclusion of HGAA in the second half of 2007, which includes the requirement to bring its risk standards into line with those of the Group, but also to subsidiaries DKB and MKB.

The segment's operating profit was EUR 175 million. The previous year's figure of EUR 782 million contained an interim gain of EUR 502 million that has been eliminated in the Group's statements, giving an adjusted comparative amount of EUR 280 million. Return on equity, which was impacted by risk provisioning, was 6.4 percent, compared with an adjusted year-earlier rate of 17.2 percent. As risk provisions are expected to be much lower in the second half, operating profit should be higher overall.

The **Support Operations/Other** and **Consolidation** segments mainly contain refinancing costs of strategic Group subsidiaries, the undistributed return on available capital, the contribution to the Bavarian Reserve Fund and expenses incurred by the business areas. Operating profit totalled EUR -71 million in the first half of 2008. The prior year's high negative total of EUR -361 million is mainly explained by the correcting entry at Group level relating to the above-mentioned interim gain.

Outlook

The forecasts set out in the following report relating to BayernLB Group's performance in the second half of 2008 may deviate substantially from the actual outcome should one of the following uncertain factors occur, or should the assumptions underlying our forecasts prove incorrect. BayernLB is under no obligation to update its forecasts in light of new information or future events taking place in the forecast period. The forecast in the 2007 annual report should also be taken into account when reading this section.

Given the impact of several drags – credit crunch, US recession, steep hike in commodity prices, euro appreciation – the second half of 2008 is likely to bring a marked slowdown in the eurozone and German economies. Although the impact on the current year's growth rates will not be severe, growth is likely to be weaker in 2009. On equity markets, increased uncertainty and gloomy profit forecasts have led to sharp losses; yields on fixed income markets have risen in the wake of increased inflationary pressure. The more the global economy weakens and the longer this weakness lasts, the more likely it is that risk provisioning relating to corporate loans will deteriorate.

Three key decisions drove BayernLB Group's continued growth in the first half of 2008: the creation of centres of competence, the implementation of an efficiency programme and the bundling of SME business into one business area. A further important driver of BayernLB's future performance lies in the ownership support plan by the Group's shareholders designed to ringfence – in line with the market – the risks in the ABS portfolio.

- Creation of centres of competence: BayernLB's entire retail business will be outsourced to Deutsche Kreditbank AG. This also includes financing construction loans to completion for private customers.
- Efficiency programme: BayernLB's target, by 2010, is to reduce costs by a total of EUR 150 million, and to do away with unnecessary processes and/or streamline and speed up existing processes. This is aimed at improving the Bank's competitiveness and long-term performance.
- Bundling of SME business: the purpose of founding a new SME Business Area is to support sales activities by placing a sharper focus on the requirements of SME customers. The new business area will start on 1 October 2008. In addition to marketing to customers of BayernLB, the SME Business Area will coordinate the Group's other activities relating to German SME customers.

From today's perspective, virtually no changes are required to the forecasts and other statements contained in the outlook in the 2007 annual report and relating to the Group's expected performance in the 2008 financial year.

Events of special significance that might have an impact on the results and financial position after 30 June 2008 remain the ongoing financial market crisis and its negative impact.

BayernLB Group sees the following as the main growth and earnings opportunities:

- continuing to step up cooperation with the Bavarian savings banks,
- continuing to expand its subsidiaries' operations in Central and Eastern Europe (CEE),
- strengthening the retail business through further dynamic expansion of DKB's direct banking services,
- expanding the SME business, and
- ensuring the new focus of the Financial Markets Business Area is implemented thoroughly.

Continuing turmoil on the international financial markets could have a significant negative effect on BayernLB and the Group's results.

Risk report

Organisation, risk management and monitoring

Bayern LB Group manages and monitors those risk types defined as material (specifically counterparty, market, liquidity and operational risks) with two aims: to optimise its risk/return profile and to ensure risk absorption capacity at all times.

A detailed description of the key risk management and monitoring principles, together with the organisational structure of risk management within BayernLB Group, is contained in the risk report of the 2007 annual report.

During the reporting period, Hypo Group Alpe Adria (HGAA) continued refining the organisational structure of risk management in terms of risk management processes, strategies and procedures, and completed the conceptual phase. The concept is now being implemented in individual national operating companies. It also ran additional focus projects aimed at adapting risk management systems and policies, together with risk reporting and management of the various risk types, to the methods of Bayern LB Group.

Capital management

BayernLB Group's capital management is based on a multi-year operational planning process that combines strategic, risk-oriented, value-oriented, and regulatory factors.

Regulatory capital adequacy (solvency)

The regulatory requirement to hold capital equal to at least 8 percent of all risk exposures was complied with at all times in the reporting period. The Group's own funds ratio was 11.3 percent as at 30 June 2008 (31 December 2007: 11.4 percent).

Economic capital (risk absorption capacity)

The core aim of BayernLB Group's risk management, aside from complying with regulatory capital requirements, is to ensure that economic risk absorption capacity, which is the difference between economic risk capital (risk cover funds) and risk capital requirements, is adequate.

The definition of risk cover funds was adapted to IFRS accounting standards in 2008.

Composition of risk cover funds:

Tier I	Budgeted profit <ul style="list-style-type: none"> • Budgeted addition to profit reserves • Budgeted dividends
Tier II+III	Equity (strict definition) <ul style="list-style-type: none"> • Nominal capital • Capital and revenue reserves (incl. special-purpose capital) • Capital contributions for indefinite periods of (indirect) shareholders (equity component) • Capital contributions for limited periods of (indirect) shareholders (equity component) • Participation rights (equity component) • Revaluation reserve • Reserves from currency translation • Hybrid capital
Tier IV	Equity capital equivalents <ul style="list-style-type: none"> • Capital contributions for defined periods of (indirect) shareholders (debt capital component) • Participation rights (debt component) • Subordinated liabilities

EUR million	Group	
	30 June 2008	31 Dec 2007
Risk capital	10,301 *	8,826
Risk capital requirement	9,440 **	5,709
under normal risk situations	7,875	4,641
thereof credit risk	3,830	1,942
thereof country risk	2,363	1,277
thereof market risk	1,692	755
thereof operational risk	614	380
thereof investment risk	454	192
thereof other risks	132	96
under exceptional risk situations (scenarios)	1,565	1,068
Risk acceptance (minority interests) ***	-1,211	n.a.
Available risk capital	861	3,117

* From 2008 according to IFRS

** From 2008 incl. HGAA (31 Dec 2007 without HGAA)

*** The risk cover amount does not include shares attributable to minorities. However, the risks reported by subsidiaries represent the entire risk (100 %) of the Group entities. The risk capital requirement is therefore reduced by the shares attributable to minorities (relative) – up to a maximum of the share of available risk capital.

The marked increase in risk capital requirements for both credit risk and country risk is due to the first-time inclusion of HGAA. The strong volatility created by the credit crunch is evident in both market risk and the scenario calculations.

Despite the difficult market, risk absorption capacity remains intact at the target rating of A+. Given that any and all diversification effects between the risk types and Group entities have been ignored, this is a conservative portrayal.

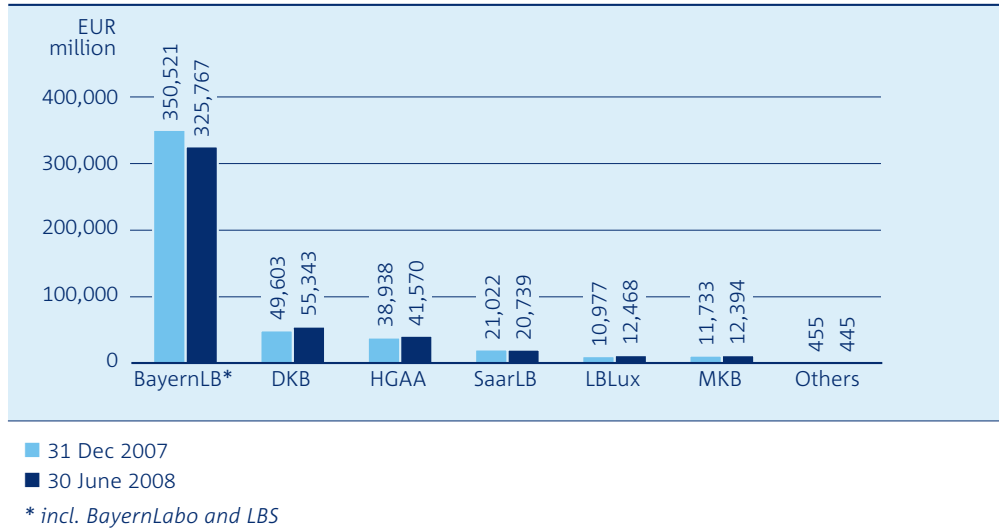
Credit and country risks

Based on business policy and risk absorption capacity, the Board of Management sets parameters for credit and country risks through the business and risk strategies.

Please see the following tables and diagrams for information on changes in credit risks. There were no significant changes in country risk between 31 December 2007 and the reporting period.

Portfolio overview

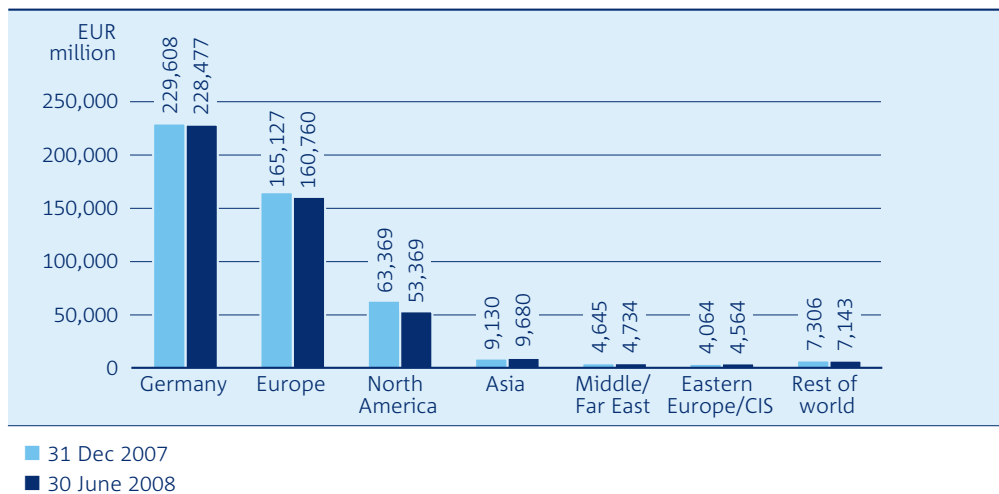
BayernLB Group’s credit risk under IFRS 7.34 shrank by 3 percent to approximately EUR 469 billion as at 30 June 2008. The breakdown by business unit is as follows:



The sharp reduction in credit risk at BayernLB was due to a more restrictive business policy and fluctuations in the euro/US dollar exchange rate.

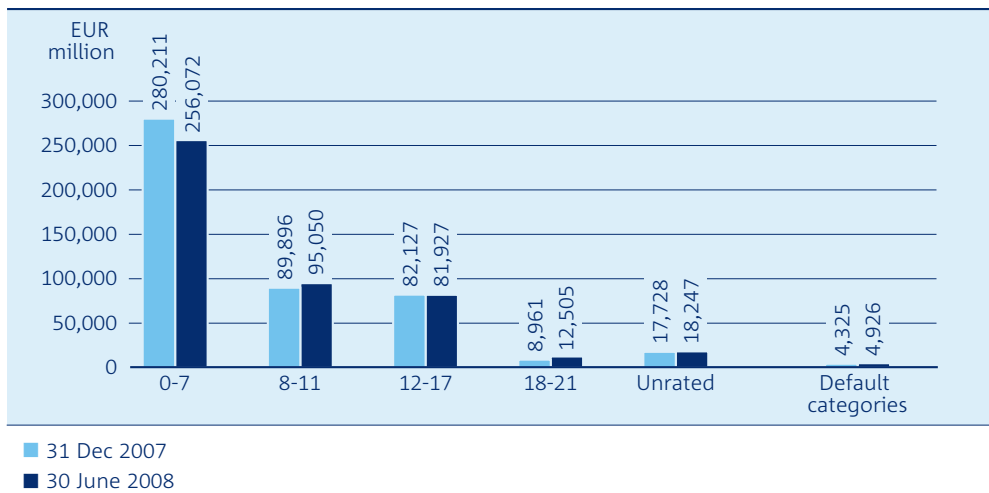
In connection with implementation of the strategic decision to bundle domestic private customer business within DKB, further parts of BayernLB’s credit card business amounting to around EUR 2.3 billion and SaarLB’s financing business of construction loans to completion of approximately EUR 0.8 billion were transferred to DKB in the reporting period.

Distribution of credit risk within the BayernLB Group by region:



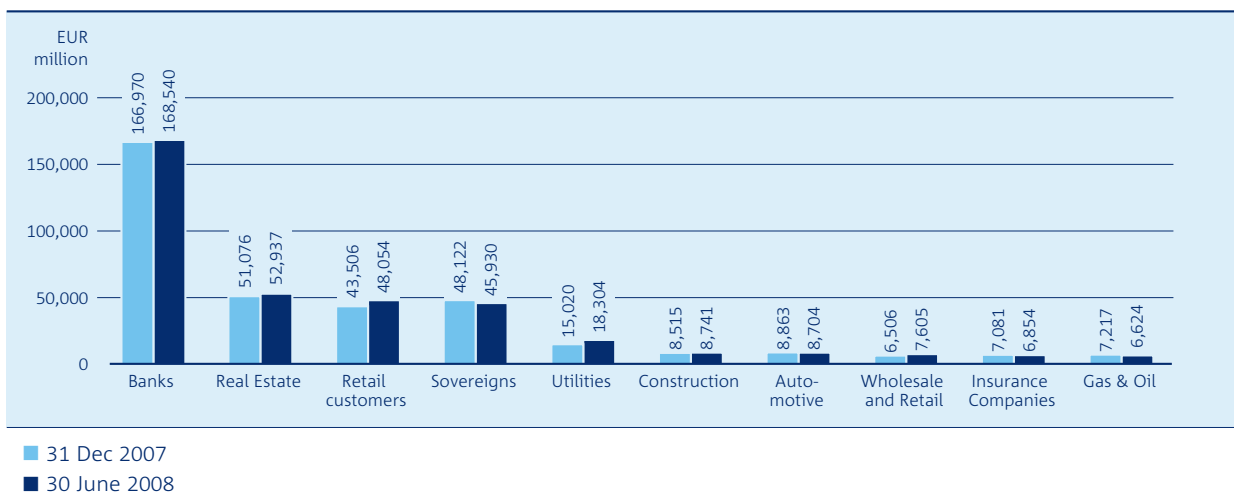
Volume decreased in North America because of the more restrictive monetary policy, exchange rate fluctuations (US dollar/euro) and repayments on existing business, which were not offset by new business.

Credit risk by rating category within BayernLB Group:



The decline in credit risk in the 0-7 rating class exceeded the general decline in credit risk (see above) due to rating migrations, both within the investment grade rating classes (ratings 0-11; specifically the Banks sector) and within the non-investment grade rating classes (in addition to ABS investments, downgrades in existing business with corporate customers).

Credit risk by sector category within BayernLB Group:



The diagram shows the ten largest sectors. None of the other sectors account for more than 1.5 percent of the total volume.

The next section gives details of the ABS portfolio as at 30 June 2008. In the risk report of the 2007 Group financial statements, this was included in Banks (nominal volume for Banks: EUR 34.2 billion) and not reported separately. To aid historical comparability, the figures as at 31 December 2007 have been calculated separately. For the first time, the presentation of the Retail Customers sector includes individual business with private customers in addition to standardised mass business.

Securitisation exposures and the financial market crisis

ABS investments:

BayernLB Group had a nominal net risk volume in ABS securities of approximately EUR 21.2 billion as at 30 June 2008, down from approximately EUR 26.3 billion as at 31 December 2007. The reduction in the net risk position was due to scheduled repayments, maturities, sales of securities and hedging transactions. The hedging transactions amounted to a nominal volume of around EUR 1.2 billion, giving a nominal gross risk volume as at 30 June 2008 of EUR 22.4 billion. BayernLB's share of the Group's ABS securities portfolio is about 95 percent.

Rating distribution for ABS securities in Bayern LB Group, based on net risk positions (in percent, rounded)

	AAA	AA	A	> A-	
	71	17	6	6	30 June 2008
	82	14	3	1	31 Dec 2007

In addition to maturities across the entire portfolio, the change in rating distribution was due in particular to rating downgrades, which caused further losses in fair value.

Breakdown by asset class based on net risk positions

Asset class	EUR billion	In percent, rounded
RMBS (Residential Mortgage Backed Securities)	13.2	62
of which US subprime RMBS	3.4	
CMBS (Commercial Mortgage Backed Securities)	2.2	10
CDOs (Collateralised Debt Obligations)	4.6	22
ABS Consumer + Commercial	1.2	6
Total	21.2	100

BayernLB Group booked fair value losses from ABS transactions totalling around EUR 2.4 billion between 1 January 2008 and 30 June 2008. These comprised an impact on the income statement of approximately EUR 1.3 billion (of which impairments accounted for EUR 0.9 billion), while approximately EUR 1.1 billion had no impact. The actual defaults from asset backed securities remained low.

Approximately EUR 1.1 billion of the nominal value in ABS is guaranteed by US monoliners.

Risk exposure has been reduced by means of sales and hedging. An additional measure currently at the planning stage is the ownership support plan to ringfence risks with the support of BayernLB Holding AG's owners, which is aimed at preventing any further potential impact from the credit crunch. Work on the requirements and the concrete structure of the ownership support plan is ongoing.

ABS customer transactions:

The nominal volume of ABS customer transactions within the Group reduced from approximately EUR 7.9 billion as at 31 December 2007 to approximately EUR 6.5 billion as at 30 June 2008. The main cause was a number of maturing US customer transactions. Ninety-eight percent of this sub-portfolio have an internal rating equivalent to at least A.

As at 30 June 2008, ABS customer transactions were only carried out at BayernLB or in conduits established by the Bank. Aside from the consolidated Conduit Giro Balanced Funding Corporation, which contains non-European transactions, BayernLB's risk positions include liquidity lines and purchase obligations it has entered into for a non-consolidated purchasing SPE of Giro Lion Funding Limited, which contains European ABS.

Further information on the portfolios affected by the credit crunch can be found in the publication "Financial Stability Forum Report", which is under Investor Relations on the BayernLB website.

Support for SachsenLB:

When Landesbank Baden-Württemberg (LBBW) took over the shares of SachsenLB, ABS of SachsenLB Group were brought into an SPE to which all German Landesbanks provided funds. BayernLB Group provided approximately EUR 1.9 billion as at 30 June 2008; of this, approximately EUR 1.8 billion related to BayernLB and EUR 0.1 billion to SaarLB.

Market price risk

Market price risk within the Group's strategic participations is measured using Group-compatible procedures. The following table summarises the value-at-risk results for BayernLB Group (holding period of one day, confidence level of 99 percent).

Market risk EUR million	6-month comparison as at 30 June 2008			12-month comparison as at 31 Dec 2007		
	Average	High	Low	Average	High	Low
Interest rate VaR	267.52	359.21	171.82	91.93	176.16	54.39
FX VaR	30.05	54.62	12.76	9.49	23.21	4.96
Equities VaR	9.44	12.23	7.30	13.92	37.10	8.28
Commodities VaR	1.97	3.96	0.05	1.49	2.76	0.40
Volatility VaR	2.87	4.76	1.80	2.96	4.57	1.39
Alternative invest- ments VaR	9.44	11.59	8.71	7.20	8.92	3.44
Total VaR	299.80	391.77	191.59	113.12	198.54	77.16

The sharp rise in overall risk since the start of the year is primarily due to the continuing credit crunch. Price volatility on the ABS and bond markets has risen significantly, in tandem with widening spreads. Despite the reduction in risk exposure, the main impact was to increase the share of the interest rate risk component (issuer-related spread risk, incl. basic risks) within the interest rate VaR as a proportion of overall risk. As a result, the market risk capital requirement used in the risk absorption calculation more than doubled.

Liquidity risk

The global credit crunch continued to affect BayernLB Group's liquidity in the first half of 2008. It was a difficult market environment for liquidity management, with central banks operating more restrictive collateral policies, market segments narrowing due to reticence of participants and spreads widening.

Liquidity reserves remain adequate. BayernLB's regulatory liquidity ratio was higher than the minimum threshold set by the supervisory authorities (stable ratio of between 1.29 and 1.35 with a threshold of 1). Internal scenario analyses show that BayernLB Group remains in a position to cover its refinancing requirements, even if the market deteriorates further.

BayernLB Group also has an adequate portfolio of securities eligible for refinancing at central banks (European Central Bank (ECB) and Federal Reserve System (Fed)) to ensure its solvency at all times, even in the context of the global credit crunch.

Internal analyses underscore that BayernLB Group remains in a good, stable liquidity situation overall.

Liquidity overviews are created for the economic management and monitoring of liquidity risks. Cumulative liquidity gaps arising from balance sheet items, commitments and guarantees, termination rights and derivatives are deducted from the realisable liquidity coverage potential in each maturity band to calculate the liquidity surplus.

Cumulative figures in EUR million	up to 1 month	up to 3 months	up to 1 year	up to 5 years
Liquidity surplus	32,173	24,417	12,207	36,683
equals				
Liquidity coverage potential	50,333	56,086	51,410	24,562
less				
Liquidity gap from balance sheet items	7,049	15,154	16,190	-20,855
Liquidity gap from commitments and guarantees	9,945	15,427	21,185	7,014
Liquidity gap from termination rights	1,201	884	1,317	1,129
Liquidity gap from derivatives	-35	203	511	591

As can be seen from the table above, BayernLB Group retains a sufficient liquid surplus across all maturities.

Operational risks

There were no significant changes in the Group's operational risks.

Interim Consolidated Financial Statements

Income statement for the period from 1 January to 30 June 2008

	Notes	EUR million	1 Jan – 30 June 2008 EUR million	1 Jan – 30 June 2007 EUR million
Interest income		10,306		9,494
Interest expense		-9,018		-8,407
Net interest income	(3)		1,288	1,087
Risk provisions for credit business	(4)		-179	5
Net interest income after risk provisions			1,109	1,092
Commission income		538		425
Commission expense		-251		-233
Net commission income	(5)		287	192
Result from fair value measurement	(6)		-145	264
Result from hedge accounting			29	58
Result from financial investments	(7)		-915	134
Administrative expenses	(8)		-1,131	-781
Other result	(9)		171	72
Operating result			-595	1,032
Restructuring expenses	(10)		-35	0
Result from ordinary activities/Earnings before taxes			-630	1,032
Income taxes			-101	-124
Earnings after taxes			-731	908
Minority interests			9	-34
Consolidated net income			-722	874

Calculations may result in the figures in the table being rounded up or down by ± one unit.

Balance sheet as at 30 June 2008

Assets

EUR million	Notes	30 June 2008	31 Dec 2007
Cash reserves		3,051	4,207
Loans and advances to banks	(11)	69,239	68,311
Loans and advances to customers	(12)	186,168	175,567
Risk provisions	(13)	-2,351	-2,307
Assets held for trading	(14)	78,871	84,812
Positive fair values from derivative financial instruments (hedge accounting)		1,519	1,944
Financial investments	(15)	63,177	67,827
Investment property	(16)	3,464	3,375
Property, plant and equipment	(17)	1,958	1,786
Intangible assets	(18)	2,561	2,571
Tax assets		5,683	5,397
Other assets	(19)	2,300	2,148
Total assets		415,641	415,639

Calculations may result in the figures in the table being rounded up or down by \pm one unit.

Liabilities

EUR million	Notes	30 June 2008	31 Dec 2007
Liabilities to banks	(20)	96,731	93,446
Liabilities to customers	(21)	95,943	92,617
Securitised liabilities	(22)	121,598	122,895
Liabilities held for trading	(23)	65,067	68,568
Negative fair values from derivative financial instruments (hedge accounting)		2,790	2,104
Provisions	(24)	2,970	3,016
Tax liabilities		5,130	5,192
Other liabilities	(25)	2,304	2,454
Subordinated capital	(26)	11,563	12,453
Equity	(27)	11,546	12,893
Equity excluding minority interests		9,298	10,835
Subscribed capital		3,554	3,082
Specific-purpose capital		612	612
Hybrid capital instruments		613	621
Capital reserve		476	476
Revenue reserves		6,476	6,547
Revaluation reserve		-1,800	-672
Foreign currency translation reserve		89	43
Consolidated net income		-722	126
Minority interests		2,248	2,058
Total liabilities		415,641	415,639

Calculations may result in the figures in the table being rounded up or down by \pm one unit.

Statement of changes in equity

EUR million	Group									Minority interests	Consolidated equity
	Subscribed capital	Specific-purpose capital	Hybrid capital instruments	Capital reserve	Revenue reserves	Revaluation reserve	Currency translation reserve	Consolidated net income	Equity before minority interests		
As at 1 Jan 2007	3,082	612	581	476	6,797	330	7	122	12,007	552	12,559
Change in revaluation reserve						-30			-30		-30
Currency-related changes							7		7	4	11
Total changes not recognised in income						-30	7		-23	4	-19
Consolidated net income								874	874	34	908
Comprehensive income						-30	7	874	851	38	889
Capital increase/capital decrease											
Changes in the scope of consolidation and other changes			240		-141				99	-16	83
Dividends paid								-122	-122		-122
As at 30 June 2007	3,082	612	821	476	6,656	300	14	874	12,835	574	13,409

Calculations may result in the figures in the table being rounded up or down by ± unit.

EUR million	Group								Minority interests		
	Subscribed capital	Specific-purpose capital	Hybrid capital instruments	Capital reserve	Revenue reserves	Revaluation reserve	Currency translation reserve	Consolidated net income	Equity before minority interests	Consolidated equity	
As at 1 Jan 2008	3,082	612	621	476	6,547	-672	43	126	10,835	2,058	12,893
Change in revaluation reserve						-1,128			-1,128		-1,128
Currency-related changes							46		46	6	52
Total changes not recognised in income						-1,128	46		-1,082	6	-1,076
Consolidated net income								-722	-722	-9	-731
Comprehensive income						-1,128	46	-722	-1,804	-3	-1,807
Capital increase/capital decrease	500								500		500
Changes in the scope of consolidation and other changes	-28		-8		-71				-107	193	86
Dividends paid								-126	-126		-126
As at 30 June 2008	3,554	612	613	476	6,476	-1,800	89	-722	9,298	2,248	11,546

Calculations may result in the figures in the table being rounded up or down by ± unit.

Cash flow statement (condensed)

EUR million	1 Jan – 30 June 2008	1 Jan – 30 June 2007
Cash on hand at end of previous period	4,207	1,856
+/- Cash flow from operating activities	-345	-117
+/- Cash flow from investment activities	-340	-414
+/- Cash flow from financing activities	-545	806
+/- Exchange-rate, scope of consolidation and valuation-related change in cash and cash equivalents	74	27
Cash on hand at end of period	3,051	2,158

Notes

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(5) Net commission income	(9) Other results
(6) Result from fair value measurement	(10) Restructuring expenses
Notes to the balance sheet	44
(11) Loans and advances to banks	(20) Liabilities to banks
(12) Loans and advances to customers	(21) Liabilities to customers
(13) Risk provisions	(22) Securitised liabilities
(14) Assets held for trading	(23) Liabilities held for trading
(15) Investment assets	(24) Provisions
(16) Investment property	(25) Other liabilities
(17) Property, plant and equipment	(26) Subordinated capital
(18) Intangible assets	(27) Equity
(19) Other assets	
Other notes	52
(28) Trust activities	(31) Issues, repurchases and redemptions of bonds and equity instruments
(29) Contingent liabilities and other liabilities	(32) Administrative bodies of BayernLB
(30) Derivatives transactions	

Notes

Notes to the interim financial statements

The BayernLB Group Interim Report as at 30 June 2008 has been prepared in accordance with Commission Regulation 1606/2002 (IAS Regulation) of the European Parliament and of the Council of 19 July 2002 on the application of international financial reporting standards, and in conjunction with Section 315a (1) of the German Commercial Code (HGB). The Interim Report complies with the requirements of IAS 34.

All amounts are given in EUR million unless otherwise stated. Figures in the tables may be rounded up or down by \pm one unit and are not normally preceded by a symbol if it is clear from the context.

Accounting policies

(1) Basis

The accounting methodology used for the Interim Report as at 30 June 2008 was essentially the same as that used in the 2007 consolidated financial statements. Information given in this Interim Report is to be read in conjunction with the information in the published and audited consolidated financial statements as at 31 December 2007.

In order to better reflect the real state of affairs, the method of recognising the result of derivatives in economic hedges which are used to hedge financial instruments shown at fair value (fair value option) has been changed with effect from the 2008 financial year. The realised gains/losses and valuation gains/losses on these derivatives are now shown within the result from fair value measurement item under the fair value result from the fair value option, instead of, as previously, in the trading result. Since the first half of 2008, current income has been recognised in net interest income, in line with other derivatives in economic hedges. Current income from these derivatives in the review period was EUR 13 million (30 June 2007: EUR 22 million), while realised gains/losses and the revaluation result contributed EUR -47 million (30 June 2007: EUR -128 million).

Income tax expenses in the Interim Report are calculated based on the expected income tax ratio for the full year.

(2) Scope of consolidation

In addition to the parent company, the group of companies consolidated within BayernLB comprises 174 (31 December 2007: 164) subsidiaries, of which 9 (31 December 2007: 9) are special-purpose entities and 8 (31 December 2007: 7) are special funds that are fully consolidated in accordance with IAS 27 and SIC 12. The consolidated financial statements do not include companies which are only proportionately consolidated.

Five joint ventures and 7 associated companies are valued at equity (unchanged versus 31 December 2007).

The following companies have been added to the BayernLB Group scope of consolidation with effect from 1 January 2008:

- BayernInvest DKB I-Fonds, Munich
- DKB Wohnungsgesellschaft Sachsen mbH, Leipzig
- GBW Gebäudemanagement GmbH, Munich
- Griff Ingatlanhasznosító Kft., Budapest
- HYPO SINDELIC DOO BEOGRAD, Belgrade
- HYPO INVESTMENTS a.d. Beograd, Belgrade
- HYPO ULAGANJA d.o.o., Zagreb
- HYPO PB DOO BEOGRAD, Belgrade
- Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich
- S.C. Corporate Recovery Management S.R.L., Bucharest

Materiality criteria are used to determine which companies are included within the BayernLB scope of consolidation. Due to their minor importance individually and as a group in relation to the assets, results and financial position of the Group, 339 (31 December 2007: 294) entities were neither consolidated nor valued at equity. The accounting effects from the contractual relationships between Group companies and these non-consolidated companies are shown in the Interim Report.

Segment reporting

Segment reporting reflects the BayernLB Group's business structure. Eight segments comprising the operational business areas, the dependent entities BayernLabo and LBS Bayern, the Group's strategic subsidiaries and the Support Operations/Other segment are shown. In addition to each segment's operating profit, the results include the results of the consolidated subsidiaries and units allocated to each segment. The members of the Board of Management in charge of each segment are responsible for earnings and serve as segment managers as defined in IFRS 8.8. The Support Operations/Other segment shows the earnings contributions that are not attributable to the segments. This includes in particular earnings contributions from Support Operations that cannot be allocated to the operational units in a way which reflects where they were generated.

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 under IFRS 8.7. The management reports are based on the IFRS accounting methodology for consolidated financial statements; reconciliation of the segment reporting to the IFRS accounting methodology used in the consolidated financial statements is therefore not necessary. Most of the earnings contributions shown under the segments are from financial services.

The additional information under IFRS 8.3.2 is not appropriate for banks, and the costs of providing the information would also be too high.

Segment report as at 30 June 2008

EUR million	Corporates	Real Estate	Financial Markets	Financial Institutions & Sovereigns	Savings Banks & Bavarian Market	BayernLabo/ LBS Bayern	The Group's Strategic Subsidiaries	Support operations/Other	Consolidation	Group
Net interest income	169	86	60	76	34	145	731	-54	41	1,288
Risk provisions for credit business	-75	-43	1	2	1	6	289	-2	0	179
Net commission income	65	29	12	49	20	4	126	-8	-10	287
Result from fair value measurement	21	6	-344	22	18	7	168	-2	-41	-145
Result from hedge accounting	-1	0	32	0	0	0	-2	0	0	29
Result from financial investments	-2	0	-898	0	1	-1	-14	0	-1	-915
Administrative expenses	114	69	66	42	85	62	639	55	-1	1,131
Other result	4	8	7	0	-1	1	94	26	32	171
Operating result	219	104	-1,199	103	-15	89	175	-94	23	-595
Restructuring expenses	0	0	14	0	1	0	7	13	0	35
Result from ordinary activities/ Earnings before taxes	219	104	-1,213	103	-15	89	168	-108	23	-630
Segment assets	39,281	19,087	181,300	54,221	28,007	21,923	131,732	19,232	-79,142	415,641
Risk positions	38,400	12,157	27,126	16,094	3,473	2,963	80,652	10,035	--	190,900
Average reported equity	1,886	560	621	706	136	4,019	5,427	1,187	-4,063	10,479
Return on equity (RoE) (%)	23.2	37.0	-386.4	29.2	-21.6	17.2	6.4	--	--	-17.1*
Cost/income ratio (CIR) (%)	43.8	53.1	--	28.7	120.8	39.2	57.3	--	--	69.4
Average number of full-time employees	301	164	562	119	342	819	13,879	2,887	--	19,073

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

Segment report as at 30 June 2007

EUR million	Corporates	Real Estate	Financial Markets	Financial Institutions & Sovereigns	Savings Banks & Bavarian Market	BayernLabo/ LBS Bayern	The Group's Strategic Subsidiaries	Support operations/Other	Consolidation	Group
Net interest income	187	109	169	71	47	144	392	7	-39	1,087
Risk provisions for credit business	-52	-21	0	-11	-10	2	78	2	7	-5
Net commission income	67	16	18	21	38	15	31	-14	0	192
Result from fair value measurement	-3	0	-10	0	3	5	225	19	25	264
Result from hedge accounting	0	0	61	0	0	0	-4	1	0	58
Result from financial investments	-2	0	15	0	0	-19	518	9	-387	134
Administrative expenses	84	49	154	25	72	64	295	55	-17	781
Other result	0	2	6	0	2	4	-7	59	6	72
Operating result	218	99	105	78	28	83	782	26	-386	1,032
Restructuring expenses	0	0	0	0	0	0	0	0	0	0
Result from ordinary activities/ Earnings before taxes	218	99	105	78	28	83	782	26	-386	1,032
Segment assets	37,790	15,848	190,416	48,956	30,783	20,844	82,251	19,800	-70,494	376,194
Risk positions	41,494	14,432	47,034	14,424	8,709	3,797	44,282	-3,372	--	170,800
Average reported equity	1,749	567	1,800	567	342	4,220	3,060	3,230	-4,217	11,318
Return on equity (RoE) (%)	24.9	35.0	11.7	27.6	16.2	11.2	50.0	--	--	22.2*
Cost/income ratio (CIR) (%)	33.4	38.4	63.1	27.5	81.1	38.0	46.3	--	--	46.6
Average number of full-time employees	243	162	546	106	325	793	6,197	2,880	--	11,252

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

Reported equity is allocated to the segments for the purpose of internal management on the basis of risk positions in accordance with the German Solvency Ordinance (SolvV) for 2008 and Principle I for 2007. The difference between risk positions relevant for internal management and the regulatory report at Group level is allocated to the Support Operations/Other segment.

Return on equity is determined by dividing the operating result by the average allocated capital. The cost/income ratio is the ratio of administrative expenses to the sum of net interest income, net commission income, result from fair value measurement, result from hedging transactions and the "other result".

Since 1 January 2008, all income and expenses arising from customer business in the Financial Markets segment have been allocated to the segments responsible for customer service.

Notes on delimitation of segments:

The Corporates segment covers the Corporates Business Area and companies that contribute to the segment's performance: Kommanditgesellschaft Allgemeine Leasing GmbH & Co., Grünwald (valued at equity); Dorrit Investments (Guernsey) Ltd., Guernsey; and Trotwood Investments S.A.R.L., Luxembourg. The Corporates segment serves large SME corporate customers in Germany as well as multinationals in Germany and in the Bank's core markets of Europe, North America and Asia.

The Real Estate segment covers BayernLB's commercial and residential real estate customers at domestic and international level, along with the company Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich, consolidated since 1 January 2008.

The Financial Markets segment combines all trading and issuing activities as well as BayernLB's asset and liability management (ALM) activities. It also includes the units Giro Funding US Corporation, Delaware; Giro Multi-Funding Corporation, Delaware; Giro Balanced Funding Corporation, Delaware; Giro Lion Funding Limited, Jersey; Isar Securities Ltd., Jersey; Lion Securities Limited, Jersey; and BayernInvest Kapitalanlagegesellschaft mbH, Munich, which are subject to consolidation and contribute to the segment's performance.

The Financial Institutions & Sovereigns segment covers BayernLB's business relations worldwide with banks, insurance companies and other institutional customers, and government and non-Bavarian municipal customers from the public sector.

The Savings Banks & Bavarian Market segment encompasses all of BayernLB's activities in support of the Bavarian savings banks and of Bavarian municipal and corporate customers. BayernLB's retail banking activities (retail customers and credit card business) are also included in this segment.

The BayernLabo/LBS Bayern segment covers the legally dependent institutions Bayerische Landesbodenkreditanstalt (BayernLabo) and Bayerische Landesbausparkasse (LBS Bayern). The LBMUE I-III, Munich, special funds are also allocated to the segment.

The Group's Strategic Subsidiaries segment covers all consolidated strategic subsidiaries of the BayernLB Group: the Deutsche Kreditbank AG sub-group, Berlin; the MKB Bank Zrt sub-group, Budapest; the Landesbank Saar sub-group, Saarbrücken; Banque LBLux S.A., Luxembourg; and, since October 2007, the Hypo Alpe Adria Bank International AG sub-group, Klagenfurt. The subsidiaries concerned are not segmented based on the management approach. Business activities are mainly focused on retail and private banking.

The Support Operations/Other segment comprises the earnings contributions of the Corporate Center, Risk Office, Corporate Services (up to 30 June 2007) and Financial Office Support Operations. These mainly consist of the earnings from the relevant participations and expenditure on the refinancing and management of these participations. The refinancing costs of the Group's strategic subsidiaries are also allocated to the segment. The segment also includes cross-divisional business transactions whose earnings contributions cannot be allocated to either a business area or a support operation. BayernLB Capital LLC I, Wilmington – a subsidiary subject to consolidation – and sub-group GBWAG Bayerische Wohnungs-AG, Munich are also allocated to this segment.

The Consolidation column shows consolidation entries not broken down by segment.

Earnings from normal banking operations after risk provisioning (net interest income and net commission income, the result from fair value measurement, the result from hedging transactions and the result from financial investments) were EUR 365 million (30 June 2007: EUR 1,740 million), of which EUR 579 million (30 June 2007: EUR 339 million) was contributed by Europe excluding Germany, EUR -885 million (30 June 2007: EUR 165 million) by America, and EUR -2 million (30 June 2007: EUR 18 million) by Asia-Pacific. The negative result for the Americas region is a consequence of charges in relation to the financial market crisis.

Notes to the income statement

(3) Net interest income

EUR million	1 Jan – 30 June 2008	1 Jan – 30 June 2007
Interest income	10,306	9,494
Interest income from credit and money market transactions	6,263	5,029
of which:		
interest income from unwinding	36	46
Interest income on bonds, notes and other fixed-interest securities	1,556	1,621
Current income on equities and other non-fixed interest securities	12	23
Current income on non-consolidated subsidiaries, joint ventures, associated companies and other participations	24	24
Current income on profit-pooling and profit transfer agreements	1	18
Interest income from hedge accounting derivatives	1,927	2,186
Interest income from derivatives in economic hedges	523	593
Interest expenses	9,018	8,407
Interest expenses for liabilities to banks and customers	3,702	3,115
Interest expenses for securitised liabilities	2,531	2,371
Interest expenses for subordinated capital	316	254
Interest expenses for hedge accounting derivatives	1,773	1,817
Interest expenses for derivatives in economic hedges	813	968
Other interest expenses	77	51
Refinancing expenses for trading portfolios	-194	-169
Total	1,288	1,087

(4) Risk provisions for the credit business

EUR million	1 Jan – 30 June 2008	1 Jan – 30 June 2007
Allocations	501	135
Direct write-offs	19	20
Reversals	299	149
Receipts on written-off receivables	52	17
Other risk provision results	-10	-6
Total	179	-5

The amounts include both on-balance-sheet and off-balance-sheet credit business.

(5) Net commission income

EUR million	1 Jan – 30 June 2008	1 Jan – 30 June 2007
Securities business	37	30
Broker fees	-5	-5
Credit business	161	92
Payments	37	25
Foreign commercial operations	3	4
Building savings business	-11	-1
Trust transactions	10	9
Other services	55	38
Total	287	192

(6) Result from fair value measurement

EUR million	1 Jan – 30 June 2008	1 Jan – 30 June 2007
Trading Result	-124	279
Interest driven transactions	502	365
Equity-related and index-related transactions and transactions with other risks	-31	-41
Currency-related transactions	165	139
Credit derivatives	-559	-16
Other financial transactions	0	7
Refinancing of trading portfolios	-194	-169
Trading-related fees	-7	-6
Fair value result from the fair value option	-21	-15
Total	-145	264

These figures include the results from foreign currency translation.

Trading results include realised and unrealised gains or losses attributable to trading activities and the interest and dividend income related to such transactions.

Interest income and expense from the portfolios in the fair value option and derivatives in economic hedges are reported under net interest income.

(7) Result from financial investments

EUR million	1 Jan – 30 June 2008	1 Jan – 30 June 2007
Result from available-for-sale financial investments	-920	24
Gains on sale	-1	39
Income from write-backs	10	5
Expenses from write-downs	929	20
Results from interests in companies valued at equity	5	129
Result from repurchases of own issues	0	-19
Total	-915	134

Gains or losses from the disposal of underlying transactions involved in hedge accounting are reported under "Other result".

(8) Administrative expenses

EUR million	1 Jan – 30 June 2008	1 Jan – 30 June 2007
Personnel expenses	559	398
Salaries and wages	432	312
Social security contributions	67	37
Expenses for pensions and other employee benefits	60	49
Other administrative expenses	462	350
Depreciation to property, plant and equipment and intangible assets (not including goodwill)	110	33
Total	1,131	781

(9) Other results

EUR million	1 Jan – 30 June 2008	1 Jan – 30 June 2007
Other income	564	241
Other expenses	393	169
Total	171	72

(10) Restructuring expenses

EUR million	1 Jan – 30 June 2008	1 Jan – 30 June 2007
Efficiency programme	28	0
Other programmes	7	0
Total	35	0

EUR 28 million of the restructuring expenses relate to measures under BayernLB's efficiency programme, which during the reporting period consisted mainly of the strategic realignment of the Financial Markets Business Area and downstream Support Operations. Further restructuring expenses relate to programmes at subsidiaries.

Notes to the balance sheet**(11) Loans and advances to banks**

EUR million	30 June 2008	31 Dec 2007
Loans and advances to domestic banks	37,165	37,602
Loans and advances to foreign banks	32,074	30,709
Total	69,239	68,311

(12) Loans and advances to customers

EUR million	30 June 2008	31 Dec 2007
Loans and advances to domestic customers	98,266	95,789
Loans and advances to foreign customers	87,902	79,778
Total	186,168	175,567

(13) Risk provisions

EUR million	30 June 2008	31 Dec 2007
Specific loan loss provisions	1,902	1,920
Portfolio provisions	449	387
Total	2,351	2,307

Specific loan loss provisions

EUR million	Loans and advances to banks		Loans and advances to customers		Other asset items		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
As at 1 Jan	7	10	1,908	1,839	5	0	1,920	1,849
Changes in value impacting the income statement	0	-3	138	-47	3	0	141	-50
Allocations	0	0	401	111	3	0	404	111
Reversals	0	3	227	112	0	0	227	115
Unwinding	0	0	36	46	0	0	36	46
Changes in value with no impact on the income statement	0	-1	-159	-353	0	0	-159	-354
Changes from currency translation	0	0	17	0	0	0	17	0
Changes in the scope of consolidation	0	0	0	-4	0	0	0	-4
Utilisation	0	1	201	361	0	0	201	362
Transfers/Other changes	0	0	25	12	0	0	25	12
As at 30 June	7	6	1,887	1,439	8	0	1,902	1,445

Portfolio provisions

EUR million	Loans and advances to banks		Loans and advances to customers		Other asset items		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
As at 1 Jan	32	25	353	277	2	0	387	302
Changes in value impacting the income statement	3	-5	60	11	-2	0	61	6
Allocations	5	1	101	30	0	0	106	31
Reversals	2	6	41	19	2	0	45	25
Changes in value with no impact on the income statement	0	0	1	-24	0	0	1	-24
Changes from currency translation	0	0	-2	-2	0	0	-2	-2
Utilisation	0	0	19	20	0	0	19	20
Transfers/Other changes	0	0	22	-2	0	0	22	-2
As at 30 June	35	20	414	264	0	0	449	284

Allowances for contingent liabilities and other liabilities are shown as provisions for risks in the credit business (see note 24).

(14) Assets held for trading

EUR million	30 June 2008	31 Dec 2007
Bonds, notes and other fixed-interest securities	13,224	15,044
Money market instruments	2,020	709
Bonds and notes	11,204	14,335
Equities and other non-fixed interest securities	277	168
Receivables held for trading	47,704	53,857
Schuldschein note loans	514	612
Money market transactions	47,190	53,245
Positive fair values from derivative financial instruments (no hedge accounting)	17,666	15,743
Total	78,871	84,812

(15) Investment assets

EUR million	30 June 2008	31 Dec 2007
Bonds, notes and other fixed-interest securities	61,206	65,699
Equities and other non-fixed interest securities	787	888
Interests in non-consolidated subsidiaries, joint ventures and associated companies	516	557
Other participations	668	683
Total	63,177	67,827

(16) Investment property

EUR million	30 June 2008	31 Dec 2007
Land and buildings leased	3,391	3,286
Undeveloped land	37	52
Unoccupied buildings	36	37
Total	3,464	3,375

(17) Property, plant and equipment

EUR million	30 June 2008	31 Dec 2007
Land and buildings for own use	1,177	1,121
Operating and office equipment	270	282
Equipment leased under operating leases	511	383
Total	1,958	1,786

(18) Intangible assets

EUR million	30 June 2008	31 Dec 2007
Goodwill	1,010	998
Intangible assets produced in-house	8	7
Other intangible assets	1,543	1,566
Total	2,561	2,571

(19) Other assets

EUR million	30 June 2008	31 Dec 2007
Prepaid expenses	147	147
Other assets	1,515	1,393
Leasing assets that have not yet been leased	628	604
Non-current assets held for sale and disposal groups	10	4
Total	2,300	2,148

(20) Liabilities to banks

EUR million	30 June 2008	31 Dec 2007
Liabilities to domestic banks	55,467	60,470
Liabilities to foreign banks	41,264	32,976
Total	96,731	93,446

(21) Liabilities to customers

EUR million	30 June 2008	31 Dec 2007
Liabilities to domestic customers	69,969	66,252
Liabilities to foreign customers	25,974	26,365
Total	95,943	92,617

(22) Securitised liabilities

EUR million	30 June 2008	31 Dec 2007
Bonds and notes issued	108,626	109,588
Other securitised liabilities	12,972	13,307
Total	121,598	122,895

(23) Liabilities held for trading

EUR million	30 June 2008	31 Dec 2007
Trading portfolio liabilities	47,986	54,153
Money market transactions	47,124	53,220
Liabilities from short sales	862	933
Negative fair values from derivative instruments (not hedge accounting)	17,081	14,415
Total	65,067	68,568

(24) Provisions

EUR million	30 June 2008	31 Dec 2007
Provisions for pensions and similar obligations	2,363	2,320
Other provisions	607	696
Provisions for the credit business	172	210
Restructuring provisions	33	5
Other provisions	402	481
Total	2,970	3,016

(25) Other liabilities

EUR million	30 June 2008	31 Dec 2007
Pre-paid income	640	688
Other liabilities	1,260	1,335
Accruals	404	431
Total	2,304	2,454

(26) Subordinated capital

EUR million	30 June 2008	31 Dec 2007
Subordinated liabilities	8,119	8,233
Profit participation certificates (debt component)	1,799	2,264
Contributions of silent partners (debt component)	877	1,131
Hybrid capital	768	825
Total	11,563	12,453

(27) Equity

EUR million	30 June 2008	31 Dec 2007
Equity excluding minority interests	9,298	10,835
Subscribed capital	3,554	3,082
Statutory nominal capital	2,300	1,800
Undated capital contributions from silent partners	1,254	1,282
Special-purpose capital	612	612
Hybrid capital instruments	613	621
Profit participation certificates (equity component)	414	420
Dated capital contributions from silent partners (equity component)	199	201
Capital reserves	476	476
Revenue reserves	6,476	6,547
Statutory reserve	1,268	1,268
Other retained earnings	5,208	5,279
Revaluation reserve	-1,800	-672
Foreign currency translation reserve	89	43
Consolidated net income	-722	126
Minority interests	2,248	2,058
Total	11,546	12,893

Statutory nominal capital was increased by EUR 500 million in the first half of 2008 to EUR 2,300 million. This increase was carried out in connection with the acquisition of Hypo Alpe Adria Bank International AG, Klagenfurt.

Silent partnership contributions with a fixed term or recallable by the lender as well as profit participation rights are compound financial instruments and have to be divided into their equity and debt components (split accounting). The equity components correspond to the present value of future distributions. As no distributions are made based on the interim results, the amount of the equity components – with the exception of items falling due in the first half of 2008 – corresponds to the figures at 31 December 2007. For a detailed description of the accounting methodology, see note 21 on page 102 of our Annual Report 2007.

Other notes**(28) Trust activities**

EUR million	30 June 2008	31 Dec 2007
Assets held in trust	11,038	10,372
Loans and advances to banks	173	189
Loans and advances to customers	6,946	7,235
Other assets	3,919	2,948
Liabilities held in trust	11,038	10,372
Liabilities to banks	37	207
Liabilities to customers	6,981	7,118
Other liabilities	4,020	3,047

(29) Contingent liabilities and other liabilities

EUR million	30 June 2008	31 Dec 2007
Contingent liabilities	21,266	23,636
Contingent liabilities arising from negotiated and discounted bills	3	4
Liabilities from guarantees and indemnity agreements	21,228	23,632
Liabilities from collateral furnished for third-party obligations	35	0
Other liabilities	54,660	60,418
Underwriting and issuance facilities	187	0
Sale and repurchase agreements	451	387
Irrevocable credit commitments	54,022	60,031
Total	75,926	84,054

(30) Derivatives transactions

The table below shows interest rate-related and foreign currency-related derivatives, as well as other forward transactions and credit derivatives not yet settled as per 30 June 2008.

EUR million	Nominal value		Positive	Negative
	30 June 2008	31 Dec 2007	market values	market values
Interest-rate risks	1,251,126	1,081,683	12,686	14,065
Currency risks	152,622	136,955	3,975	3,270
Equities and other price risks	1,761	7,686	546	484
Credit derivative risks	123,884	136,462	1,977	2,051
Total	1,529,393	1,362,786	19,184	19,870
of which:				
Trading transactions	1,434,430	1,263,694	17,666	17,081

(31) Issues, repurchases and redemptions of bonds and equity instruments

During the reporting period, BayernLB issued bonds and hybrid capital instruments subject to split accounting in the amount of EUR 30,789 million and repurchased or redeemed such instruments in the amount of EUR 27,562 million.

(32) Administrative bodies of BayernLB

Board of Administration

Dr Siegfried Naser

Chairman
Executive President
Association of Bavarian Savings Banks
Munich

Erwin Huber

First Deputy Chairman
State Minister
Bavarian State Ministry of Finance
Munich

Hansjörg Christmann

Second Deputy Chairman
Chief District Administrator
Dachau

Joachim Herrmann

Third Deputy Chairman
State Minister
Bavarian State Ministry of the Interior
Munich

Alois Hagl

Chairman of the Board of Directors of
Sparkasse im Landkreis Schwandorf
Schwandorf

Jürgen W. Heike

State Secretary
Bavarian State Ministry of the Interior
Munich

Karl-Ludwig Kamprath

Chairman of the Board of Directors of
Kreissparkasse München-Starnberg
Munich

Emilia Müller

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

Hans Schaidinger

Lord Mayor
Regensburg

Klaus Weigert

Deputy Secretary
Bavarian State Ministry of Finance
Munich

Board of Management (including allocation of tasks from 1 July 2008)**Dr Michael Kemmer**

Chairman (from 1 March 2008)

Corporate Center Support Operations

- Corporate Development/Board of Management Support
- Corporate Communications Division
- Human Resources Division
- Audit Division

Theo Harnischmacher

Deputy Chairman

Savings Banks &

Bavarian Market Business Area

LBS Bayern

Dr Rudolf Hanisch

Deputy Chairman

Corporate Center Support Operations

- Legal Services, Compliance Center and Prevention of Money Laundering Division¹

Real Estate Business Area

Financial Institutions &

Sovereigns Business Area

BayernLabo

Stefan W. Ropers

Corporate Center Support Operations

- Economics and Research Division

Corporates Business Area

Financial Markets Business Area,
including Group Treasury

Dr Ralph Schmidt

Risk Office Support Operations

Stefan Ermisch

(from 1 July 2008)

Financial Office Support Operations

Corporate Center Support Operations

- Group IT Division
- Organisation & IT Division

Werner Schmidt

Chairman (until 29 February 2008)

Dr Gerhard Gribkowsky

(until 2 April 2008)

¹ The Compliance unit, the anti-money-laundering and economic crime prevention officers and the data protection officer report directly to the Board of Management but are organisationally part of the Legal Services Division.

Responsibility statement by the Board of Management

We affirm that to the best of our knowledge and in accordance with the applicable interim reporting principles the consolidated interim financial statements give a true and fair view of the net assets, financial position and results of operations of the Group and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group in the remainder of the financial year.

Munich, 26 August 2008

**Bayerische Landesbank
The Board of Management**

Dr Michael Kemmer

Theo Harnischmacher

Dr Rudolf Hanisch

Stefan W. Ropers

Dr Ralph Schmidt

Stefan Ermisch

Review report

To Bayerische Landesbank, Munich

We have reviewed the condensed consolidated interim financial statements – comprising the condensed balance sheet, condensed income statement, condensed cash flow statement, condensed statement of changes in equity and selected explanatory notes – and the interim group management report of Bayerische Landesbank, Munich, for the period from 1 January to 30 June 2008 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 Board of Management of Bayerische Landesbank. 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 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, 26 August 2008

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes

Wirtschaftsprüfer (German Public Auditor)

Eberhard Feil

Wirtschaftsprüfer (German Public Auditor)

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