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Group Financial Report

First quarter of 2009

 Finanzgruppe Bayern

 Bayern LB

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Note:

This Group financial report as at 31 March 2009 has been prepared with great care. The information is presented voluntarily for our customers and the public. The report does not contain all the information and data required under IAS 34 (Interim Financial Reporting) nor does it fully comply with the disclosure and valuation standards of IFRS. The results have not been audited or reviewed for correctness.

BayernLB Group – the first quarter of 2009 at a glance

Key income statement figures

EUR million	1 Jan – 31 Mar 2009	1 Jan – 31 Mar 2008
Net interest income	574	633
Risk provisions for the credit business	-138	-71
Net commission income	115	123
Gains or losses on fair value measurement	166	-478
Gains or losses on investments	268	-503
Administrative expenses	-553	-595
Operating profit/loss	557	-770
Restructuring expenses	-226	-
Earnings before taxes	331	-770

Key balance sheet figures

EUR billion	31 Mar 2009	31 Dec 2008
Total assets	426.6	421.7
Credit volume	321.3	314.6
Equity and subordinated capital	29.1	23.1

Key banking supervisory ratios*

	31 Mar 2009 incl. 2008 results	31 Dec 2008 as reported
Core capital (EUR billion)	18.3	15.8
Own funds (EUR billion)	26.1	24.2
Risk positions (EUR billion)	191.8	197.7
Core capital ratio (in %)	9.6	8.0
Own funds ratio (in %)	13.6	12.3

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

Current ratings

	Long-term	Short-term	Pfandbriefs*
Fitch Ratings	A+	F1+	AAA
Moody's Investors Service	Aa2	Prime-1	Aaa
Standard & Poor's	BBB+	A-2	AAA

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

Business performance in the first quarter of 2009

Earnings

EUR million	1 Jan – 31 Mar 2009	1 Jan – 31 Mar 2008
Net interest income	574	633
Risk provisions for the credit business	-138	-71
Net interest income after risk provisions	436	562
Net commission income	115	123
Gains and losses on fair value measurement	166	-478
Gains or losses on hedge accounting	35	16
Gains or losses on investments	268	-503
Income from interests in companies valued at equity	–	2
Administrative expenses	-553	-595
Other income	89	103
Operating profit/loss	557	-770
Restructuring expenses	-226	–
Earnings before taxes	331	-770

The first quarter of 2009 finished with a positive pre-tax profit of EUR 331 million (Q1 2008: EUR -770 million). Thanks to the guarantee agreement with the Free State of Bavaria signed in December 2008 covering writedowns and defaults in the ABS portfolio, further losses from the credit substitute business could be avoided. Nonetheless, the negative effects of the global financial crisis continued to make themselves felt in a variety of ways: high funding costs, restricted business opportunities and increased capital requirements due to rating migrations resulting from the pro-cyclical effects of Basel II. Moreover, risk provisions are expected to rise as the economic recession leads to a decrease in gross domestic product and world trade volumes shrink.

Against this backdrop, the BayernLB Group can look with satisfaction on the overall performance of its customer-related business. Net interest income rose at all group strategic subsidiaries and most customer-related business areas but higher refinancing costs on international money and capital markets had a significant negative impact. Altogether, net interest income amounted to EUR 574 million (Q1 2008: EUR 633 million).

The consequences of the global economic slowdown with a rising number of corporate bankruptcies were also reflected in the increased amount of risk provisions for the credit business. Provisions rose by EUR -67 million compared to the same quarter in the year before to EUR -138 million. The two subsidiaries operating in Central and Eastern Europe accounted for nearly 80 percent of this.

Unadjusted for the commission expense related to the Financial Markets Stabilisation Fund (SoFFin) guarantee for the EUR 5 billion bond issued by BayernLB in January 2009, net commission income was slightly higher than in the first quarter of the year before, illustrating the success in cross-selling to corporate customers and institutions. However, adjusted for the fee due to SoFFin for providing the guarantee, net commission income fell by EUR 8 million to EUR 115 million.

Net trading income (gains and losses from fair value measurement and from hedging transactions) was a positive EUR 201 million (Q1 2008: EUR -462 million). Contributing in particular to this result were transactions in interest rate derivatives and gains or losses from the fair value option.

The collapse of the market for structured credit products again contributed to negative earnings at the beginning of 2009. Losses in the Bank's ABS portfolio are offset by gains in the market value of the Credit Default Swap (CDS) concluded with the Free State of Bavaria as part of its guarantee agreement. The ABS portfolio impacts both the net trading income and gains or losses on investments items. All gains in the market value of the CDS are disclosed in the gains or losses on investments item. For the first three months of 2009, gains or losses on investments amounted to EUR 268 million (Q1 2008: EUR -503 million).

The core BayernLB Bank accounted for much of the decrease in administrative expenses (EUR -553 million compared to EUR -595 million in Q1 2008). Nonetheless, the impact of cost-cutting measures in the strategic subsidiaries is also beginning to be felt. Personnel expenses fell by 5.4 percent to EUR -262 million and operating expenses sank by EUR 8.6 percent to EUR -291 million.

The other income item (EUR 89 million) includes the Group's real estate and leasing activities. Due to a decrease at HGAA, the figure for the first quarter of 2009 was EUR 14 million less than in the same quarter the year before.

Restructuring expenses, particularly for Project Hercules, which is responsible for the discontinuation of non-core activities in the Group, were given as EUR -226 million in the first quarter of 2009. The final amount required will be quantified after discussions with the EU Commission about the restructuring plan for the BayernLB Group are completed.

Return on Equity (RoE) was 19.7 percent in the first quarter of 2009 (Q1 2008: negative). The cost-income ratio (CIR) was a satisfactory 56.4 percent (Q1 2008: > 100 percent).

Banking supervisory capital

The EUR 10 billion recapitalisation of BayernLB by the Free State of Bavaria was completed in the first quarter of 2009 when a total of EUR 7 billion was paid in. The first tranche of EUR 3 billion was paid in on 30 December 2008.

The reduction in capital resulting from the net loss in 2008 has been included in the calculation of the banking supervisory capital figures and ratios as at 31 March 2009. The core capital ratio as at 31 March amounted to a good 9.6 percent. The own funds ratio was also a solid figure, amounting to 13.6 percent. Also contributing to the much improved equity ratios was an approximately 3 percent reduction in risk positions.

Net assets and financial position

Assets

EUR million	31 Mar 2009	31 Dec 2008
Cash reserves	1,808	3,796
Loans and advances to banks	92,560	89,638
Loans and advances to customers	205,388	202,567
Risk provisions	-3,502	-3,439
Portfolio hedge adjustment	742	546
Assets held for trading	47,714	47,349
Positive fair values from derivative financial instruments (hedge accounting)	4,542	3,929
Investments including interests in companies valued at equity	61,494	62,561
Investment property	3,656	3,517
Property, plant and equipment	1,871	1,951
Intangible assets	2,169	2,213
Tax assets	4,510	4,659
Other assets	3,602	2,378
Total assets	426,554	421,666

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

Liabilities

EUR million	31 Mar 2009	31 Dec 2008
Liabilities to banks	123,517	142,480
Liabilities to customers	102,742	91,307
Securitised liabilities	117,808	117,479
Liabilities held for trading	38,298	34,054
Negative fair values from derivative financial instruments (hedge accounting)	2,831	3,086
Provisions	3,167	3,112
Tax liabilities	4,831	4,902
Other liabilities	4,304	2,160
Subordinated capital	10,762	11,821
Equity	18,294	11,265
• Equity excluding minority interests	15,740	8,692
• Minority interests	2,554	2,573
Total liabilities	426,554	421,666

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

Total assets of the BayernLB Group rose just slightly by 1.2 percent to EUR 426.6 billion. Noteworthy changes on the liabilities side included a EUR 7 billion addition to equity and an EUR 11 billion increase in liabilities to customers. The cash inflow was mainly used to reduce liabilities to banks.

Segment results

The segment report is based on the monthly internal management report to the Board of Management and breaks down results by the Group's segments comprising the operating business areas; the Credit Investments Portfolio; the legally dependent entities BayernLabo and LBS Bayern; the Group's strategic subsidiaries and the Support Operations/Other/Consolidation segment. In addition to the operating profit of the business areas/support operations, the results of the individual segments include the results of the consolidated subsidiaries allocated to each segment.

The BayernLB Group's business with Mittelstand customers (middle-market companies) has been bundled into a new business area entitled Mittelstand and is included separately in the segment report beginning with FY 2009.

The Support Operations/Other/Consolidation segment shows the earnings contributions which are not attributable to the business segments. This includes in particular earnings contributions from support operations that cannot be allocated to the operating units in a way which reflects where they were generated. This segment also includes earnings from participations which are not allocated to the operating segments.

EUR million	Corporates	Real Estate	Mittelstand	Financial Markets	Credit Investments Portfolio	Financial Institutions & Sovereigns	Savings Banks and Bavarian Market	BayernLabo/LBS Bayern	The Group's Strategic Subsidiaries	Support Operations/Other / Consolidation	Group
Net interest income	125	49	14	-61	7	61	8	73	380	-82	574
Risk provisions for the credit business	-4	-2	-	9	-	-4	-3	-1	-133	-	-138
Net commission income	49	6	2	-9	-	18	1	-	52	-3	115
Gains or losses on fair value measurement	15	1	2	225	-78	8	12	-14	1	-7	166
Gains or losses on hedge accounting	-	-	-	19	-	-	-	-	17	-1	35
Gains or losses on investments	-	-	-	38	225	-	-	-	1	4	268
Administrative expenses	-53	-30	-18	-32	-1	-27	-14	-35	-319	-25	-553
Other income	-	5	-	9	-	-	-	1	53	22	89
Operating profit/loss	131	29	0	198	154	55	3	25	53	-92	557
Restructuring expenses	-3	-5	-	-4	-	-2	-	-	-	-211	-226
Earnings before taxes	128	24	0	194	154	53	3	25	53	-303	331
Return on equity (RoE) in %	16.1	10.6	0.3	39.0	41.3	18.3	32.3	23.3	2.2		19.7
Cost-income ratio in %	28.0	48.6	96.4	17.4	-0.8	31.8	71.5	57.1	63.4		56.4

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

Return on equity (RoE) in the first quarter of 2009 was in the double digits at the customer-related segments Corporates, Real Estate, Financial Institutions & Sovereigns, Savings Banks and the Bavarian Market, and BayernLabo/LBS Bayern.

Outlook

Although customer-related business performed well in a tough business environment during the first three months of 2009, the fallout from the financial crisis, especially the recession, will continue to weigh on results in 2009. In particular, risk provisions on a full-year basis are expected to rise even higher than the Q1 2009 figure projected at an annualised rate. In addition, the full scope of restructuring expenses cannot be estimated and quantified until ongoing talks with the EU Commission on the restructuring of BayernLB Group have been completed. Accordingly, additions to restructuring expense provisions can be expected over the course of the year. Therefore, despite the positive earnings in the first three months of 2009, given the above factors we are maintaining the cautious outlook for earnings, liquidity and performance of the BayernLB Group contained in the FY 2008 Annual Report.

Administrative bodies of BayernLB

Board of Administration

Georg Fahrenschon

Chairman
State Minister
Bavarian State Ministry of Finance
Munich

Dr. Siegfried Naser

First Deputy Chairman
Executive President
Association of Bavarian Savings Banks
Munich

Joachim Herrmann

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

Hansjörg Christmann

Third Deputy Chairman
Chief District Administrator
Dachau

Alois Hagl

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

Diethard Irrgang

Chairman of the General Staff Council
Bayerische Landesbank
Munich

Karl-Ludwig Kamprath

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

Hans Schaidinger

Lord Mayor
Regensburg

Klaus Weigert

Deputy Secretary
Bavarian State Ministry of Finance
Munich

Dr. Bernd Weiß

State Secretary
Bavarian State Ministry of the Interior
Munich

Martin Zeil

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

Board of Management (including allocation of tasks from 1 May 2009)

Dr. Michael Kemmer

Chairman
Corporate Center

Theo Harnischmacher

Deputy Chairman
Mittelstand & Private Customers Business Area
Bayerische Landesbausparkasse

Stefan W. Ropers

Corporates & Markets Business Area

Dr. Ralph Schmidt

Risk Office
Internal Restructuring Unit

Stefan Ermisch

Financial Office, IT and Operations

Dr. Edgar Zoller

Real Estate, Public Sector
& Savings Bank Business Area
Legal Services, Compliance Center and Prevention
of Money Laundering; Combating Money
Laundering and Financial Crime¹
Bayerische Landesbodenkreditanstalt

¹ The Compliance unit, the officers responsible for issues related to money laundering and financial crime, and the data protection officer report directly to the Board of Management but are integrated into the Legal Services Division in organisational terms.

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