

09

Group Interim Report

First half of 2009

 Finanzgruppe Bayern

 Bayern LB

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BayernLB Group – the first half of 2009 at a glance

Income statement

EUR million	1 Jan – 30 June 2009	1 Jan – 30 June 2008	Change in %/Pp
Net interest income	1,269	1,288	-1.5
Risk provisions for the credit business	-704	-179	> 100.0
Net interest income after risk provisions	565	1,109	-49.0
Net commission income	228	287	-20.4
Gains or losses on fair value measurement	391	-145	–
Gains or losses on hedge accounting	31	29	7.0
Gains or losses on investments	265	-920	–
Income from interests in companies measured at equity	-10	5	–
Administrative expenses	-1,030	-1,131	-8.9
Other income	158	171	-7.6
Operating profit/loss	597	-595	–
Restructuring expenses	-246	-35	> 100.0
Earnings before taxes	351	-630	–
Cost/income ratio (CIR)	49.6 %	69.4 %	-19.8 Pp
Return on equity (RoE)	9.3 %	negative	–

Balance sheet (IFRS)

EUR million	30 June 2009	31 Dec 2008	Change in %
Total assets	404,559	421,666	-4.1
Business volume	475,783	499,474	-4.7
Credit volume	305,910	314,609	-2.8
Total deposits	215,386	233,787	-7.9
Securitised liabilities	115,268	117,479	-1.9
Subordinated capital	10,163	11,821	-14.0
Equity	18,765	11,265	66.6

Banking supervisory ratios under the German Banking Act (KWG)

EUR million	30 June 2009	31 Dec 2008	Change in %/Pp
Core capital	18,322	15,785	16.1
Own funds	25,923	24,211	7.1
Risk positions under the Solvency Ordinance	175,500	197,663	-11.2
Core capital ratio	10.4 %	8.0 %	2.4 Pp
Own funds ratio (at Group level)	14.8 %	12.3 %	2.5 Pp

Employees

	30 June 2009	31 Dec 2008	Change in %
Number of employees (FTE)	19,465	20,072	-3.0

Rating (as at 1 August 2009)

	Long-term	Short-term	Pfandbriefs*
Fitch Ratings	A+	F1+	AAA
Moody's Investors Service	A1	Prime-1	Aaa
Standard & Poor's:	BBB+	A-2	–

* Applies to public-sector Pfandbriefs and mortgage bonds

Quarterly overview

The following is a comparison of the second quarter results compared to the first quarter 2009

EUR million	Q2 2009	Q1 2009	Change in %
Net interest income	695	574	21.1
Risk provisions for the credit business	-566	-138	> 100.0
Net interest income after risk provisions	129	436	-70.4
Net commission income	113	115	-1.7
Gains and losses on fair value measurement	225	166	35.5
Gains or losses on hedge accounting	-4	35	–
Gains or losses on investments	-3	268	–
Income from interests in companies measured at equity	-10	–	–
Administrative expenses	-478	-553	-13.7
Other income	69	89	-22.5
Operating profit/loss	40	557	-92.8
Restructuring expenses	-20	-226	-91.2
Earnings before taxes	20	331	-94.0

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



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Interim Group Management Report

Overview

In Germany, the first half of 2009 was shaped by the economic slump in the winter. The financial crisis triggered in the fourth quarter of 2008 by the collapse of Lehman Brothers in the USA continued to outstrip all records. Real gross domestic product fell by 6 percent in winter 2008/spring 2009 and was down almost 7 percent year-on-year in the first three months of 2009. Despite considerable structural improvements, the German economy was hit very hard by the global recession because of its strong export focus and specialisation in capital goods. In the current environment, this position has proved a disadvantage. However, in the second quarter there were clear indications that the economy was bottoming out. Business sentiment has been improving for several months, with manufacturing orders on the rise since spring and a recent rally in output. This was helped by a degree of recovery on financial markets and the wide range of economic policy measures designed to stimulate demand. The German labour market has remained remarkably steady. Up to mid-2009, the number of people registered as unemployed was just 270,000 higher than in summer 2008, whilst the number of people in work fell by around 136,000 over the same period. The figures largely reflected structural improvements within the labour market, such as more flexible working hours and more attractive conditions for short-time working.

The global recession is characterised by two features: It was triggered and intensified by a huge financial shock and it is affecting large parts of the world equally. Past experience has shown that this type of downturn can last a long time – up to two years – and that the subsequent recovery tends to be weak. Nevertheless, this recession has also seen an unprecedented loosening of monetary and financial policy, so the recovery may be quicker and stronger. Admittedly this does assume that the financial crisis will soon be contained. Confidence in the banking industry will only be restored once toxic assets have been eliminated from balance sheets and banks have been adequately recapitalised. In the US, the epicentre of the crisis, total economic production fell significantly less than in Germany despite the dangerous combination of a financial and real estate crisis. However, the number of people in work in the US has fallen by six and a half million since January 2008, which far exceeds previous recessions. All countries in Western Europe have been hit by the slowdown, although the scale of the crisis has varied with each country's dependence on exports and the depth of domestic real estate and credit problems. Developing and emerging economies were the last dominoes to fall, not being toppled by the crisis until the first half of 2009. Falling commodity prices were a contributing factor for some countries, whilst others were affected by the tighter financing conditions generated by increased risk aversion. Countries in Central and Eastern Europe have been particularly hard hit. These countries are far more dependent on imported capital, many have suddenly become much less competitive and in some

cases they have high levels of foreign currency debt. Meanwhile, the large emerging markets in Asia – China and India – proved incredibly robust. However, a number of smaller Asian nations which are highly dependent on exports had to stomach heavy losses. Overall, real global GDP is set to fall this year for the first time in over fifty years, by 2 to 3 percent.

The financial crisis continued to have a major impact on financial markets in the first half of 2009. On many markets this was reflected in limited liquidity and unusually high risk premiums. Government bonds, which are considered to be a safe haven, were the primary beneficiaries of the low appetite for risk. By the end of 2008 yields on government bonds had declined substantially. However, growing indications that the situation was stabilising, which markets initially misinterpreted as signs of an imminent upturn, led yields to soar in the spring of 2009. By mid-2009 however, they had fallen back considerably. German and European stock markets rallied in the first half of March, driven by hopes that the economy was showing signs of “green shoots” but especially in reaction to signs that the earnings of international financial institutions were recovering substantially. By mid-2009, however, more sober voices prevailed.

Economic activity is expected to improve moderately in the second half of 2009 in Germany and around the world, not least as a result of huge government stimulus packages. As financial markets return to more normal conditions, obstacles to trade and production resulting solely from the lack of financing should lift. Nevertheless, a strong upturn before late 2010 is unlikely in our opinion, given the widespread rise in unemployment and further blows to financial institutions from a growing number of business failures. As both unemployment and bankruptcy are lagging economic indicators, the Deutsche Bundesbank, among others, does not expect these figures to peak until mid-2010. On capital markets interest rates and equity prices are expected to rise, starting in the US, as the appetite for risk returns to more normal levels. Due to the fragility of the economy and the financial sector, however, the threat of more setbacks will continue to hang over the situation.

We anticipate that the global economy will pick up in the second half of 2009 and in 2010. Nevertheless, given the ongoing pressures on the banking sector, the recovery will be fairly weak. Industrialised countries will see growth at around 1 percent. Inflation will remain low, but concerns over deflation will be put to rest. Central banks will need to begin to correct their expansionary policies during 2010 and cut back on central bank funding. National governments will also need to develop plans to consolidate their budgets from 2011 in order to maintain market confidence in the soundness of national finances. On capital markets yields on government bonds can be expected to rise and equity prices go up in this environment as risk aversion declines.

Earnings, financial situation and assets

The first half of 2009 closed with an operating profit of EUR 597 million (H1 2008: loss of EUR 595 million).

Operating earnings were up EUR 447 million against the same period last year, bringing them to a healthy EUR 2,077 million. In the first half of 2008 the financial crisis resulted in charges to earnings totalling roughly EUR 1.4 billion. In contrast, the ABS portfolio has not weighed on results for the first half of the current year on balance, largely due to the umbrella hedging transaction concluded with the Free State of Bavaria. In addition, the securities portfolios benefited from valuation write-ups.

Despite the benefits of the hedging transaction, BayernLB and its strategic subsidiaries are feeling the effects of the global recession. Business opportunities are limited and risk provisions in the credit business have soared, particularly in Eastern and South Eastern Europe; both factors have depressed earnings.

The regulatory core capital ratio rose to 10.4 percent as at 30 June 2009, which provides sufficient protection against any further potential losses which might result from the tough economic conditions. The increased core capital ratio was helped by the recapitalisation by the Free State of Bavaria and an 11.2 percent decrease in risk positions to EUR 175.5 billion.

Net interest income varied within the Group. Although all strategic subsidiaries posted growth, BayernLB itself – despite positive growth within the business areas – recorded a drop, primarily due to expenses related to ensuring liquidity. Overall, Group net interest income fell slightly, down 1.5 percent at EUR 1,269 million.

As a result of the worldwide economic downturn, **risk provisions for the credit business** rose by EUR 525 million to EUR 704 million in the first half of 2009. MKB and HGAA, which operate in Eastern and South-Eastern Europe, accounted for almost two-thirds of the risk provisions. In addition to losses in HGAA's conventional credit business, particularly in Austria, there have been sizeable writedowns for HGAA's leasing activities – notably in Croatia, Bulgaria and Ukraine. However, with the exception of DKB, BayernLB and its other banking subsidiaries have also seen risk provisions increase compared to the first half of 2008.

Net commission income for the period under review came to EUR 228 million (H1 2008: EUR 287 million). Net commission income was hit by the fee due to the Financial Market Stabilisation Fund (SoFFin) for the government-backed bond issued in January 2009. After adjustments to exclude this effect, net commission income came in 11.5 percent below the amount in the same period in the previous year.

Gains or losses on fair value measurement advanced to EUR 391 million for the first half of 2009 (H1 2008: EUR -145 million). This result can be broken down into net trading income of EUR 279 million (H1 2008: EUR -124 million) and fair value option gains totalling EUR 112 million (H1 2008: EUR -21 million). Gains on the fair value option largely came from wider credit spreads for the fair value option liabilities. Net trading income includes earnings of EUR 162 million coming mainly from trading positions in customer-

related interest rate derivatives and foreign exchange transactions. In addition, the market value of credit portfolios affected by the financial crisis also rose by EUR 117 million.

Gains or losses on investments totalled EUR 265 million in the first half of 2009 (H1 2008: EUR -920 million). Assets held for sale recorded gains generated by the general narrowing of credit spreads. The gains or losses on investments item was also boosted by the impact of the credit default swap (umbrella) that was part of the hedging transaction with the Free State of Bavaria. The aim of the hedge transaction is to offset losses from the ABS portfolio.

BayernLB made good progress with its efficiency improvement drive known as Project Hercules. Accordingly, Group **administrative expenses** fell 8.9 percent to EUR 1,030 million in the first half of 2009 (H1 2008: EUR 1,131 million). Personnel expenses were cut by 17 percent to EUR 464 million, whilst IT costs shrank by just under 13 percent. The vast majority of the reductions came at BayernLB, which cut administrative expenses by EUR 84 million.

Other income slipped EUR 13 million to EUR 158 million; the main items under this heading are the Group's real estate and leasing activities.

In the period under review, **restructuring expenses** totalled EUR 246 million. The bulk of restructuring expenses were related to Project Hercules, which is focused on eliminating non-core businesses within the Group.

Return on equity (RoE)¹ was 9.3 percent, following on from a negative figure in the same period the year before. The **cost/income ratio (CIR)** was very satisfactory at 49.6 percent and reflects the initial benefits of the measures to improve efficiency (H1 2008: 69.4 percent).

Total assets on the last day of June 2009 were down 4.1 percent compared to year-end 2008 to EUR 404.6 billion.

Loans and advances to domestic customers advanced 4.4 percent to EUR 111.1 billion. This demonstrates that BayernLB is able not only to maintain its contribution to financing the German economy in tough times, it can even expand it. At the Group level loans and **advances to customers** remained virtually unchanged (down EUR 0.5 billion to EUR 202.1 billion). Assets held for trading and financial investments were cut further by EUR 10.7 billion to EUR 99.1 billion.

On the liabilities side, **liabilities to banks** fell 20.7 percent in the first half of 2009 to EUR 112.9 billion. To some extent this can be attributed to the new business model, which is less dependent on funds from refinancing, and in particular it is due to the fact that borrowing from central banks was replaced by longer-term liabilities and money from customers, which is partly reflected in the 12.2 percent rise in customer deposits to EUR 102.5 billion. The Bank also received additional liquidity at the beginning of the year as part of recapitalisation measures by the Free State of Bavaria. Securitised liabilities edged down slightly, slipping 1.9 percent to EUR 115.3 billion.

¹ *Operating profit/loss – minority interests/subscribed capital + hybrid capital instruments + capital reserve and retained earnings. Excludes non-competitive BayernLabo's results and share in Group equity.*

Subordinated capital decreased by EUR 1.7 billion to EUR 10.2 billion, largely as a result of maturities. **Equity** was boosted by EUR 7.5 billion to reach EUR 18.8 billion, mainly due to the recapitalisation by the Free State of Bavaria.

Segment reporting

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 Central Areas/Other segment. In addition to the operating profit of the business areas/central areas, the results of the individual segments include the results of the consolidated subsidiaries allocated to each segment.

The Savings Bank segment was created on 1 January 2009 from the Savings Bank and Bavarian Market business area, which was divided up by moving the municipalities business to other parts of the Bank, transferring the retail customer business to DKB and setting up a new Mittelstand business area. With effect from the start of financial year 2009, BayernLB Group's Mittelstand business has been brought together in a dedicated business area called Mittelstand and is therefore shown separately in the segment report.

The Central Areas/Other segment shows the earnings contributions which are not attributable to the business segments. This includes in particular earnings contributions from central areas that cannot be allocated to the operating units in a way which reflects where they were generated.

The individual segments contributed to the first-half 2009 operating profit of EUR 597 million (H1 2008: operating loss of EUR 595 million) as follows:

EUR million	1 Jan – 30 June 2009	1 Jan – 30 June 2008*
Corporates	285	221
Real Estate	49	103
Mittelstand	-9	-7
Financial Markets	57	89
Credit Investments portfolio (CIP)	239	-1,285
Financial Institutions/Sovereigns	-24	111
Savings Banks	11	-20
BayernLabo/LBS Bayern	97	89
Group Strategic Subsidiaries	9	175
Central Areas/Other	-140	-93

* Figures from the previous year have been adjusted to reflect the changes in business segments

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

In the reporting period, the **Corporates** segment comprised the Corporates business area and the consolidated companies allocated to this area. The Corporates business area is broken down into Global Corporate Banking, Global Structured Finance and

Global Asset Finance. Its customers range from large companies with sales in excess of EUR 1 billion all the way to multinationals, primarily in the core target markets of Germany, the EU and North America.

The challenges presented by the first half of 2009, namely reorganising the segment as part of the restructuring of the Bank while simultaneously maintaining an active presence in the market in order to be a reliable partner for our customers, were successfully mastered. Accordingly, business with domestic and international companies in the first half was positive overall. The segment was able to forge tighter business relationships with its customers thanks particularly to a major expansion of its business in capital market and treasury products. Examples of this include a EUR 500 million bond for Lanxess, where BayernLB acted as joint lead manager with a consortium of international banks, and a EUR 500 million Schuldschein note loan for Bayer AG, jointly arranged with Helaba.

One consequence of the financial crisis has been the increasing importance of conventional business loans as a means of financing. The amount of loans provided to German customers was virtually unchanged from its existing high level. Taking capital market transactions into account, there was a large increase in the capital and liquidity furnished to our customers. At the same time, non-core activities began to be shut down or wound down in line with BayernLB's new strategy in order to reach the consolidation targets set by the Bank and its shareowners.

The Global Structured Finance division made great progress in developing its project financing activities in infrastructure and energy. Four "Deal of the Year" awards from the trade magazine Project Finance International for project financing deals in which BayernLB served as mandated lead arranger are a further confirmation of what the Bank can do for its customers. The Renewable Energy segment is gaining in significance thanks to its many years of expertise and the strong growth of the market.

The rolling stock market segment was a good performer for the Global Asset Finance division. The division succeeded in closing several financing deals for public transport in southern Germany. Increasing demand and rising prices meant that business with leasing companies also did well. In addition, export financing continued to make a positive contribution. Most deals are signed in the second half of the year, meaning that results for full-year 2009 should exceed both this year's target and last year's figures.

Net interest income and net commission income for the first half amounted to EUR 359 million, well ahead of target and above the figure in H1 2008 (EUR 229 million). Low risk provisions of EUR 11 million indicate that the quality of the portfolio structure remains good at this time. The segment made a significant contribution to consolidated results with operating profit of EUR 285 million (H1 2008: EUR 221 million). Return on equity amounted to 17.6 percent, exceeding the H1 2008 figure of 12.5 percent.

In the second half of the year, the upward trend in new business is expected to continue especially in the areas of project financing, export financing and rolling stock. The outlook for the lending business is subdued, owing to the decline in capital spending caused by the recession and the expected repayment of outstanding loans by capital market transactions. Risk costs are expected to rise as a result of the economic performance in the second half of the year.

Internally, the focus in the second half will be on implementing the new business model. The main effort will be to concentrate on customer segments in Germany, Europe and the US. In conjunction with the grouping of skills from the Corporates, Financial Markets and Financial Institutions into one new business area called Corporates & Markets, this will further boost our ability to perform for our customers.

The **Real Estate** segment includes all of BayernLB's real estate activities. In addition to the core market of Bavaria, the target regions are Germany, Western Europe and Eastern Europe (working with HGAA and MKB). In order to serve customers all along the real estate value added chain, real estate services are increasingly being offered in addition to commercial property loans. These services range from strategic consulting and real estate transactions to research.

The volume of new business in the first half of 2009 fell in Germany and across Europe. In response to this trend, BayernLB focused on stabilising and optimising its existing portfolio in the first half of 2009.

Residential property development activities centred on the area in and around Munich and the major urban centres of Germany. In the core market of Bavaria, where Mittelstand customers are served jointly with the local savings banks, the number of financing enquiries rose significantly. The positive situation in residential, retail space and managed properties in the first half of 2009 is expected to continue in the second half of the year.

In international real estate markets, the financial crisis has led to a fall in the number of transactions. However, the strategically important branch offices in London and Paris have been kept open. Using the skills on hand in these offices allows us to assist German clients in these markets and conduct selected transactions.

As was the case last year, the changed situation in syndications means that apart from working with existing consortia the focus in the secondary credit market was on arranging new syndicated loans with other banks.

In addition to commercial property financings, activities also focus on real estate services. Accordingly, real estate M&A and investing in project developments for customers and savings banks were particularly emphasised. BayernLB also took advantage of its expertise in real estate transactions to optimise the Bank's own property portfolio.

Real I.S. AG, a wholly-owned subsidiary of BayernLB, is the asset management company for commercial real estate. Around EUR 178 million in total was raised from investors. One example of its success was its rapid placement of all of the Real I.S. Australia 5 fund, which offered investors a stake in an office building in the capital city of Canberra that is wholly leased to the Australian government.

The Real Estate segment expects markets to recover moderately, which may take one to two years, depending on the particular market. The change of mood among investors also suggests an increase in transaction volumes, especially in the final quarter of this year. What investors want in the current market situation are products with as much security as possible, i.e. properties that are fully let on long leases to strong tenants.

Operating income overall was the same as last year, but administrative expenses fell sharply from EUR 69 million to EUR 53 million. Operating profit was a relatively low EUR 49 million (H1 2008: EUR 103 million), largely due to risk provisioning which reduced the figure by EUR 25 million in H1 2009 compared to a positive contribution of EUR 43 million in H1 2008. RoE was 8.8 percent (H1 2008: 16.8 percent).

The **Mittelstand** segment forms a key part of BayernLB's strategy of focussing tightly on core markets and core products. Strengthening and expanding business with SME and middle-market companies (called Mittelstand in German), especially in Bavaria, is a declared goal of the new business model. Working jointly with the Bavarian savings banks, BayernLB is aiming for a leading position with Mittelstand companies in Bavaria.

To accomplish this goal, a new Mittelstand business area came into being on 1 January 2009, pulling together activities that had previously been conducted in a range of units throughout the bank. The number one goal is to significantly expand BayernLB's market position in its home market of Bavaria, both independently, for companies that boast annual sales of between EUR 50 million and 1 billion, and in close cooperation with the savings banks for companies with sales of less than EUR 50 million per year.

While seeking to expand its activities in Bavaria, BayernLB will simultaneously continue its steady national drive to land business with large Mittelstand companies all over Germany.

The segment is pursuing a clear growth strategy. The target is to win new customers and strengthen existing relationships. To this end, the sales network in Bavaria was expanded by about 50 percent in the first half of 2009 compared to this time last year. The aim is a long-lasting partnership with success for the long-term for both the Bank and its Mittelstand customers.

It was a successful half-year for business with Mittelstand customers in Bavaria and the rest of Germany. In the current tough economic environment the credit volume in corporate banking rose by over 5 percent compared to H1 2008, significantly exceeding the segment's 6-month target for income after risk provisioning. Needless to say, the terms and conditions of the loans reflected the impact that the changed economic environment has had on customers' creditworthiness.

Based on the business potential identified, we expect a solid performance from the Mittelstand segment in the second half of the year.

BayernLB enjoys particular opportunities and chances to increase revenues thanks to its strengthened involvement in the markets of the future. Specifically, these include sustainable energy generation and energy efficiency, sustainable mobility and water management. BayernLB already actively operates in these markets today and is acknowledged for its expertise. Together with the savings banks, for example, BayernLB supports projects to finance eco-friendly geothermal heating in and around Munich.

The operating loss of EUR 9 million (adjusted H1 2008 figure: EUR -7 million) is the result of start-up losses in the new segment.

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

The negative net interest income of EUR -166 million (H1 2008: EUR 68 million) reflected the high cost of ensuring liquidity. Net commission income was negative, mainly due to the EUR 26 million in fees paid to SoFFin for a government guaranteed bond issued in January 2009. The secondary market portfolio held in Financial Markets, by contrast, made a significant positive contribution. This resulted largely from the revaluation of single-name securities, in particular government and corporate bonds. Operating profit came to EUR 57 million (H1 2008: EUR 89 million). Segment RoE was 5.6 percent (H1 2008: 9.7 percent).

The **Credit Investments Portfolio** set up in 2008 contains asset-backed securities (ABSs) and associated hedging instruments and individual items in troubled securities portfolios. The segment suffered an operating loss of around EUR 1.3 billion in H1 2008 because of the negative impact of the financial crisis. In H1 2009, an operating profit of EUR 239 million was posted. The hedging transaction (umbrella) agreed with the Free State of Bavaria had a positive impact on the gains or losses on investments item. The segment's performance for the remainder of 2009 will largely depend on the performance of the securities in the portfolio and changes in impairments from now until the end of the year.

Financial Institutions/Sovereigns, which lends to banks and institutional customers, concentrated on roll-overs and selected new business with customers who still count as core after the resizing. The main focus was on shorter-term financings and guarantees to ensure liquidity. Lending margins have widened sharply compared with previous years. The main area of business shifted further towards products from the Financial Markets business area.

In the past few years demand for credit from the public sector has declined moderately; however a significant increase in lending enquiries was observed in the first half of 2009. Nonetheless, competitive pressure, especially in loans to municipalities and the public sector, remains extremely high. The widening of lending margins reported in many other segments was seen in covered business too (because of the relatively modest sales of Pfandbriefs), but has now once again largely flattened out.

The segment was hit by high credit risk provisions of EUR 130 million, especially from the still existing exposure to Iceland. This resulted in an operating loss for the segment of EUR 24 million in the first half of 2009 (H1 2008: profit of EUR 111 million). Full-year results for 2009, however, are expected to be in the black.

The **Savings Banks** segment was created on 1 January 2009 from the Savings Banks and Bavarian Market business area.

The segment did well in its business of providing the savings banks with foreign currency notes and precious metals. The earnings target for the full year was exceeded in the first six months of 2009. Earnings on Financial Markets products were high and are currently well above target. This has principally been driven by income from securities transactions and business with structured retail account products.

Business with credit risk management, credit card pre-financing and special securities systems products and services is on target. With payment services, however, the aimed for price increases could not be fully pushed through, so full-year earnings will fall short of target. Cost savings expected over the rest of the year should offset at least part of the full-year earnings shortfall.

Operating profit in the Savings Banks segment amounted to EUR 11 million (H1 2008: EUR -20 million) and was well ahead of the target figure. The RoE of 82.1 percent (H1 2008: -27.7 percent) reflects the low regulatory capital requirements.

The BayernLabo/LBS Bayern segment includes 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 2009.

Despite the ongoing decrease in building permits in H1 2009, commitment volumes at **BayernLabo** for housing subsidies (including own-book business) remained stable at EUR 295 million (H1 2008: EUR 296 million). Lending to Bavarian municipalities was around 7 percent lower than last year, with commitments of EUR 261 million. Following the launch of the new KfW product called KfW Municipalities Investment Loan, BayernLabo now offers a Bavarian programme for social infrastructure, site development (including the cost of buying land, especially for housing projects) and town and village development (excluding infrastructure for tourism), financed by funds from KfW.

LBS Bayern expects 2009 to be another good year for building savings. A change to the restrictions on the building savings premium with effect from 31 December 2008 resulted in many agreements being brought forward. New business in the first six months saw a building savings volume of EUR 3.2 billion, 10 percent lower than last year. New business has picked up well since May 2009, however, and LBS Bayern again anticipates a strong volume of at least EUR 6.6 billion. Riester contracts, which under new legislation from 2008 can now be used to buy a home, are included in the new business figures and performed well. These accounted for EUR 625 million, or nearly 20 percent of new business.

The trend in the Financing business was also positive. Both disbursements under home savings loans and preliminary and intermediate financing loans saw further growth and boosted the size of the book. The biggest driver of the lending business is the increasing amount owners are spending on modernising their homes. These account for more than half of all work financed by LBS Bayern. Home loan savings deposits are also still growing. Incoming funds are ahead of target and last year's figures.

Operating profit was EUR 97 million, higher than the EUR 89 million reported in the same period last year.

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.

Operating income before risk provisions was on target or better at all subsidiaries. Net interest income was up 20.2 percent from the same period last year, to EUR 879 million.

Risk provisioning in the segment's lending business nearly doubled. Just under two-thirds of this relates to MKB and HGAA, banks which operate in Eastern and South-Eastern Europe. HGAA suffered in traditional lending business, especially in Austria, while its leasing activities needed significant impairments, particularly in Croatia, Bulgaria and Ukraine.

Administrative expenses remained steady at DKB but fell at the other subsidiaries, resulting in a decrease of EUR 15 million to EUR 624 million.

While DKB, LBLux and SaarLB exceeded their operating profit targets, significantly in some cases, HGAA was below target in H1 2009 owing to the heavy risk provisioning and contributed an operating loss of EUR 122 million to the Group. Overall, segment RoE was 0.9 percentage points lower than in H1 2008 at 5.4 percent.

The **Central Areas/Other** segment mainly includes the refinancing costs of strategic Group subsidiaries, the undistributed return on available capital, the contribution to the Bavarian Reserve Fund and expenses incurred by the Central Areas. An operating loss of EUR 140 million was posted in the first half of 2009 (H1 2008: EUR -93 million).

Outlook

The forecasts below regarding BayernLB Group's performance in the second half of 2009 may deviate substantially from the actual outcome should one of the following uncertain factors or other uncertainties 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 2008 annual report should also be taken into account when reading this section. The uncertainty factors mentioned therein (the global economy, the German economy, events in Eastern Europe, the crisis of confidence on the financial markets and the US securitisation market) remain highly relevant for the BayernLB Group.

On 29 April 2009, BayernLB submitted its restructuring plan drawn up as part of Project Hercules, to the EU Commission within the deadline set. By its very nature, these ongoing proceedings involve uncertainty. The statements in this forecast are based on the assumption that the aid will be approved on the terms currently proposed. The ultimate goal of the business model is a significantly smaller Group concentrating on clearly defined segments. The focus will be on Bavarian and German corporates (especially in the Mittelstand), retail and real estate customers, and cooperation with the savings banks as clients and strategic distribution partners.

Business with large corporates outside Germany will be restricted to five target industries where BayernLB has special expertise: construction, chemistry, technology (especially IT, medicine and electronics), oil & gas and utilities. The Mittelstand customer base in Bavaria will be expanded. The focus here will be on markets of the future in which BayernLB has established expertise such as energy efficiency, water management, and sustainable energy generation. Other target segments are real estate customers, the public sector in Germany and institutional investors. Business with financial institutions will be sharply cut back. We will retain a network of partner banks in order to be able to offer international services to the above target customers. Business activities with Mittelstand companies will be conducted as a strategic pillar both directly by BayernLB and in cooperation with the savings banks. For retail customers, DKB, “the local bank on the internet”, will continue its successful growth over the next few years with its DKB cash accounts. DKB’s target customers also include German commercial customers in selected sectors and customers from the infrastructure area. DKB will concentrate on environmental technology, health & healthcare, and education & research. Furthermore, BayernLB operates in the building savings business through LBS Bayern. With BayernLabo, BayernLB fulfils its public sector mandate in the non-competitive subsidised residential construction and urban development business.

Types of business that are heavily dependent on the performance of capital markets such as proprietary trading, credit substitute business and acquisition financing are being discontinued. The concentration on core customers will ensure a more balanced mix to the risk structure.

An internal restructuring unit (RU) has been set up to group together the skills necessary for winding down non-core activities across the entire Group. The RU's main tasks include promptly scaling down the portfolios assigned to it in a manner that preserves capital, while preventing losses and reputation damage, and monitoring Group-wide the ongoing reduction measures implemented by the Business Areas and subsidiaries. The planned timescale for reducing the portfolios assigned to it is by 31 December 2012. In carrying out its mission, loss-minimisation has priority and the special features of each portfolio will also be taken into account.

Based on current trends, BayernLB Group expects to see moderate business growth in its remaining core business over the forecasting period. We expect a trend toward recovery to begin in 2010. Events of special significance that might have an impact on assets, the financial situation and earnings remain the ongoing financial and economic crisis.

BayernLB expects additions to risk provisioning and potential writedowns on the participations portfolio, especially for the banks operating in Eastern and South-Eastern Europe, to weigh on earnings in the second half of 2009. In addition, the performance of the more volatile components of earnings cannot be projected forward for the full year. It remains impossible to exclude the possibility that a loss will be made in 2009.

It is not yet possible to make a final assessment of the impact of the S&P downgrade of BayernLB from A- to BBB+. Fortunately, customers and counterparties have shown only a muted reaction to the downgradings of BayernLB’s credit rating. The possibility cannot be ruled out however that in the coming months further impacts will be felt which might have an effect on the liquidity and funding situation at BayernLB and the BayernLB Group

as a whole. In view of the reserves and current liquidity status, the liquidity risk situation at the BayernLB Group can be described as stable following the rating downgrade. In the event that we see increased outflows of funds or subsidiaries need further support, measures can be taken on short notice to boost liquidity as required. BayernLB has a robust and well-developed investor base of institutions and savings banks.

Despite the outlook for the economy and capital markets, the BayernLB Group is optimistic that it is laying the foundation to again grow its assets, financial situation and earnings in the medium term with its focussed business model and the changes it involves. Changes in operating conditions may have a corresponding effect on the BayernLB Group.

Risk report

A detailed description of the principles, methods and procedures, together with the organisational structure of risk management within BayernLB Group, is contained in the risk report of the 2008 annual report. The information provided in the Group interim report relates mainly to the changes in the first half of 2009.

Figures in the tables in the risk report may be rounded by +/- one unit.

Summary and outlook

In the first half of 2009, BayernLB drew up and systematically implemented a comprehensive restructuring programme for the whole of the BayernLB Group. The fundamental policy decision to focus business activities on the customer business and exit from activities not forming part of the BayernLB Group's future core business has been taken into account through modifications to risk-strategic standards, the organisation of risk management, and the systematic separation of all future non-core business activities.

BayernLB's internal Restructuring Unit began its work on 1 July 2009. The Restructuring Unit will gradually wind down a major proportion of the business activities not forming part of future core business and oversee the implementation of the process in the subsidiaries affected. The BayernLB portfolios to be wound down contain in particular credit investments, portions of the loan portfolio to banks and the public sector outside Germany and structured financing, including ship financing, aircraft financing, US commercial real estate financing and leveraged buyout financing in Europe, the USA and Asia. The goal is to release capital and liquidity tied up in the non-core business as cost-effectively and as rapidly as possible. The Restructuring Unit must not be seen as an "internal bad bank", as its remit is primarily derived from the future focus of business activities.

Thanks to the capital measures completed at the end of 2008 and in the first half of 2009, the hedging of the ABS investment portfolio by the Free State of Bavaria and supporting internal management measures, BayernLB is well-prepared for the economic problems that are currently foreseeable. The risk situation is now and will continue in the second half of 2009 to be dominated by the impact of the global financial

and economic crisis, particularly in Eastern and South Eastern Europe where liquidity problems can increasingly be seen in the wake of the drastic economic collapse there. Given this crisis environment, the options for taking active, preventative measures with respect to the existing portfolios continue to be very limited on the whole. Internal risk management will therefore remain focused on systematically limiting risks in new business and on implementing further measures to reduce and manage risks in existing business in the second half of 2009.

Risk-bearing capacity

Economic risk is quantified by looking at credit and country risks, market price risk, liquidity risk, operational risk, investment risk and other specific risks (e.g. typical building savings risks at LBS Bayern).

In doing so, the statistically based value-at-risk (VaR) method is used. Liquidity risks are determined exclusively by looking at stress scenarios.

BayernLB Group economic risk as at 30 June 2009

EUR million	BayernLB Group	
	30 June 2009	31 Dec 2008
Economic risk	7,622	9,320
• of which credit and country risks	5,491	6,702
• of which market risk	1,160	1,602
• of which operational risk	593	653
• of which investment risk	207	197
• of which other risks	170	165

The confidence level of 99.95 percent used in the VaR method to quantify economic risk is based on the newly established strategic target rating of A flat. Up to December 2008 the confidence level was 99.96 percent, which corresponded to the strategic target rating at that time of A+. Economic risk as at 31 December 2008 would have been EUR 279 million lower overall if the new confidence level had been applied.

The BayernLB Group has a sufficient internal capital base. It increased significantly in the first half of 2009 compared to the year before due particularly to the completion of the capital injection from the Free State of Bavaria as part of its state aid package and is higher in relation to the economic risk shown above. BayernLB thus regained adequate risk-bearing capacity as at 30 June 2009.

Stress scenarios are used to produce further assessments of risk. Due to the continued economic downturn, the scenario loss, which is calculated using a variety of conservative and regularly monitored stress scenarios, was EUR 4,560 million as at 30 June 2009, an increase of EUR 984 million over 31 December 2008. This scenario loss represents an exceptional but plausible additional event that could occur on average once every ten years.

In spite of the tough economic situation, it was possible to reduce overall credit risk. This was achieved particularly through reducing financial institutions' portfolios. As regards market price risk, the decrease in economic risk was primarily due to the marked narrowing of credit spreads and accompanying fall in specific interest rate risk.

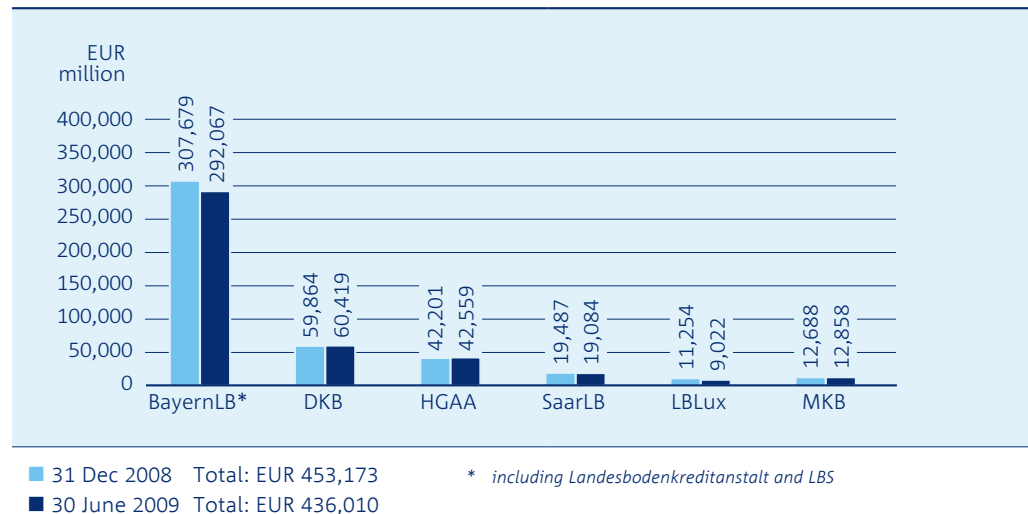
Credit and country risks

BayernLB Group's credit risk is illustrated below from two perspectives: the management approach and the balance sheet approach. Pursuant to banking regulations, credit risk is defined differently under these two approaches. Reported risk is higher under IFRS 7.36 a (balance sheet approach) as the maximum credit risk takes no account, for instance, of prorated interest and close-out netting, and lower under IFRS 7.36 a using the management approach, as the latter recognises revocable commitments and does not offset impairment charges. Overall, the reported figures are only comparable to a limited extent.

Portfolio overview pursuant to IFRS 7.34 a ("Management Approach")

The illustration of BayernLB Group's credit risk below is based on internal risk reporting. The difference between the gross and net credit risk in the following charts is the result of deducting the value of collateral, as determined under internal guidelines, from the gross amounts. Credit substitute transactions (credit investments) are also included.

Gross credit risk by BayernLB Group unit



BayernLB Group's credit risk fell by 3.8 percent in the first half of 2009 as a result of a systematic reduction strategy, particularly in the banks, ABS and corporate customer segments. Essentially, credit risk within BayernLB fell by EUR 15.6 billion (-5.1 percent), by EUR 2.2 billion (-19.8 percent) at LBLux and by EUR 0.4 billion (-2.1 percent) at SaarLB. In contrast credit risk rose at the subsidiaries DKB, MKB and HGAA.

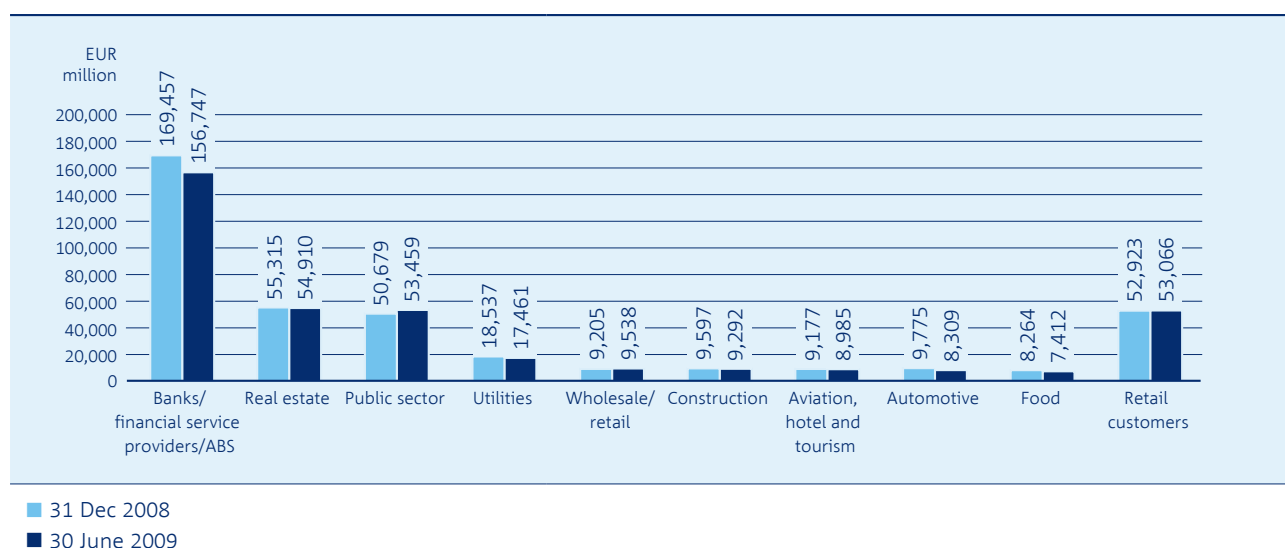
Credit risk in the BayernLB Group is broken down below by sub-portfolio, rating category and region.

Credit risk by sub-portfolio within BayernLB Group

EUR million	30 June 2009				31 Dec 2008			
	Gross share	Gross	Net share	Net	Gross share	Gross	Net share	Net
Real estate	13 %	54,910	6 %	17,639	12 %	55,315	6 %	20,604
Financial institutions (FI) incl. ABS	50 %	217,189	60 %	184,299	50 %	227,325	61 %	207,056
• of which public sector and non-profit organisations		53,459		38,482		50,679		35,904
Corporate customers	25 %	107,957	27 %	84,505	25 %	113,275	27 %	90,676
Other	13 %	55,953	7 %	22,867	13 %	57,257	7 %	23,305
• of which retail customers		53,066		20,953		52,923		20,719
Total		436,010		309,310		453,173		341,641

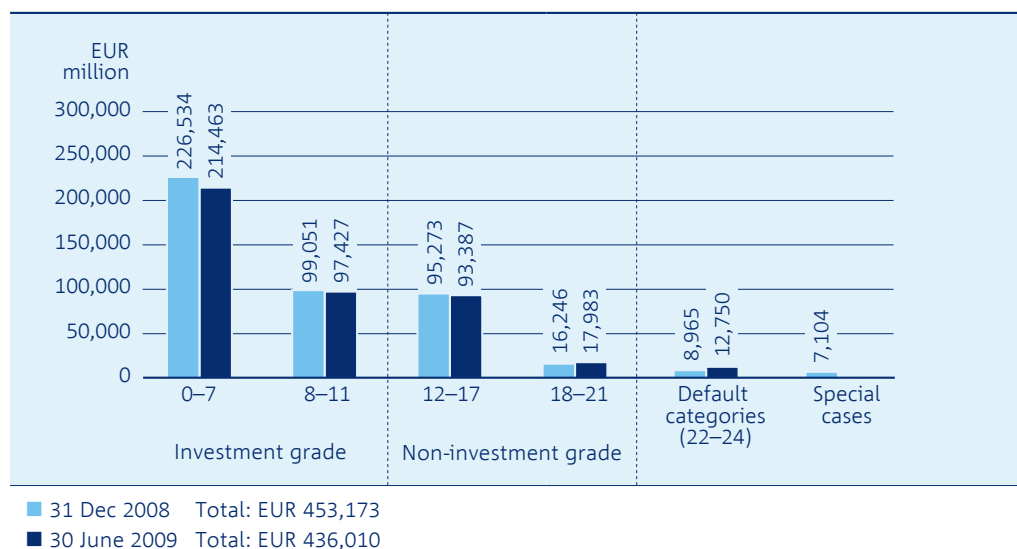
The marked fall in net credit risk in the Financial Institution sub-portfolio is primarily due to a decrease in the portfolio and to including the value of the ABS investment portfolio hedge.

Key sub-segments in the sub-portfolios and the largest sectors of the Corporate Customers sub-portfolio (gross credit risk)



Business with banks and other financial service providers accounts for around 36 percent of total gross credit risk while corporate business customers accounts for around 25 percent. Retail customers and the public sector each account for around 12 percent. BayernLB Group's corporate customer portfolio is comparatively well-diversified: the largest sector within the Corporate Customers portfolio is Utilities which accounts for a relatively low proportion of total gross credit risk of just 4 percent.

Gross credit risk by rating category within BayernLB Group



To adequately reflect risks, the gross credit risk for special cases amounting to EUR 4,745 million (including simplified classification for e.g. receivables secured by cash) was allocated on 30 June 2009 to the appropriate rating category on the basis of the average probability of default for the sector.

Sub-portfolio by rating category within BayernLB Group

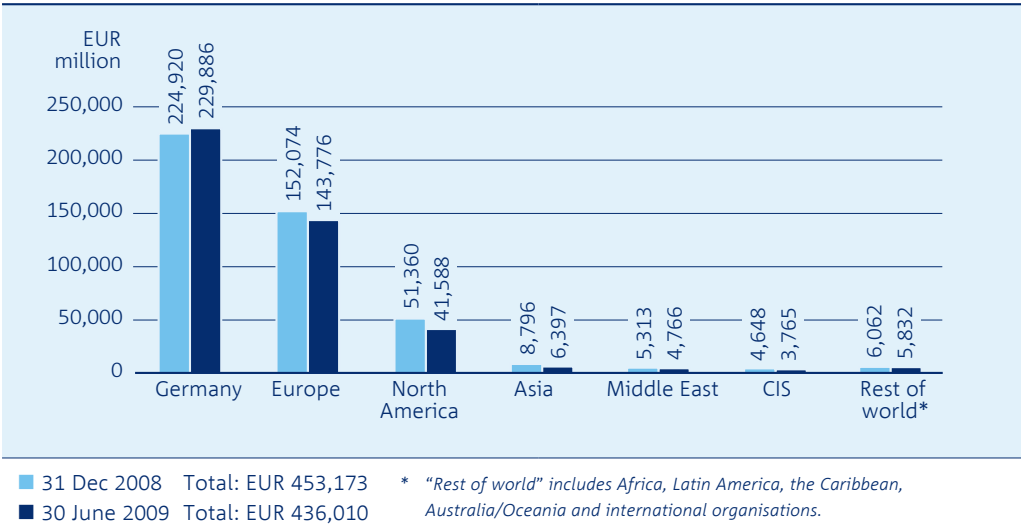
Net credit risk EUR million	30 June 2009				Total
	Real estate	FI/ABS	Corporate customers	Other	
0-7	3,475	158,186	13,607	2,463	177,732
7-11	4,993	18,182	37,942	9,430	70,546
12-14	4,515	3,501	16,925	5,855	30,796
15-18	2,970	1,892	10,487	2,927	18,276
19-21	809	1,157	2,301	1,232	5,499
Default categories	877	1,381	3,244	960	6,462
Total	17,639	184,299	84,505	22,867	309,310

Net credit risk EUR million	31 Dec 2008				Total
	Real estate	FI/ABS	Corporate customers	Other	
0-7	3,813	172,798	15,547	3,814	195,972
8-11	7,194	16,954	42,193	8,040	74,381
12-14	4,657	6,651	18,392	3,951	33,651
15-18	2,768	5,253	9,065	3,567	20,654
19-21	665	1,781	2,042	1,039	5,527
Default categories	865	2,599	2,295	741	6,499
Special cases	643	1,020	1,142	2,153	4,957
Total	20,604	207,056	90,676	23,305	341,641

The decrease in net credit risk, particularly in the good credit rating categories 0–7 along with rating migrations to lower rating categories triggered by weak economic conditions, meant that the overall share of investment-grade assets fell to 71.5 percent from 79.1 percent as at 31 December 2008.

Gross credit risk by region within BayernLB Group

BayernLB Group uses the official Bundesbank classification to show the distribution of its credit risk by country. Countries are grouped into regions on the basis of global and regional economic relationships.



Gross credit risk was mainly reduced in North America and Asia, as well as in certain other risky countries. BayernLB Group's main exposure continues to be Germany. In line with strategy, exposure there rose further in the first half of 2009. The share of the core market Germany was 52.7 percent as at 30 June 2009 compared to 49.6 percent at 31 December 2008.

Portfolio overview pursuant to IFRS 7.36 a ("Balance Sheet Approach")

Financial assets that are neither past due nor impaired (BayernLB Group)

30 June 2009	Maximum credit risk (Balance sheet approach)						Total
	Rating categories						
EUR million	0-7	8-11	12-17	18-21	Default categories	Special cases	
Cash reserves	2,472	–	576	359	–	464	3,871
• Loans and receivables	1,807	–	563	352	–	461	3,183
• Available for sale	662	–	–	8	–	3	673
Loans and advances to banks	69,055	8,872	2,250	128	31	581	80,916
• Loans and receivables	68,985	8,872	2,239	128	31	580	80,834
• Available for sale	–	–	–	–	–	–	–
• Fair value option	70	–	–	–	–	–	70
Loans and advances to customers	65,342	47,399	56,440	14,453	1,123	2,884	187,641
• Loans and receivables	62,640	47,399	56,515	14,453	1,123	2,884	185,014
• Fair value option	118	–	–	–	–	–	118
Assets held for trading (excl. equity items)	32,879	4,597	1,812	224	177	96	39,785
• Held for trading	32,879	4,597	1,812	224	177	96	39,785
Positive fair values from derivative financial instruments (Hedge Accounting)	3,638	454	27	–	–	11	4,130
• Held for trading	3,638	454	27	–	–	–	4,119
Investments (excl. equity items)	45,472	6,553	2,337	1,469	607	215	56,654
• Available for sale	17,048	3,377	553	41	545	145	21,710
• Fair value option	1,102	285	69	–	2	19	1,477
• Loans and receivables	27,322	2,891	1,732	1,428	60	51	33,484
Contingent liabilities	7,887	4,744	4,737	702	129	407	18,605
Irrevocable credit commitments	17,029	12,327	7,208	1,246	81	194	38,085
Total	243,772	84,947	75,387	18,581	2,147	4,852	429,686

31 Dec 2008	Maximum credit risk (Balance sheet approach)						
	Rating categories						
	EUR million	0–7	8–11	12–17	18–21	Default categories	Special cases
Cash reserves	2,705	374	612	449	–	93	4,233
• Loans and receivables	1,922	374	612	443	–	80	3,431
• Available for sale	782	–	–	6	–	–	789
Loans and advances to banks	72,067	9,552	3,758	319	–	622	86,318
• Loans and receivables	71,935	9,552	3,758	319	–	585	86,150
• Available for sale	–	–	–	–	–	12	12
• Fair value option	72	–	–	–	–	–	72
Loans and advances to customers	64,395	48,996	58,474	12,224	402	4,095	188,585
• Loans and receivables	63,477	48,893	58,472	12,224	402	3,941	187,409
• Fair value option	714	79	–	–	–	–	793
Assets held for trading (excl. equity items)	34,859	7,959	3,614	301	27	175	46,935
• Held for trading	34,800	7,959	3,614	301	27	175	46,876
Positive fair values from derivative financial instruments (Hedge Accounting)	3,397	308	196	–	–	31	3,933
• Held for trading	3,397	308	196	–	–	31	3,933
Investments (excl. equity items)	48,622	4,354	5,327	1,159	376	82	59,921
• Available for sale	17,801	1,576	2,399	17	320	81	22,194
• Fair value option	1,227	288	86	5	1	23	1,630
• Loans and receivables	29,570	2,491	2,842	1,136	55	30	36,124
Contingent liabilities	8,690	5,165	5,172	592	94	532	20,245
Irrevocable credit commitments	18,703	12,214	8,880	1,164	143	233	41,339
Total	253,438	88,923	86,034	16,208	1,042	5,864	451,510

As at 30 June 2009, around 23.3 percent (31 December 2008: 24.2 percent) of the credit risk (pursuant to IFRS 7.36 a) of financial assets that are neither past due nor impaired were not investment grade (rating categories 0–11)

Financial assets that are past due but not impaired based on IFRS carrying amounts

30 June 2009	Maximum credit risk (Balance sheet approach)					Total	Fair value of collateral
	Length of time past due						
	< 30 days	30 days until 3 months	3 months up to 1 year	> 1 year			
EUR million							
Loans and advances to banks	194	2	17	11	223	18	
• Loans and receivables	194	2	17	11	223	18	
Loans and advances to customers	2,407	1,888	3,100	311	7,706	4,248	
• Loans and receivables	2,407	1,888	3,100	311	7,706	4,248	
Assets held for trading (excl. equity items)	1	–	–	–	1	–	
• Held for trading	1	–	–	–	1	–	
Positive fair values from derivative financial instruments (Hedge Accounting)	–	–	–	–	–	–	
Investments (excl. equity items)	180	–	1	–	181	47	
• Available for sale	180	–	1	–	181	47	
Contingent liabilities	106	45	195	2	347	191	
Irrevocable credit commitments	67	25	47	–	140	12	
Total	2,955	1,960	3,360	323	8,599	4,516	

31 Dec 2008	Maximum credit risk (Balance sheet approach)					Total	Fair value of collateral
	Length of time past due						
	< 30 days	30 days until 3 months	3 months up to 1 year	> 1 year			
EUR million							
Loans and advances to banks	89	8	26	11	133	20	
• Loans and receivables	89	8	26	11	133	20	
Loans and advances to customers	3,140	1,745	2,386	308	7,579	4,075	
• Loans and receivables	3,140	1,745	2,386	308	7,579	4,070	
Assets held for trading (excl. equity items)	1	–	1	1	3	1	
• Held for trading	1	–	1	1	3	1	
Positive fair values from derivative financial instruments (Hedge Accounting)	–	–	–	–	–	–	
Investments (excl. equity items)	4	–	–	–	4	1	
• Available for sale	4	–	–	–	4	1	
Contingent liabilities	46	48	154	8	255	143	
Irrevocable credit commitments	47	13	72	16	148	17	
Total	3,328	1,812	2,639	344	8,123	4,257	

Due to the economic slowdown, past due but not impaired financial assets rose again albeit at a slower pace on the whole than in 2008. The increase was particularly noticeable in the maturity category of up to one year. Their share of total maximum credit risk (including contingent liabilities and irrevocable credit commitments) of EUR 444.7 billion was 1.9 percent (31 December 2008: 1.7 percent).

Financial assets that are impaired

EUR million	30 June 2009		31 Dec 2008	
	Maximum credit risk	Fair value of collateral	Maximum credit risk	Fair value of collateral
Loans and advances to banks	326	2	371	4
• Loans and receivables	326	2	371	4
Loans and advances to customers	4,445	3,125	3,954	2,676
• Loans and receivables	4,368	3,059	3,906	2,600
• Available for sale	78	66	76	76
Investments (excl. equity items)	1,324	–	1,680	–
• Available for sale	1,104	–	1,669	–
• Loans and receivables	220	–	11	–
Contingent liabilities	112	5	54	2
Irrevocable credit commitments	106	1	69	1
Total	6,439	3,134	6,136	2,683

Although impaired loans and advances to customers increased by 12 percent in the first half of the year as a result of the economic environment, the situation improved in the investments category (14 percent decrease).

Portfolios with elevated risk profiles

To strengthen trust among market participants by creating transparency, the Financial Stability Board has issued recommendations regarding the disclosure of information on portfolios with special risk profiles. The portfolios specifically mentioned in these recommendations are asset-backed securities (ABS), leveraged finance and US monoliner exposure.

BayernLB Group's ABS portfolio

The securitisation business can be broken down into two segments: transactions for customers that are structured exclusively at BayernLB's Munich and New York offices (ABS customer transactions) and investments in asset-backed securities (ABS securities).

ABS securities (credit investments)

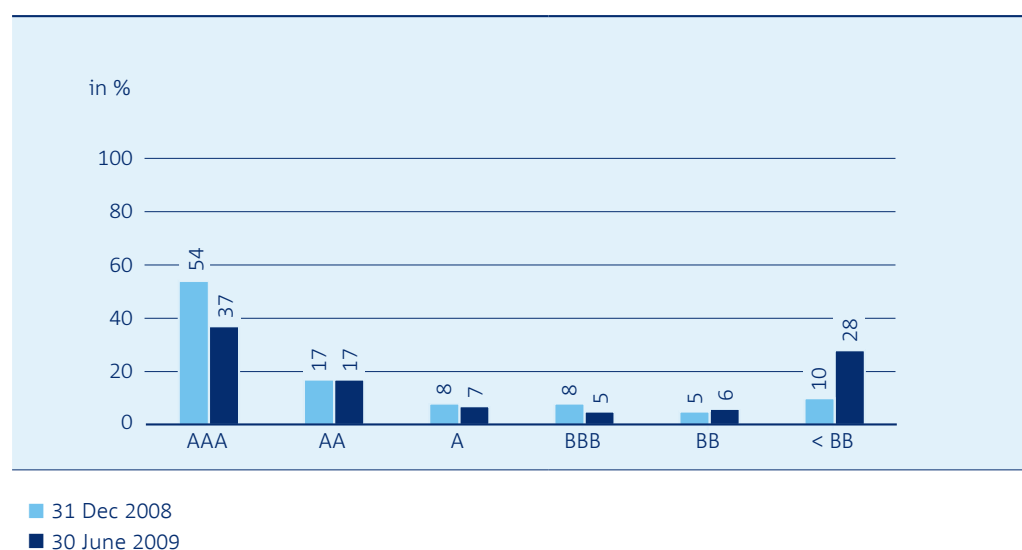
As at 30 June 2009, the IFRS carrying amount of the BayernLB Group's ABS portfolio was EUR 14.5 billion. The underlying nominal amount at the reporting date was EUR 19.5 billion (31 December 2008: EUR 20.7 billion). Repayments and maturing assets were the main reason for the decrease compared to 31 December 2008.

BayernLB Group ABS portfolio by IFRS holding category

BayernLB Group ABS portfolio by IFRS holding category	30 June 2009	31 Dec 2008
Available for sale (AFS)	3,512.3	4,184.2
• of which impaired	1,247.4	1,530.4
Held for trading (HfT)	52.0	39.6
• of which impaired	–	–
Fair value option (FVO)	69.5	111.7
• of which impaired	4.7	7.5
Loans and receivables (LaR)	10,905.7	11,366.6
• of which impaired	282.6	205.1
Held to maturity (HtM)	–	–
• of which impaired	–	–
Total	14,539.5	15,702.1
• of which impaired	1,534.7	1,743.0

Around 5 percent of the portfolio at Group level is held by the subsidiaries HGAA, Landesbank Saar and Banque LBLux S.A., and the other 95 percent by BayernLB itself. There is no direct or indirect ABS risk outside the scope of consolidation.

ABS portfolio by rating category as at 30 June 2009 and 31 December 2008 (as a percentage of the whole ABS portfolio)



The economic recession and financial crisis as well as weak real estate markets in the USA and several European countries have had a negative impact on the creditworthiness of retail and commercial borrowers underlying asset-backed securities. This resulted in further rating downgrades of tranches in the ABS portfolio in the first half of 2009.

Guarantee agreement with the Free State of Bavaria

On 19 December 2008, a guarantee agreement was concluded between the Free State of Bavaria and BayernLB. The guarantee covers actual losses in the ABS portfolio, above a first loss by the Bank of EUR 1.2 billion. The guarantee covers a maximum of EUR 4.8 billion.

In return for a premium, the Free State of Bavaria undertakes as a protection seller to hedge BayernLB's ABS portfolio.

In 2008, amendments to IAS 39 and IFRS 7 by the International Accounting Standards Board expanded the range of financial assets that could be reclassified from the available-for-sale (AfS) and held-for-trading (HfT) categories to the loans and receivables (LaR) category. BayernLB elected to exercise this option. The following tables show the impact of the reclassification on the ABS portfolio.

Impact on the balance sheet and income statement under IFRS from the BayernLB Group ABS portfolio

EUR million	Without reclassification			
	30 June 2009		31 Dec 2008	
	Income statement	Not recognised in income statement	Income statement	Not recognised in income statement
Non-prime RMBS	-20.9	-551.6	-1,035.3	-1,270.7
• of which US Subprime	27.2	-330.3	-524.6	-426.9
• of which Alt-A non-prime	-33.6	27.0	-465.4	-154.6
Prime RMBS	-118.3	79.4	-284.5	-993.4
CDOs	-20.7	-26.3	-1,173.8	-206.9
• of which CDO of ABS	-10.6	0.1	-129.8	-11.1
– of which US Subprime	-11.3	–	-102.4	–
• of which CDO squared	22.6	10.5	-150.3	-21.7
– of which US Subprime	-0.4	–	-3.6	–
CMBS	-22.1	-200.4	-74.5	-416.6
Commercial ABS	1.8	5.8	-3.0	-110.6
Consumer ABS	1.3	48.6	-1.1	-92.6
Total	-178.9	-644.5	-2,572.2	-3,090.8

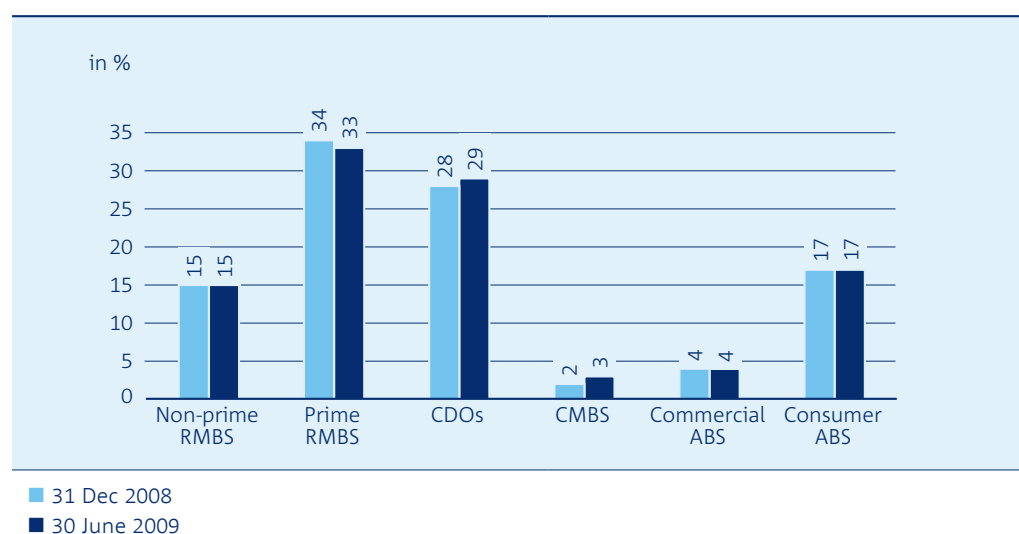
EUR million	With reclassification			
	30 June 2009		31 Dec 2008	
	Income statement	Not recognised in income statement	Income statement	Not recognised in income statement
Non-prime RMBS	-20.9	-137.8	-1,035.3	-414.6
• of which US Subprime	27.2	-138.6	-524.6	-187.7
• of which Alt-A non-prime	-33.6	–	-465.4	-43.5
Prime RMBS	-120.5	35.5	-277.0	-164.2
CDOs	-23.7	10.9	-1,173.4	-88.2
• of which CDO of ABS	-10.7	-3.1	-130.0	-4.6
– of which US Subprime	-11.3	–	-102.4	–
• of which CDO squared	22.6	6.6	-150.3	-21.7
– of which US Subprime	-0.4	–	-3.6	–
CMBS	-21.5	38.8	-68.6	-125.2
Commercial ABS	1.8	0.9	-2.9	-31.8
Consumer ABS	1.3	7.1	-0.9	-14.1
Total	-183.5	-44.6	-2,558.1	-838.1

Impairments in the ABS portfolio

EUR million	Without reclassification		With reclassification	
	30 June 2009	31 Dec 2008	30 June 2009	31 Dec 2008
Non-prime RMBS	-142.7	-1,035.3	-142.7	-1,035.3
• of which US Subprime	-102.7	-524.6	-102.7	-524.6
• of which Alt-A non-prime	-33.6	-465.4	-33.6	-465.4
Prime RMBS	-105.7	-182.9	-105.7	-182.9
CDOs	-38.0	-466.8	-38.0	-466.8
• of which CDO of ABS	-18.7	-42.4	-18.7	-42.4
– of which US Subprime	-11.3	-42.1	-11.3	-42.1
• of which CDO squared	-7.0	-94.9	-7.0	-94.9
– of which US Subprime	-0.4	-3.6	-0.4	-3.6
CMBS	-3.9	-2.9	-3.9	-2.9
Commercial ABS	-	-	-	-
Consumer ABS	-	-	-	-
Total	-290.3	-1,688.0	-290.3	-1,688.0

Although reversals (i.e. securities which are no longer impaired) have a positive impact on the income statement, this effect is not taken into account in the information presented here. As at 30 June 2009, reversals totalled around EUR 129 million.

ABS portfolio by asset class (as a percentage of the whole ABS portfolio)



Based on the Financial Stability Board's detailed transparency recommendations regarding the residential mortgage-backed security (RMBS) asset class, the following table shows the years (vintage) in which BayernLB Group's RMBS assets were issued.

BayernLB Group non-prime RMBS assets by vintage as at 30 June 2009

in %	2007	2006	2005	2004	< 2004
Non-prime RMBS	21.1	60.1	11.6	3.7	3.5
• of which Alt-A non-prime RMBS	6.3	12.6	2.7	1.8	1.5
• of which US subprime RMBS	8.7	35.3	4.0	0.9	1.8

No asset-backed securities have been purchased by BayernLB since August 2007. In accordance with strategy, all further purchases are prohibited.

Support for SachsenLB

As part of LBBW's acquisition of a stake in SachsenLB, all German Landesbanks provided refinancing for asset-backed securities brought in from special purpose entities supported by the SachsenLB Group. As at 30 June 2009, BayernLB Group had contributed around EUR 1.5 billion in total (31 December 2008: around EUR 1.7 billion), with EUR 1.4 billion provided by BayernLB and around EUR 0.1 billion by SaarLB.

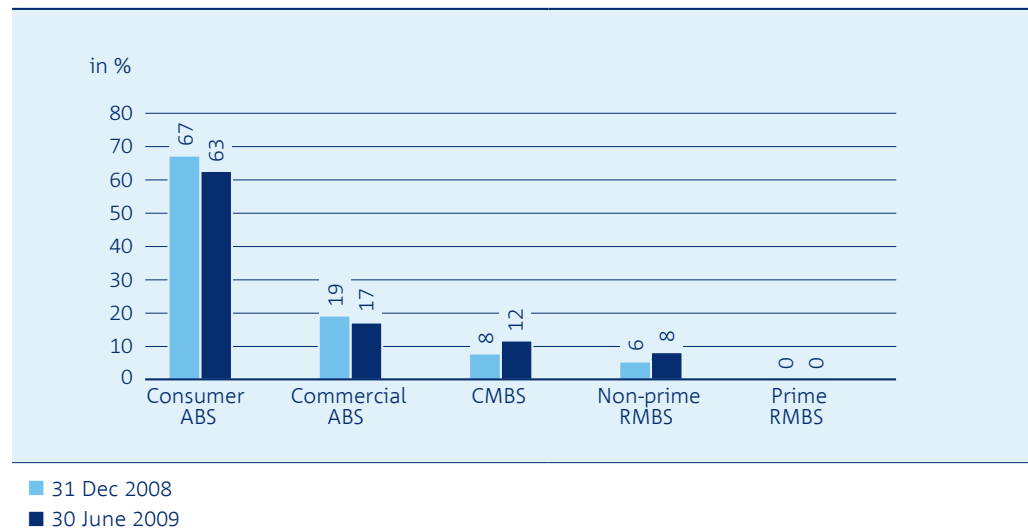
ABS customer transactions

BayernLB has structured and securitised customers' receivables portfolios as part of its asset-backed credit business. The receivables portfolios comprise trade receivables, vehicle financing, consumer loans (including credit card receivables) and residential and commercial mortgage loans. Financing is largely carried out through the ABCP programmes Giro Balanced Funding Corporation and Giro Lion Funding Limited established by the Bank.

The special purpose entities Giro Balanced Funding Corporation and Giro Lion Funding Limited are included in the consolidated financial statements. As the sellers of the receivables bear most of the opportunities and risks, the companies purchasing ABS customer transactions from the Giro Lion programme are not consolidated. The risk exposures from the ABS customer transactions are included in the BayernLB consolidated financial statements indirectly through the refinancing that was provided.

BayernLB Group's ABS customer transaction business contracted by a third during the first half of 2009, particularly in the ABS consumer and ABS commercial asset classes, and amounted to EUR 3.6 billion as at 30 June 2009 (31 December 2008: EUR 5.4 billion). Most of the decrease was due to early repayments. This business is conducted only within BayernLB or one of the conduits it has established.

**ABS customer transactions by asset class as at 30 June 2008 and 31 December 2008
(as a percentage of all ABS customer transactions)**



The percentage breakdown of total assets has changed due to the decrease in the ABS Consumer and ABS Commercial categories. Based on BayernLB's internal rating process, 10.4 percent of customer transactions have ratings equivalent to AAA or AA (31 December 2008: 15 percent) and 77 percent ratings equivalent to A (2008: 78 percent). The proportion in the BBB to B category rose by 6.6 percent to 12.6 percent.

Leveraged Finance

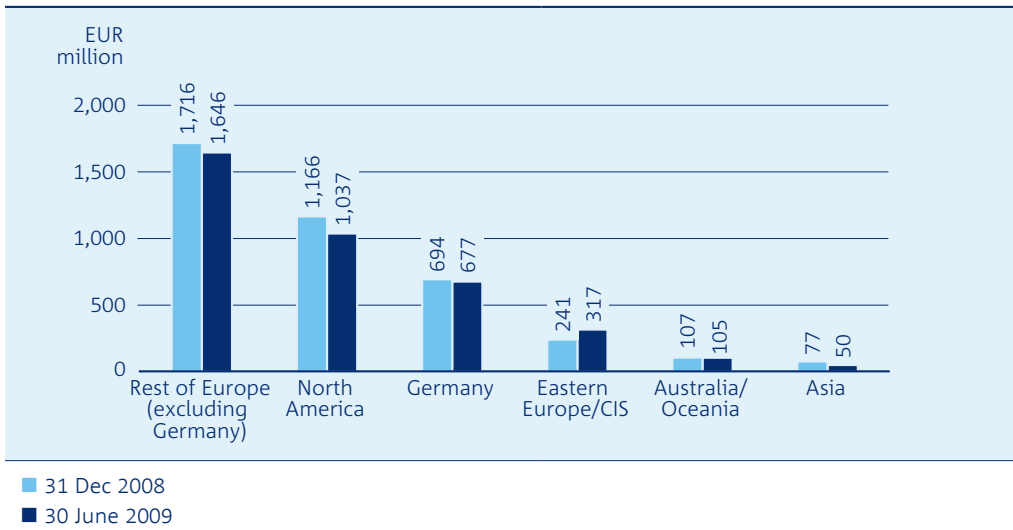
Leveraged finance transactions typically have comparatively high leverage ratios, serviced in most cases exclusively from the operating cash flows of the financed entity, and therefore generally have relatively long terms (normally more than five years). This definition therefore covers not only acquisition financing but also other forms of financing with these features.

BayernLB Group's overall exposure was EUR 3.8 billion as at 30 June 2009 compared with EUR 4.0 billion as at 31 December 2008.

In line with the focusing of the business model, most of this portfolio has been assigned to BayernLB's Restructuring Unit since 1 July 2009 to be wound down. Only financing for Mittelstand companies and certain project financing will continue to be conducted under tighter risk-strategy standards.

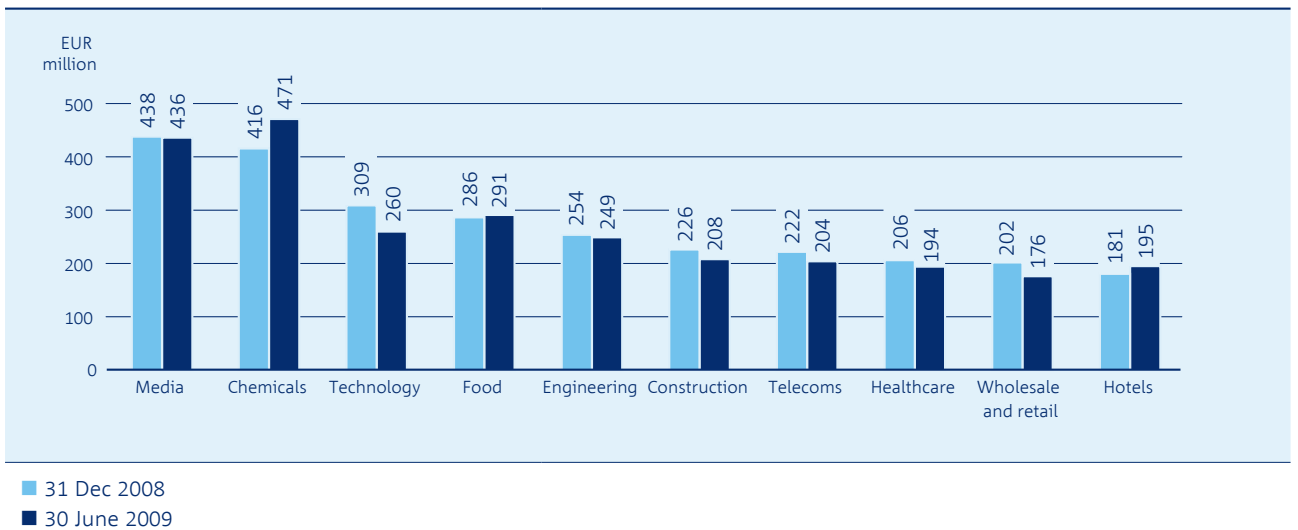
The tables below give a breakdown of BayernLB Group's leveraged finance transactions by region, sector and rating.

Geographical breakdown

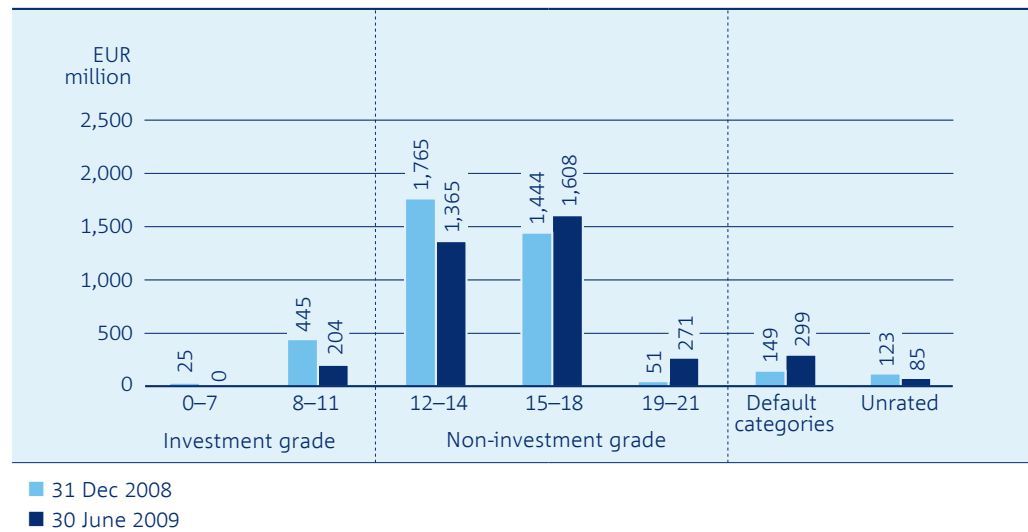


Sector breakdown

The table below shows the top ten sectors.



Rating category breakdown



Most of the marked rise in financing in categories 19–21 and defaulted financings (default categories) can be attributed to the North America portfolio. Around two-thirds of the EUR 128 million of impairments in the first half of 2009 occurred in the New York branch's portfolio, which has been completely assigned to the Restructuring Unit.

Monoliner exposure

BayernLB Group's nominal exposure to US monoliners (insurers that specialise, among other things, in hedging structured securities), which is almost entirely booked to BayernLB, totalled around EUR 1.7 billion as at 30 June 2009 (31 December 2008: EUR 2.5 billion). Since 1 July 2009 the entire the exposure has been assigned to the Restructuring Unit with the goal of further reducing it.

As at the reporting date, around EUR 1.6 billion (31 December 2008: EUR 2.2 billion) was an indirect exposure, where the monoliners are not the direct borrowers but act as guarantors. The Bank based its decision primarily on the creditworthiness of the actual borrower, issuer or financing structure; the monoliner's guarantee was viewed at the time the transaction was concluded only as an additional hedging instrument. The reduction in the exposure in the first half of the year is due to scheduled repayments and to the restructuring of financings which BayernLB either initiated itself or was a party to.

Direct exposure fell from EUR 0.3 billion Euro as at 31 December 2008 to EUR 0.1 billion as at the reporting date.

Overview of BayernLB's asset-backed securities guaranteed by monoline insurers as at 30 June 2009 and 31 December 2008

EUR million	Ambac Assurance Corporation		MBIA Inc.		Financial Guaranty Insurance Company		Financial Security Assurance Inc.		CIFG		Total	
	June 09	Dec 08	June 09	Dec 08	June 09	Dec 08	June 09	Dec 08	June 09	Dec 08	June 09	Dec 08
Non-prime RMBS	250.0	297.0	116.9	146.5	209.7	228.6	47.3	53.7	–	–	623.9	725.8
Prime RMBS	–	–	42.2	51.4	–	–	–	–	–	–	42.2	51.4
CDO	–	–	14.8	15.9	–	–	–	–	–	32.8	14.8	48.7
CMBS	–	–	202.5	216.6	–	–	–	–	–	–	202.5	216.6
Commercial ABS	35.7	40.5	77.8	85.3	16.3	16.9	–	–	–	–	129.8	142.6
Consumer ABS	–	11.2	43.2	47.0	–	–	7.8	12.5	–	–	51.0	70.8
Total	285.7	348.7	497.4	562.6	226.0	245.4	55.1	66.2	–	32.8	1,064.2	1,255.8

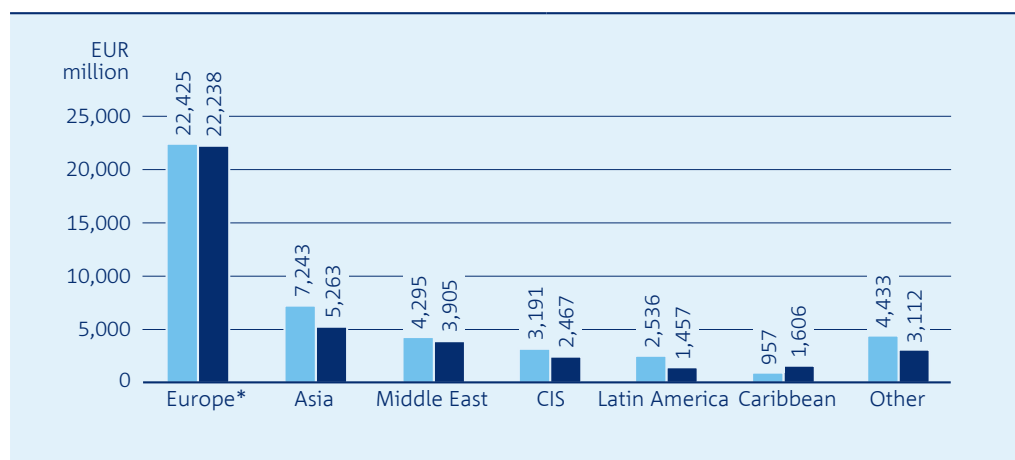
Rating agencies repeatedly downgraded their ratings on Ambac Assurance Corporation in 2009; the most recent was a downgrade from BBB to CC by Standard & Poors in July 2009. However, so far there have not been any disruptions to payments for guaranteed ABSs in our portfolio.

A further EUR 0.5 billion (31 December 2008: EUR 0.7 billion) of the indirect exposure relates to liquidity facilities for US municipal bonds guaranteed by monoliners.

Country risk

Of BayernLB Group's country risk-relevant net risk, 73 percent is in countries where country risk is currently minimal: primarily members of the European Economic and Monetary Union, the United Kingdom and the USA. The remaining 27 percent is in countries that are managed and regulated using country limits. The following overview relates solely to countries which have been assigned specific risk restrictions (countries classed under internal risk management as risk-relevant).

Breakdown by region of country risk-relevant net risk in risk-relevant countries within the Group



■ 31 Dec 2008 Total: EUR 45,080 * Eastern Europe, Iceland and Turkey
 ■ 30 June 2009 Total: EUR 40,048

Within the BayernLB Group, not only BayernLB itself but also MKB and HGAA have significant country risks. Hungary (MKB's homeland) and Croatia (one of HGAA's major national markets) together accounted for 32 percent of the BayernLB Group's country risk relevant net risk.

In line with strategy, country risk-relevant net risk has been reduced by 11 percent to EUR 40.0 billion since 31 December 2008. Of the current risk in risk-relevant countries, 80 percent is in countries rated from 1 to 11 (investment grade).

Market price risk

Market price risk for the Group is illustrated in the following table as value-at-risk amounts. The VaR amounts are based on a holding period of one day and a confidence level of 99 percent. These parameters differ from those given under the risk-bearing section and are used because they are the standards for the sector.

2008/2009 comparison of total market price risk

EUR million	12-month comparison as at 30 June 2009			12-month comparison as at 31 Dec 2008		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Specific interest rate VaR	168.8	223.1	100.4	252.5	414.1	164.9
General interest rate VaR	110.9	135.3	92.4	115.0	341.8	54.8
Currency VaR	78.9	144.0	37.5	52.8	136.6	12.8
Alternative investments VaR	11.3	13.0	7.8	9.2	12.3	6.9
Equities VaR	9.3	14.5	2.6	8.9	12.2	7.0
Volatility VaR	6.3	7.6	5.5	3.5	9.0	1.8
Commodities VaR	2.8	5.5	1.5	2.9	8.0	0.1
Total VaR	303.9	390.9	233.1	361.6	569.8	169.3

Market price risk was significantly lower as at 30 June 2009 compared to year end 2008. This was due to the overall narrowing of credit spreads since the end of last year and the ongoing winding down of the portfolio. The risk of falling prices for securities and derivatives triggered by credit rating downgrades of the issuer remains the dominant factor in market price risk (risk factor of specific interest rate risk). As regards the reporting of specific interest rate risks, the risk of falls in the value of securities assigned to the internal Restructuring Unit is also reported.

The increase in currency risk was primarily due to higher exchange rate volatility.

Liquidity risk

In the first half of 2009, BayernLB Group maintained its risk-orientated liquidity policy. In an even tougher market environment, BayernLB received extraordinary inflows of liquidity in the first quarter from a capital injection by the Free State of Bavaria (EUR 7 billion in 2009) and the successful issue of a state-backed bond in January (EUR 5 billion). The second quarter brought a noticeable improvement in sentiment on the refinancing markets BayernLB operates in (greater market breadth and narrowing spreads).

As a result, the amount of funding BayernLB was able to take in was highly satisfactory and was slightly above target at the end of the first half. All key liquidity ratios have improved due to the release of liquidity reserves and a decrease in financing from the money market. The ratio as defined in the Liquidity Regulation was 1.52 as at 30 June 2009. During the first half of 2009, the ratio fluctuated between 1.27 and 1.52. In 2008 it ranged between 1.28 and 1.37.

BayernLB reacted to the one and two-notch downgrades by rating agencies in May 2009 by making adjustments to internal management tools. Contrary to the conservative assumptions in the stress scenarios, the downgrades led to only sporadic outflows of liquidity. Partly as a result of the more favourable market environment since the second quarter, there was no noticeable negative impact on refinancing in terms of restricted amounts or higher refinancing premiums. BayernLB can currently issue secured and unsecured bonds in the desired amount.

In spite of these positive developments and an entirely satisfactory liquidity situation as at the middle of 2009, BayernLB continues to hold a cautious view of the markets and is maintaining its restricted liquidity policy. If the market environment were to deteriorate again, BayernLB Group would have sufficient liquidity reserves to cover liquidity needs in all maturities.

Liquidity overviews are compiled for the purpose of managing and monitoring 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.

As at 30. June 2009, the situation compared with 31. December 2008 was as follows:

30 June 2009

Cumulative figures in EUR million	up to 3 months	up to 1 year	up to 5 years
Liquidity coverage potential	57,166	55,563	21,941
less			
• Liquidity gap/surplus* relating to the balance sheet	17,363	9,673	-25,527
• Liquidity gap/surplus* relating to commitments and guarantees	11,774	12,078	5,446
• Liquidity gap/surplus* relating to termination rights	-1,390	-2,463	-1,755
• Liquidity gap/surplus* relating to derivatives	51	-76	721
Liquidity surplus	29,369	36,352	43,055

* Liquidity surpluses preceded by minus symbol, liquidity gaps by positive or no symbol

31 December 2008

Cumulative figures in EUR million	up to 3 months	up to 1 year	up to 5 years
Liquidity coverage potential	50,739	55,339	23,064
less			
• Liquidity gap/surplus* relating to the balance sheet	9,107	20,512	-22,241
• Liquidity gap/surplus* relating to commitments and guarantees	11,708	13,536	3,155
• Liquidity gap/surplus* relating to termination rights	-922	-1,636	-1,082
• Liquidity gap/surplus* relating to derivatives	86	66	-607
Liquidity surplus	30,761	22,861	43,839

* Liquidity surpluses preceded by minus symbol, liquidity gaps by positive or no symbol

As these figures make clear, BayernLB Group continues to have ample liquidity surpluses in all maturities; there has been a major increase in the buffer for maturities of up to one year.

Operational risk

For reporting under the Solvency Ordinance, BayernLB has used the standardised approach since 1 January 2007 to calculate capital requirements for operational risk at Group and Bank level. On 30 June 2009, the standardised approach for operational risk was successfully introduced at the HGAA sub-group thus ensuring the use of a uniform procedure Group-wide.

Suitable management measures are being used to systematically reduce the operational risk that was identified in 2008, particularly at HGAA.

There has been no significant change in the Group's damage losses since 31 December 2008.

3

3 Interim Consolidated Financial Statements

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Interim Consolidated Financial Statements

Statement of comprehensive income for the period from 1 January to 30 June 2009

Income statement

	Notes	1 Jan – 30 June 2009	1 Jan – 30 June 2008
		EUR million	EUR million
• Interest income		8,933	10,306
• Interest expenses		-7,664	-9,018
Net interest income	(4)	1,269	1,288
Risk provisions for the credit business	(5)	-704	-179
Net interest income after risk provisions		565	1,109
• Commission income		507	538
• Commission expenses		-278	-251
Net commission income	(6)	228	287
Gains or losses on fair value measurement	(7)	391	-145
Gains or losses on hedge accounting		31	29
Gains or losses on investments	(8)	265	-920
Income from interests in companies measured at equity		-10	5
Administrative expenses	(9)	-1,030	-1,131
Other income	(10)	158	171
Operating profit/loss		597	-595
Restructuring expenses	(11)	-246	-35
Gains or losses on ordinary activities/Earnings before taxes		351	-630
Income taxes		-24	-101
Earnings after taxes		327	-731
Minority interests		32	9
Consolidated net income/loss		359	-722

Figures in the table may be rounded up or down by ± one unit.

Statement of comprehensive income (condensed)

EUR million	1 Jan – 30 June 2009	1 Jan – 30 June 2008
Earnings after taxes as per the income statement	327	-731
Other comprehensive income not recognised in the income statement:		
Changes in the revaluation reserve (net)	207	-1,488
• Change in valuation (gross)	-250	-2,418
• Reclassification adjustment due to realised gains and losses	457	930
Currency-related changes (net)	76	54
• Change in valuation (gross)	76	54
• Reclassification adjustment due to realised gains and losses	–	–
Other comprehensive income before taxes	283	-1,434
Tax not recognised in the income statement	-27	318
Other comprehensive income after taxes	256	-1,116
Total reported comprehensive income recognised and not recognised in the income statement	583	-1,847
attributable:		
• to BayernLB shareholders	605	-1,804
• to minority interests	-22	-43

Figures in the table may be rounded up or down by ± one unit.

Other comprehensive income – taxes

EUR million	1 Jan – 30 June 2009			1 Jan – 30 June 2008		
	Amount before taxes	Taxes	Amount after taxes	Amount before taxes	Taxes	Amount after taxes
Changes in the revaluation reserve	207	-27	180	-1,488	318	-1,170
Currency-related changes	76	–	76	54	–	54
Other comprehensive income	283	-27	256	-1,434	318	-1,116

Figures in the table may be rounded up or down by ± one unit.

Balance sheet as at 30 June 2009

Assets

EUR million	Notes	30 June 2009	31 Dec 2008
Cash reserves		4,240	3,796
Loans and advances to banks	(12)	83,119	89,638
Loans and advances to customers	(13)	202,100	202,567
Risk provisions	(14)	-3,876	-3,439
Portfolio hedge adjustment assets		634	546
Assets held for trading	(15)	40,048	47,349
Positive fair values from derivative financial instruments (hedge accounting)		4,181	3,929
Investments	(16)	59,094	62,455
Interests in companies measured at equity	(17)	69	106
Investment property	(18)	3,653	3,517
Property, plant and equipment	(19)	1,859	1,951
Intangible assets	(20)	2,161	2,213
Current tax assets		186	269
Deferred tax assets		4,429	4,390
Other assets	(21)	2,663	2,378
Total assets		404,559	421,666

Figures in the table may be rounded up or down by \pm one unit.

Liabilities

EUR million	Notes	30 June 2009	31 Dec 2008
Liabilities to banks	(22)	112,936	142,480
Liabilities to customers	(23)	102,450	91,307
Securitised liabilities	(24)	115,268	117,479
Portfolio hedge adjustment liabilities		–	–
Liabilities held for trading	(25)	32,321	34,054
Negative fair values from derivative instruments (hedge accounting)		2,407	3,086
Provisions	(26)	3,327	3,112
Current tax liabilities		290	531
Deferred tax liabilities		4,343	4,371
Other liabilities	(27)	2,289	2,160
Subordinated capital	(28)	10,163	11,821
Equity	(29)	18,765	11,265
• Equity excluding minority interests		16,217	8,693
– Subscribed capital		6,556	3,556
– Specific-purpose capital		612	612
– Hybrid capital instruments		544	545
– Capital reserve		5,476	1,476
– Retained earnings		4,829	4,909
– Revaluation reserve		-2,096	-2,265
– Foreign currency translation reserve		-63	-141
– Consolidated profit/loss		359	–
• Minority interests		2,548	2,573
Total liabilities		404,559	421,666

Figures in the table may be rounded up or down by ± one unit.

Statement of changes in equity

EUR million	Subscribed capital	Specific-purpose capital	Hybrid capital instruments	Capital reserve	Retained earnings	Revaluation reserve	Currency translation reserve	Consolidated net income/loss	Equity before Minority interests	Minority interests	Consolidated equity
As at 31 Dec 2007	3,082	612	621	476	6,547	-672	43	126	10,835	2,058	12,893
Adjustments pursuant to IAS 8					-55				-55	67	12
As at 1 Dec 2008	3,082	612	621	476	6,492	-672	43	126	10,780	2,125	12,905
Other comprehensive income ¹						-1,128	46		-1,082	-34	-1,116
Consolidated net income/loss								-722	-722	-9	-731
Comprehensive income						-1,128	46	-722	-1,804	-43	-1,847
Capital increases/capital decreases	500								500		500
Changes in the scope of consolidation and other	-28		-8		-71				-107	233	126
Dividends paid								-126	-126		-126
As at 30 June 2008	3,554	612	613	476	6,421	-1,800	89	-722	9,243	2,315	11,558

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

¹ Items that have been offset directly against equity are shown separately in the notes.

EUR million	Subscribed capital	Specific-purpose capital	Hybrid capital instruments	Capital reserve	Retained earnings	Revaluation reserve	Currency translation reserve	Consolidated net income/loss	Equity before Minority interests	Minority interests	Consolidated equity
As at 31 Dec 2008	3,556	612	545	1,476	4,909	-2,265	-141	-	8,692	2,573	11,265
Adjustments pursuant to IAS 8					-				-		-
As at 1 Jan 2009	3,556	612	545	1,476	4,909	-2,265	-141	-	8,692	2,573	11,265
Other comprehensive income ¹						169	77		246	10	256
Consolidated net income/loss								359	359	-32	327
Comprehensive income						169	77	359	605	-22	583
Capital increases/capital decreases	3,000			4,000					7,000		7,000
Changes in the scope of consolidation and other			-1		-80				-81	-3	-84
Dividends paid									-		-
As at 30 June 2009	6,556	612	544	5,476	4,829	-2,096	-63	359	16,217	2,548	18,765

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

1 Items that have been offset directly against equity are shown separately in the notes..

Cash flow statement

EUR million	1 Jan – 30 June 2009	1 Jan – 30 June 2008
Cash on hand at end of previous period	3,796	4,207
+/- cash flow from operating activities	-4,967	-345
+/- cash flow from investment activities	48	-340
+/- cash flow from financing activities	5,335	-545
+/- Exchange-rate, scope of consolidation and valuation-related change in cash on hand	28	74
Cash on hand at end of period	4,240	3,051

Figures in the table may be rounded up or down by ± one unit.

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(16) Investments	(25) Liabilities held for trading
(17) Interests in companies measured at equity	(26) Provisions
(18) Investment property	(27) Other liabilities
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Notes

Notes to the interim financial statements

The BayernLB Group's interim financial statements as at 30 June 2009 have been prepared in accordance with Commission Regulation 1606/2002 (IAS Regulation) of the European Parliament and of the European Council of 19 July 2002 (including all amendments) on the application of international financial reporting standards, and in conjunction with Section 315a (1) of the German Commercial Code (HGB). The interim financial statements comply with the requirements of IAS 34.

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

Accounting policies

(1) Basis

The accounting methodology used for the interim financial statements as at 30 June 2009 was essentially the same as that used for the 2008 consolidated financial statements. Information provided in these interim financial statements is to be read in conjunction with the information in the published and audited consolidated financial statements as at 31 December 2008.

Income tax expenses in the interim financial statements are calculated on the basis of the estimated income tax rate for the full year.

IAS 1 (Presentation of Financial Statements (revised 2007)) applies from financial year 2009. Its impact is shown in a separate section of the interim financial statements entitled "Statement of comprehensive income".

(2) Scope of consolidation

In addition to the parent company, the group of companies consolidated within BayernLB comprises 174 subsidiaries (31 December 2008: 166), of which two (31 December 2008: two) are special-purpose entities and eight (31 December 2008: nine) are special funds that are fully consolidated in accordance with IAS 27 and SIC 12. The consolidated financial statements do not include companies that are only proportionately consolidated.

Five (31 December 2008: five) joint ventures and seven (31 December 2008: eight) associated companies are measured at equity. Pursuant to IFRS 5, LB(Swiss) Privatbank AG, Zurich, a joint venture previously consolidated under the equity method, has been recognised since 30 June 2009 as a held-for-sale asset.

Changes to the consolidated sub-group of GBW AG, Munich:

Based on materiality criteria, the following companies have been added to the BayernLB Group scope of consolidation with effect from 1 January 2009:

- GBW WohnungsGmbH, Munich
- GBW Asset GmbH, Munich

GBW Beteiligungs-GmbH, Munich, was merged with GBW AG, Munich retrospectively from 1 January 2009.

Changes to the consolidated sub-group of MKB Bank Zrt. (MKB), Budapest:

Based on materiality criteria, Exter-Berlet Kft., Budapest was added to the scope of consolidation with effect from 1 January 2009.

Changes to the consolidated sub-group of Hypo Alpe-Adria-Bank International AG (HGAA), Klagenfurt:

In the first half of 2009, the following ten companies were included for the first time in the consolidated financial statements:

- HYPO FM Holding GmbH, Klagenfurt (founded)
- HYPO FACILITY SERVICES DOO BEOGRAD, Belgrade (founded)
- QLANDIA MARKETING d.o.o., Ljubljana (founded)
- Alpe Adria Privatbank AG in liquidation, Schaan (previously measured at equity, included by way of full consolidation in the consolidated financial statements since the second quarter of 2009, based on a control agreement, whereby the assets and liabilities are, pursuant to IFRS 5, reported as non-current assets and disposal groups held for sale or liabilities from disposal groups held for sale)
- EPSILON GRADENJE d.o.o., Zagreb (founded)
- SPC SZENTEND Ingatlanforgalmazó és Ingatlanfejlesztő Kft, Budapest (materiality)
- SPC ERCS Kft., Budapest (materiality)
- ERCS 2008 Kft., Budapest (materiality)
- Hypo Cityimmobilien-Klagenfurt GmbH, Klagenfurt (founded)
- HYPO NEPREMICNINE d.o.o., Ljubljana (acquired)

During the reporting period, the following fully consolidated subsidiaries were deconsolidated:

- Slavonska Banka d.d. Osijek (merged)
- S.P.C. 03 d.o.o., Ljubljana (sold)
- HYPO TC-BB DOO BEOGRAD, Belgrade (merged)
- HYPO 111, Vienna (in the first half of 2009, the fund, which was majority-owned and fully consolidated through the application of SIC-12, was dissolved and its assets transferred in full to Hypo Alpe-Adria-Bank AG, Klagenfurt).

None of these changes in the scope of consolidation had any significant impact on the Group's net assets, finances position or earnings.

Materiality criteria are used to determine which companies are consolidated within the BayernLB Group. Due to their minor importance individually and as a group in relation to the net assets, finances and earnings of the Group, 339 (31 December 2008: 334) companies were neither consolidated nor measured at equity. The impact on the balance sheet from the contractual relationships between Group companies and these non-consolidated companies is reported in the interim financial statements.

Segment reporting

(3) Notes to the segment report

The segment report reflects the BayernLB Group's business structure. Ten segments comprising the operating business areas, the dependent entities BayernLabo and LBS Bayern, the Group's strategic subsidiaries and the Central Areas/Other segment are shown. In addition to each segment's operating profit, the earnings also include the earnings 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 Central Areas/Other segment shows the earnings contributions that are not attributable to the segments. This includes in particular earnings contributions from central areas that cannot be allocated to the operating units in a way which reflects where they were generated. The Savings Banks and Bavarian Market segment was transferred to the Savings Banks and Mittelstand segments as at 1 January 2009. Some small portfolios from the Corporates segment were also transferred to the Mittelstand segment while some from the Financial Institutions/Sovereigns segment were transferred to the Savings Banks segment. The previous year's figures for the affected segments were adjusted accordingly.

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 for the purposes of IFRS 8.7. The management reports are based on the IFRS accounting methodology used in the 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 8.32 and 8.33 b is not available, and the cost of providing the information would also be disproportionately high.

Segment report as at 30 June 2009

EUR million	Corporates	Real Estate	Mittelstand	Financial Markets	Credit Investments Portfolio	Financial Institutions/ Sovereigns	Savings Banks	BayernLabo/LBS Bayern	The Group's Strategic Subsidiaries	Central areas/Other	Consolidation	Group
Net interest income	265	100	30	-166	15	104	21	154	879	-138	5	1,269
Risk provisions for the credit business	-11	-25	-18	12	-	-130	-2	-	-529	-	-	-704
Net commission income	94	11	4	-14	-	34	2	-4	110	-9	-	228
Gains or losses on fair value measurement	29	2	5	193	2	15	19	-1	149	-7	-15	391
Gains or losses on hedge accounting	-	-	-	69	-	-	-	-	-36	-1	-	31
Gains or losses on investments	-4	-	-	-4	222	-	-	-	10	40	-	265
Income from interests in companies measured at equity	-1	-	-	-	-	-	-	-	-10	-	-	-10
Administrative expenses	-86	-53	-31	-56	-1	-47	-27	-55	-624	-50	-	-1,030
Other income	-	14	-	23	-	-	-1	3	60	25	34	158
Operating profit/loss	285	49	-9	57	239	-24	11	97	9	-140	24	597
Restructuring expenses	-13	-14	-3	-28	-	-13	-3	-11	-1	-159	-	-246
Gains or losses on ordinary activities/ Earnings before taxes	272	35	-12	28	239	-37	9	86	9	-300	24	351
Income taxes	-32	-9	-	-14	-57	-	-2	-17	-88	197	-2	-24
Earnings after taxes	240	26	-12	14	182	-37	7	69	-80	-103	22	327
Segment assets	39,716	18,097	11,672	160,261	15,320	59,228	645	26,580	133,270	28,099	-88,327	404,559
Risk positions	37,228	12,740	2,960	18,742	3,424	12,763	242	2,469	82,822	2,110	-	175,500
Average economic/ reported equity	3,133	1,034	230	1,687	487	1,129	28	285	6,730	253	616	15,612
Return on equity (RoE) (%)	17.6	8.8	-5.5	5.6	32.0	-4.1	82.1	67.7	0.9	-	-	9.3¹
Cost-income ratio (CIR) (%)	22.3	41.9	78.5	53.8	6.0	30.7	66.5	36.3	53.7	-	-	49.6
Average number of employees (FTE)	318	306	186	520	-	130	78	851	14,599	2,602	-	19,588

¹ BayernLabo's results and share in Group equity are not included in the return on equity (expressed in percent) at Group level.

Segment report as at 30 June 2008

EUR million	Corporates	Real Estate	Mittelstand	Financial Markets	Credit Investments Portfolio	Financial Institutions/ Sovereigns	Savings Banks	BayernLabo/LBS Bayern	The Group's Strategic Subsidiaries	Central areas/Other	Consolidation	Group
Net interest income	164	85	24	68	9	81	-6	145	731	-55	41	1,288
Risk provisions for the credit business	75	43	-3	-1	-	-2	2	-6	-289	1	-	-179
Net commission income	65	29	7	12	-	51	11	4	126	-8	-10	287
Gains or losses on fair value measurement	26	7	1	92	-453	29	22	7	168	-3	-41	-145
Gains or losses on hedge accounting	-1	-	-	32	-	-	-	-	-2	-	-	29
Gains or losses on investments	-3	-	-	-58	-840	-	1	-1	-18	-	-1	-920
Income from interests in companies measured at equity	1	-	-	-	-	-	-	-	4	-	-	5
Administrative expenses	-111	-69	-36	-63	-1	-48	-49	-62	-639	-54	1	-1,131
Other income	4	8	-	7	-	-	-1	1	94	26	32	171
Operating profit/loss	221	103	-7	88	-1,285	111	-20	89	175	-93	23	-595
Restructuring expenses	-	-	-	-14	-	-	-1	-	-7	-13	-	-35
Gains or losses on ordi- nary activities/ Earnings before taxes	221	103	-7	75	-1,285	111	-21	89	168	-106	23	-630
Income taxes	-35	-16	-	-10	-	-18	-	-13	-66	48	9	-101
Earnings after taxes	186	87	-7	65	-1,285	93	-21	76	102	-59	31	-731
Segment assets	38,716	19,087	10,312	164,318	16,982	64,831	7,649	21,923	131,732	19,231	-79,142	415,641
Risk positions	38,200	12,157	2,784	22,950	4,176	16,262	721	2,963	80,652	10,035	-	190,900
Average economic/ reported equity	3,056	973	223	1,836	334	1,301	58	237	6,452	803	-4,793	10,479
Return on equity (RoE) (%)	12.5	16.8	-6.3	9.7	< -100	17.1	-27.7	75.0	5.4	-	-	-17.1¹
Cost-income ratio (CIR) (%)	43.0	53.6	113.9	29.7	-	29.6	187.2	39.2	57.3	-	-	69.4
Average number of employees (FTE)	290	164	183	562	-	119	174	819	13,879	2,883	-	19,073

¹ BayernLabo's results and share in Group equity are not included in the return on equity (expressed in percent) at Group level.

Pursuant to the German Solvency Ordinance (SolV), reported equity has since the current reporting year been allocated to the segments on the basis of risk positions for the purpose of internal management. For the Group's strategic subsidiaries, economic equity and reported equity are the same.

The previous year's figures were adjusted in line with the economic equity methodology. Economic equity is transferred to the reported equity in the Consolidation column.

Reported return on equity is basically calculated by dividing operating profit/loss by economic equity. In contrast to other units, economic equity for the business areas and central areas is derived from the higher of average allocated economic capital or budgeted equity capital. The cost/income ratio is the ratio of administrative expenses to the sum of net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedging transactions and other income.

For all units which have submitted external income tax figures from the interim financial statements, these have been incorporated into the segment report. For all other units, a uniform tax rate has been applied. The resulting income tax residuum of EUR 198 million (30 June 2008: EUR 76 million) compared to the Group figure has been posted under Income taxes in the Central Areas/Other segment.

Notes on delimitation of segments:

The Corporates segment covers the Corporates Business Area and Kommanditgesellschaft Allgemeine Leasing GmbH & Co., Grünwald (measured at equity), which is responsible for its results. The Corporates segment serves large corporate customers in Germany as well as multinationals in Germany and in the Bank's core markets of Europe and North America.

The Real Estate segment covers BayernLB's commercial and residential real estate customers in Germany and abroad plus Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich, which is subject to consolidation.

The Mittelstand segment covers corporate customers across Germany with sales of up to EUR 1 billion and focuses on the Bank's home market of Bavaria. Customer relationship management takes place sometimes independently and sometimes in cooperation with the savings banks.

The Financial Markets segment combines all trading and issuing activities as well as BayernLB's asset and liability management (ALM). The segment also includes the following units subject to consolidation: BayernInvest Kapitalanlagegesellschaft mbH, Munich; Giro Balanced Funding Corporation, Delaware; and Giro Lion Funding Limited, Jersey, which are answerable for their performance.

The Credit Investments Portfolio was established as a separate business area in the third quarter of 2008. As at the reporting date it mainly contained investments in asset-backed securities (ABSs), including hedging instruments concluded for them and individual positions of problem security portfolios. The business area is reported as a separate segment and is subject to independent management and monitoring by Credit Risk Management under the responsibility of the Board of Management.

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

The Savings Banks segment covers all of BayernLB's activities in support of the Bavarian savings banks.

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, which are units subject to consolidation, 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 the Hypo Alpe-Adria-Bank International AG sub-group, Klagenfurt. The subsidiaries concerned are not segmented based on the management approach. Business activities focus mainly on retail and private banking.

The Central Areas/Other segment comprises the earnings contributions of the Corporate Center, Risk Office & Financial Office, IT & Operations Central Areas. This mainly concerns the earnings from the relevant participations and costs of refinancing and managing these participations. The refinancing costs of the Group's strategic subsidiaries, totalling EUR 119.5 million (30 June 2008: EUR 116.1 million), are also allocated to this segment. The segment also includes cross-divisional business transactions whose earnings contributions cannot be allocated to either a business area or a central area. BayernLB Capital LLC I, Wilmington and sub-group GBW AG, Munich, which are subsidiaries subject to consolidation, are also allocated to this segment.

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

Earnings from ordinary banking operations after risk provisions (net interest income and net commission income, gains or losses on fair value measurement, gains or losses on hedging transactions, gains or losses on investments and income from companies measured at equity) were EUR 1,470 million (30 June 2008: EUR 365 million), of which EUR 389 million related to Europe excluding Germany (30 June 2008: EUR 579 million), EUR -31 million to America (30 June 2008: EUR -885 million) and EUR -33 million (30 June 2008: EUR -2 million) to Asia/Pacific.

Notes to the statement of comprehensive income

(4) Net interest income

EUR million	1 Jan – 30 June 2009	01.01.– 30.06.2008
Interest income	8,933	10,306
• Interest income from credit and money market transactions	5,690	6,263
of which:		
– interest income from unwinding	59	36
• Interest income from bonds, notes and other fixed interest securities	973	1,556
• Current income from equities and other non-fixed interest securities	5	12
• Current income from interests in non-consolidated subsidiaries, joint ventures, associated companies and other interests	18	24
• Current income from profit pooling and profit transfer agreements	2	1
• Interest income from hedge accounting derivatives	1,509	1,933 ¹
• Interest income from derivatives in economic hedges	736	517 ¹
Interest expenses	7,664	9,018
• Interest expenses for liabilities to banks and customers	3,299	3,508
• Interest expenses for securitised liabilities	2,028	2,531
• Interest expenses for subordinated capital	246	316
• Interest expenses for hedge accounting derivatives	1,323	1,781 ¹
• Interest expenses for derivatives in economic hedges	691	805 ¹
• Other interest expenses	77	77
Total	1,269	1,288

¹ The previous year's figure has been adjusted due to the reallocation of interest income/expenses from Derivatives in Economic Hedges to interest income/expenses from Hedge Accounting Derivatives.

(5) Risk provisions in the credit business

EUR million	1 Jan – 30 June 2009	1 Jan – 30 June 2008
Additions	1,063	501
Direct write-offs	33	19
Reversals	375	299
Recoveries of amounts written off	17	52
Other risk provision gains or losses	–	-10
Total	704	179

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

(6) *Net commission income*

EUR million	1 Jan – 30 June 2009	1 Jan – 30 June 2008
Securities business	35	37
Broker fees	-5	-5
Credit business	152	161
Payments	30	37
Foreign commercial operations	3	3
Building savings business	-16	-11
Trust transactions	9	10
Other commission	20	55
Total	228	287

(7) *Gains or losses on fair value measurement*

EUR million	1 Jan – 30 June 2009	1 Jan – 30 June 2008
Net trading income	279	-124
• Interest-related transactions	541	502
• Equity-related and index-related transactions and transactions with other risks	6	-31
• Currency-related transactions	75	165
• Credit derivatives	-236	-559
• Refinancing of trading portfolios	-77	-194
• Trading-related commission	-8	-7
• Fair value adjustments	-22	-
Fair value gains or losses from the fair value option	112	-21
Total	391	-145

Net trading income includes realised and unrealised gains or losses attributable to trading activities, the interest and dividend income related to such transactions and gains or losses on foreign currency translation.

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

(8) *Gains or losses on investments*

EUR million	1 Jan – 30 June 2009	1 Jan – 30 June 2008
Gains or losses on loans and receivables investments	-105	-
• Gains or losses on sale	-6	-
• Income from write-backs	36	-
• Expenses from write-downs	135	-
Gains or losses on available-for-sale investments	350	-920
• Gains or losses on sale	2	-1
• Income from write-backs	551	10
• Expenses from write-downs	203	929
Gains or losses on repurchases of own issues	20	-
Total	265	-920¹

1 Previous year's figure adjusted by EUR 5 million due to the reallocation of the income from interests in companies measured at equity to a separate item on the income statement entitled "income from interests in companies measured at equity".

Gains or losses from the sale of underlying transactions in hedge accounting are reported under other income.

(9) *Administrative expenses*

EUR million	1 Jan – 30 June 2009	1 Jan – 30 June 2008
Personnel expenses	464	559
• Salaries and wages	364	432
• Social security contributions	63	67
• Expenses for pensions and other employee benefits	37	60
Other administrative expenses	457	462
Amortisation, depreciation and writedowns of property, plant and equipment and intangible assets (not including goodwill)	109	110
Total	1,030	1,131

(10) *Other income*

EUR million	1 Jan – 30 June 2009	1 Jan – 30 June 2008
Other income	544	564
Other expenses	386	393
Total	158	171

(11) Restructuring expenses

EUR million	1 Jan – 30 June 2009	1 Jan – 30 June 2008
Expenses for restructuring measures initiated	246	35
Total	246	35

Most restructuring expenses arose from the reductions in headcount carried out under Project Hercules as part of the scaling down of non-core activities in the Group.

Notes to the balance sheet

(12) Loans and advances to banks

EUR million	30 June 2009	31 Dec 2008
Loans and advances to domestic banks	51,212	53,527
Loans and advances to foreign banks	31,907	36,111
Total	83,119	89,638

(13) Loans and advances to customers

EUR million	30 June 2009	31 Dec 2008
Loans and advances to domestic customers	111,123	106,422
Loans and advances to foreign customers	90,977	96,145
Total	202,100	202,567

(14) Risk provisions

EUR million	30 June 2009	31 Dec 2008
Specific loan loss provisions	3,230	2,786
Portfolio provisions	646	653
Total	3,876	3,439

Specific loan loss provisions

EUR million	Loans and advances to banks		Loans and advances to customers		Other asset items		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
As at 1 Jan	515	7	2,265	1,908	6	5	2,786	1,920
Changes recognised in profit or loss	110	–	514	138	–	3	624	141
• Additions	121	–	750	401	–	3	871	404
• Reversals	4	–	183	227	–	–	187	227
• Unwinding	7	–	53	36	–	–	60	36
Changes not recognised in profit or loss	40	–	-218	-159	-2	–	-180	-159
• Changes from currency translation	1	–	9	17	–	–	10	17
• Changes in the scope of consolidation	–	–	2	–	-2	–	–	–
• Utilisation	–	–	251	201	–	–	251	201
• Transfers/Other changes	39	–	22	25	–	–	61	25
As at 30 June	665	7	2,561	1,887	4	8	3,230	1,902

Portfolio provisions

EUR million	Loans and advances to banks		Loans and advances to customers		Other asset items		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
As at 1 Jan	103	32	549	353	1	2	653	387
Changes recognised in profit or loss	-22	3	54	60	1	-2	33	61
• Additions	–	5	194	101	1	–	195	106
• Reversals	22	2	140	41	–	2	162	45
Changes not recognised in profit or loss	–	–	-40	1	–	–	-40	1
• Changes from currency translation	–	–	-4	-2	–	–	-4	-2
• Utilisation	–	–	33	19	–	–	33	19
• Transfers/Other changes	–	–	-3	22	–	–	-3	22
As at 30 June	81	35	563	414	2	–	646	449

Risk provisions for contingent liabilities and other liabilities are shown as provisions for risks in the credit business (see note 26).

(15) Assets held for trading

EUR million	30 June 2009	31 Dec 2008
Bonds, notes and other fixed-interest securities	7,196	9,001
• Money market instruments	546	363
• Bonds and notes	6,650	8,638
Equities and other non-fixed-interest securities	55	131
Receivables held for trading	675	3,360
• Promissory notes	652	660
• Money market transactions	23	2,700
Positive fair values from derivative financial instruments (not hedge accounting)	32,122	34,857
Total	40,048	47,349

Assets held for trading includes the fair value from the guarantee agreement with the Free State of Bavaria (“Umbrella”) in the amount of EUR 2,215 million (31 December 2008: EUR 1,837 million).

(16) Investments

EUR million	30 June 2009	31 Dec 2008
Bonds, notes and other fixed-interest securities	58,057	61,258
Equities and other non-fixed-interest securities	330	363
Interests in non-consolidated subsidiaries, joint ventures, associated companies and other interests	707	834
Total	59,094	62,455

(17) Interests in companies measured at equity

EUR million	30 June 2009	31 Dec 2008
Joint ventures	26	68
Associate companies	43	38
Total	69	106

(18) Investment property

EUR million	30 June 2009	31 Dec 2008
Land and buildings leased	3,592	3,456
Undeveloped land	22	39
Vacant buildings	39	22
Total	3,653	3,517

(19) Property, plant and equipment

EUR million	30 June 2009	31 Dec 2008
Land and buildings for own use	1,185	1,217
Business and office equipment	247	263
Equipment leased under operating leases	427	471
Total	1,859	1,951

(20) Intangible assets

EUR million	30 June 2009	31 Dec 2008
Goodwill	957	970
Intangible assets produced in-house	16	16
Other intangible assets	1,188	1,227
Total	2,161	2,213

(21) Other assets

EUR million	30 June 2009	31 Dec 2008
Prepaid expenses	115	120
Non-current assets held for sale and disposal groups	196	32
Leasing assets not yet leased	555	671
Other assets	1,797	1,555
Total	2,663	2,378

The “non-current assets held for sale and disposal groups” item comprises mainly shareholdings. Land and buildings as well as receivables are also included.

(22) Liabilities to banks

EUR million	30 June 2009	31 Dec 2008
Liabilities to domestic banks	77,236	92,507
Liabilities to foreign banks	35,700	49,973
Total	112,936	142,480

(23) Liabilities to customers

EUR million	30 June 2009	31 Dec 2008
Liabilities to domestic customers	83,643	69,350
Liabilities to foreign customers	18,807	21,957
Total	102,450	91,307

(24) Securitised liabilities

EUR million	30 June 2009	31 Dec 2008
Bonds and notes issued	107,834	108,802
Other securitised liabilities	7,434	8,677
Total	115,268	117,479

(25) Liabilities held for trading

EUR million	30 June 2009	31 Dec 2008
Trading portfolio liabilities	351	704
• Money market transactions	–	294
• Liabilities from short sales	351	410
Negative fair value from derivative financial instruments (not hedge accounting)	31,842	33,243
Fair value adjustments	128	107
Total	32,321	34,054

(26) Provisions

EUR million	30 June 2009	31 Dec 2008
Provisions for pensions and similar obligations	2,417	2,401
Other provisions	910	711
• Provisions for the credit business	209	217
• Restructuring provisions	307	86
• Miscellaneous provisions	394	408
Total	3,327	3,112

(27) Other liabilities

EUR million	30 June 2009	31 Dec 2008
Obligations from disposal groups held for sale	111	–
Accruals	373	524
Pre-paid income	611	642
Other liabilities	1,194	994
Total	2,289	2,160

(28) Subordinated capital

EUR million	30 June 2009	31 Dec 2008
Subordinated liabilities	7,579	8,163
Profit participation certificates (debt component)	1,167	1,862
Capital contributions of silent partners (debt component)	693	906
Hybrid capital	724	890
Total	10,163	11,821

(29) Equity

EUR million	30 June 2009	31 Dec 2008
Equity excluding minority interests	16,217	8,693
• Subscribed capital	6,556	3,556
– Statutory nominal capital	2,300	2,300
– Undated capital contributions from silent partners	4,256	1,256
• Special-purpose capital	612	612
• Hybrid capital instruments	544	545
– Profit participation certificates (equity component)	364	365
– Dated capital contributions of silent partners (equity component)	180	180
• Capital reserve	5,476	1,476
• Retained earnings	4,829	4,909
– Statutory reserve	1,268	1,268
– Other retained earnings	3,561	3,641
• Revaluation reserve	-2,096	-2,265
• Foreign currency translation reserve	-63	-141
• Consolidated net profit/loss	359	–
Minority interests	2,548	2,573
Total	18,765	11,265

As part of the recapitalisation by the Free State of Bavaria, EUR 3 billion in silent partnership contributions was provided in January 2009. A further EUR 4 billion was raised through an indirect capital increase by the Free State of Bavaria at the end of March 2009.

Silent partnership contributions that either have a fixed term or are callable by the lender and profit participation rights are compound financial instruments and have to be divided into their equity and debt components (split accounting). The equity component corresponds to the net present value of future distributions. As no half-yearly distributions are made, the size of the equity component was – with the exception of items falling due in the first half of 2009 – determined on the basis of the approach used as at 31 December 2008. For a detailed description of the accounting methodology, see note 22 on page 116 of the 2008 Annual Report.

Notes on financial instruments

(30) Fair value of financial instruments

EUR million	Fair Value	Carrying amount	Fair Value	Carrying amount
	30 June 2009	30 June 2009	31 Dec 2008	31 Dec 2008
Assets				
• Cash reserves	4,240	4,240	3,796	3,796
• Loans and advances to banks ¹	84,475	83,119	91,175	89,638
• Loans and advances to customers ¹	203,024	202,100	205,145	202,567
• Assets held for trading	40,048	40,048	47,349	47,349
• Positive fair values from derivative financial instruments (hedge accounting)	4,181	4,181	3,929	3,929
• Investments	55,580	59,094	59,373	62,455
Liabilities				
• Liabilities to banks	112,232	112,936	143,468	142,480
• Liabilities to customers	99,923	102,450	90,305	91,307
• Securitised liabilities	114,778	115,268	117,689	117,479
• Liabilities held for trading	32,321	32,321	34,054	34,054
• Negative fair values from derivative financial instruments (hedge accounting)	2,407	2,407	3,086	3,086
• Subordinated capital	10,037	10,163	11,498	11,821

¹ Carrying value before deducting risk provisions for loans and advances to banks in the amount of EUR 746 million (31 December 2008: EUR 618 million) and loans and advances to customers in the amount of EUR 3,124 million (31 December 2008: EUR 2,814 million).

(31) Reclassification of financial assets

As at 1 July 2008, pursuant to the “Reclassification of Financial Assets” amendment of IAS 39 and IFRS 7 by the IASB and EU Commission Regulation 1004/2008, BayernLB reclassified selected securities with a fair value of EUR 35,541 million from the available-for-sale category and selected securities with a fair value of EUR 243 million from the held-for-trading category to the loans and receivables category. As at the date of reclassification, the revaluation reserve was EUR -2,298 million and the nominal volume was EUR 37,958 million.

No other reclassifications were carried out in the reporting period.

The table below gives a breakdown by category of the fair values and the carrying amounts of the reclassified securities as at the balance sheet date pursuant to IAS 39 and IFRS 7.12A (b):

EUR million	Fair Value	Carrying amount	Fair Value	Carrying amount
	30 June 2009	30 June 2009	31 Dec 2008	31 Dec 2008
Available-for-sale securities reclassified as loans and receivables	29,286	33,159	32,021	35,169
Held-for-trading securities reclassified as loans and receivables	233	248	224	250
Total	29,519	33,407	32,245	35,419

At the end of the reporting period, the nominal volume of the reclassified securities was EUR 35,323 million.

In the following table, pursuant to IAS 39 and IFRS 7.12A, the “without reclassification” changes in value recognised and not recognised through profit or loss and in current income are compared with the corresponding “with classification” figures. All effects on income including current income components are included.

EUR million	1 Jan – 30 June 2009	1 Jan – 30 June 2009
	Without reclassification ¹	With reclassification ²
Reclassification from the available-for-sale category		
• Interest income	500	499
• Gains or losses on hedging transactions (hedge accounting)	22	22
• Gains or losses on investments	-143	-106
• Change in the revaluation reserve	-367	284
Total	12	699
Reclassification from the held-for-trading category		
• Interest income	4	4
• Gains or losses on fair value measurement	11	–
Total	15	4

¹ Based on previous classification

² After reclassification

(32) Financial liabilities at fair value

Credit rating-related changes in the fair value of financial liabilities were EUR 125 million in the reporting period (30 June 2008: EUR 29 million) and EUR 412 million (30 June 2008: EUR 41 million) since designation.

(33) Derivatives transactions

The table below shows interest rate-related derivatives, foreign currency-related derivatives and other forward transactions and credit derivatives that were not yet settled as at 30 June 2009. Most were concluded to hedge fluctuations in interest rates, exchange rates or market prices and trades on behalf of customers.

EUR million	Nominal value		Positive market value	Negative market value
	30 June 2009	31 Dec 2008	30 June 2009	30 June 2009
Interest-rate risks	1,271,452	1,200,312	27,976	26,556
Currency risks	142,606	145,164	3,893	3,710
Equity and other price risks	1,304	1,925	480	412
Credit derivative risks	81,017	122,638	3,955	3,571
Total	1,496,379	1,470,039	36,304	34,249
of which:				
• Trading derivatives	1,303,588	1,314,882	27,016	27,455

¹ No non-derivative trading transactions are recognised versus the previous year.

(34) 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 43,404 million (30 June 2008: EUR 30,789 million) and repurchased or redeemed such instruments in the amount of EUR 37,545 million (30 June 2008: EUR 27,562 million).

Other notes

(35) Trust transactions

EUR million	30 June 2009	31 Dec 2008
Assets held in trust	11,439	10,692
• Loans and advances to banks	151	167
• Loans and advances to customers	6,868	6,989
• Other assets	4,420	3,536
Liabilities held in trust	11,439	10,692
• Liabilities to banks	184	204
• Liabilities to customers	6,735	6,852
• Other liabilities	4,520	3,636

(36) Contingent liabilities and other liabilities

EUR million	30 June 2009	31 Dec 2008
Contingent liabilities	20,730	22,495
• Contingent liabilities arising from negotiated and discounted bills	2	3
• Liabilities from guarantees and indemnity agreements	20,690	22,404
• Liabilities from collateral furnished for third-party obligations	38	88
Other liabilities	39,055	44,622
• Placement and underwriting commitments	128	336
• Sale and repurchase agreements	230	206
• Irrevocable credit commitments	38,697	44,080
Total	59,785	67,117

(37) Administrative bodies of BayernLB

Board of Administration (until 31 July 2009)

Georg Fahrenschon

Chairman
State Minister
Bavarian State Ministry of Finance
Munich

Dr. Siegfried Naser

until 31 July 2009
1st Deputy Chairman
Executive President
Association of Bavarian Savings Banks
Munich

Joachim Herrmann

2nd Deputy Chairman
State Minister
Bavarian State Ministry of the Interior
Munich

Hansjörg Christmann

until 31 July 2009
3rd Deputy Chairman
Chief District Administrator
Dachau

Alois Hagl

until 31 July 2009
Chairman of the Board of Directors of
Sparkasse im Landkreis Schwandorf
Schwandorf

Diethard Irrgang

since 15 January 2009
Chairman of the General Staff Council
BayernLB
Munich

Karl-Ludwig Kamprath

until 30 April 2009
Chairman of the Board of Directors of
Kreissparkasse München-Starnberg
Munich

Hans Schaidinger

Lord Mayor
Regensburg

Siegmond Schiminski

since 1 May 2009
Chairman of the Board of Directors of
Sparkasse Bayreuth
Bayreuth

Klaus Weigert

Deputy Secretary
Bavarian State Ministry of Finance
Munich

Dr. Bernd Weiß

from 9 January 2009 to 31 July 2009
Secretary of State
Bavarian State Ministry of the Interior
Munich

Martin Zeil

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

Board of Administration (since 1 August 2009)

Georg Fahrenschoen

Chairman
State Minister
Bavarian State Ministry of Finance
Munich

Professor Dr. Georg Crezelius

Professor
University of Bamberg
Bamberg

Dr. Dr. Axel Diekmann

Partner
Verlagsgruppe Passau GmbH
Passau

Gerd Häusler

Director
RHJ International
Zurich

Joachim Herrmann

State Minister
Bavarian State Ministry of the Interior
Munich

Diethard Irrgang

Chairman of the General Staff Council
BayernLB
Munich

Hans Schaidinger

Lord Mayor
Regensburg

Siegmond Schiminski

Chairman of the Board of Directors of
Sparkasse Bayreuth
Bayreuth

Dr. Klaus von Lindeiner-Wildau

Member of Management (retired)
Wacker Chemie GmbH
Independent consultant
Munich

Klaus Weigert

Deputy Secretary
Bavarian State Ministry of Finance
Munich

Martin Zeil

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

Board of Management

(including allocation of tasks since 1 August 2009)

Dr. Michael Kemmer

Chairman

Corporate Center Central Area

- Corporate Development & Board of Management Support Division
- Corporate Communications Division
- Human Resources Division
- Audit Division
- Economics and Research Division

Risk Office Central Area

- Group Risk Control Division

Stefan Ermisch

Deputy Chairman since 1 July 2009

Financial Office, IT &

Operations Central Area

Stefan W. Ropers

Corporates & Markets Business Areas

Dr. Ralph Schmidt

Risk Office Central Area (excluding Group Risk Control Division)

Restructuring Unit Central Area

Dr. Edgar Zoller

since 1 May 2009

Real Estate, Public Sector

& Savings Bank Business Area

(central bank to the savings banks)

Bayerische Landesbodenkreditanstalt¹

Mittelstand & Private Customers

Business Area

Bayerische Landesbausparkasse¹

Corporate Center Central Area

- Legal Services, Compliance Center² and Prevention of Money Laundering Division and Prevention of Money Laundering and Financial Crime Department

Dr. Rudolf Hanisch

until 30 April 2009

Theo Harnischmacher

until 30 June 2009

¹ Institutions of the Bank

² Although part of the Legal Services Division in organisational terms, the Compliance unit and the officers dealing with money laundering, financial crime and data protection report directly to the Board of Management.

(38) Related party disclosures

Loans and advances to/(contingent) liabilities to the Free State of Bavaria and the Association of Bavarian Savings Banks

EUR million	30 June 2009	31 Dec 2008
Loans and advances	2,239	2,497
Assets held for trading	2,268	1,841
Investments	10	21
Other assets	15	–
Liabilities	670	972
Liabilities held for trading	4	8
Liabilities held in trust	6,045	6,105
Contingent liabilities	3	3

Loans and advances to/(contingent) liabilities to affiliated companies

EUR million	30 June 2009	31 Dec 2008
Loans and advances to banks	2,944	1,859
Loans and advances to customers	1,402	1,668
Risk provisions	102	89
Assets held for trading	160	212
Positive fair values from derivative financial instruments (hedge accounting)	2	18
Investments	2,193	2,828
Other assets	46	48
Liabilities to banks	8,688	8,101
Liabilities to customers	336	456
Securitised liabilities	1,047	2,389
Liabilities held for trading	126	213
Provisions for the credit business	-1	–
Other liabilities	16	7
Subordinated capital	35	44
Contingent liabilities	283	402
Other obligations	25	70

(39) Significant events after the reporting date

On 29 April 2009 BayernLB's restructuring plan was submitted to the EU Commission. The outcome of the review is expected in the second half of 2009. See the Management Report for details of the planned realignment of the business model.

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 assets, financial situation and earnings 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 performance of the Group for the remainder of the financial year.

Munich, 24 August 2009

Bayerische Landesbank The Board of Management

Dr. Michael Kemmer

Stefan Ermisch

Stefan W. Ropers

Dr. Ralph Schmidt

Dr. Edgar Zoller

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4 Review report

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Review report

To Bayerische Landesbank, Munich

We have reviewed the condensed consolidated interim financial statements - comprising the statement of financial position, separate income statement and condensed statement of comprehensive income, condensed statement of cash flows, statement of changes in equity and selected explanatory notes - and the interim group management report of the Bayerische Landesbank for the period from 1st January 2009 to 30th June 2009 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 parent Company's Board of Managing Directors. 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 financial 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, 24 August 2009

PricewaterhouseCoopers Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes

Wirtschaftsprüfer (German Public Auditor)

Eberhard Feil

Wirtschaftsprüfer (German Public Auditor)

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