



Facts and figures

[BAYERNLB | GROUP INTERIM REPORT]

FIRST HALF OF 2010

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6 [BayernLB Group – the first half of 2010 at a glance

[SECTION 1]

BayernLB Group – the first half of 2010 at a glance

Income statement

EUR million	1 Jan–30 Jun 2010	1 Jan–30 Jun 2009	Change in %/pp
Net interest income	983	1,269	–22.5
Risk provisions for the credit business	–392	–704	–44.3
Net interest income after risk provisions	591	565	4.6
Net commission income	121	228	–46.9
Gains or losses on fair value measurement	443	466	–4.8
Gains or losses on hedge accounting	11	31	–65.3
Gains or losses on investments	–35	245	–
Income from interests in companies valued at equity	–2	–14	–81.8
Administrative expenses	–751	–1,030	–27.1
Other income	43	181	–76.3
Operating profit/loss	420	672	–37.5
Restructuring	134	–246	–
Earnings before taxes	554	426	30.0
Cost-income ratio (CIR)	46.9%	47.4%	–0.5pp
Return on equity (RoE)	7.5%	10.5%	–3.0pp

Income statement (year-before figures adjusted for the earnings contribution of Hypo Group Alpe Adria (HGAA))

EUR million	1 Jan–30 Jun 2010	1 Jan–30 Jun 2009	Change in %/pp
Net interest income	983	932	5.5
Risk provisions for the credit business	–392	–357	9.8
Net interest income after risk provisions	591	575	2.8
Net commission income	121	150	–19.1
Gains or losses on fair value measurement	443	401	10.4
Gains or losses on hedge accounting	11	–5	–
Gains or losses on investments	–35	271	–
Income from interests in companies valued at equity	–2	–1	70.5
Administrative expenses	–751	–720	4.3
Other income	43	124	–65.5
Operating profit/loss	420	794	–47.1
Restructuring	134	–245	–
Earnings before taxes	554	548	0.9
Cost-income ratio (CIR)	46.9%	45.0%	1.9pp
Return on equity (RoE)	7.5%	10.9%	–3.4pp

Quarterly figures

The following overview shows the performance for the first and second quarters of 2010:

EUR million	Q2 2010	Q1 2010	Change in %
Net interest income	503	480	4.8
Risk provisions for the credit business	-355	-37	>100.0
Net interest income after risk provisions	147	444	-66.9
Net commission income	71	50	42.0
Gains or losses on fair value measurement	52	391	-86.7
Gains or losses on hedge accounting	21	-10	-
Gains or losses on investments	-45	10	-
Income from interests in companies valued at equity	-1	-1	-
Administrative expenses	-383	-368	4.1
Other income	55	-12	-
Operating profit/loss	-84	504	-
Restructuring	139	-5	-
Earnings before taxes	56	498	-88.8

Figures in the table may be rounded up or down to the next unit.

Balance sheet

EUR million	30 Jun 2010	31 Dec 2009	Change in %
Total assets	340,691	338,818	0.6
Business volume	403,691	400,972	0.7
Credit volume	241,068	249,412	-3.3
Total deposits	182,160	183,681	-0.8
Securitised liabilities	85,232	92,968	-8.3
Subordinated capital	7,830	8,717	-10.2
Equity	14,551	14,061	3.5

Banking supervisory ratios under the German Banking Act (KWG)

	30 Jun 2010	31 Dec 2009	Change in %/pp
Core capital (EUR billion)	13.5	14.8	-8.5
Own funds (EUR billion)	18.2	21.4	-14.7
Risk positions under the Solvency Ordinance (EUR billion)	130.3	135.8	-4.0
Core capital ratio	10.4%	10.9%	-0.5pp
Own funds ratio (at Group level)	14.0%	15.7%	-1.7pp

Employees

	30 Jun 2010	31 Dec 2009	Change in %
Number of employees	10,835	11,821	-8.3

Ratings

	Long-term	Short-term	Pfandbriefe*
Fitch Ratings	A+	F1+	AAA
Moody's Investors Service	A1	Prime-1	Aaa

*Applies to public-sector pfandbriefs and mortgage bonds

10 [Selected business highlights in H1 2010

[SECTION 2]

[BUSINESS HIGH

Refurbishing over 5,000 apartments

BayernLB is helping GEWOFAG with its energy efficiency programme for apartments in Munich. Over the next ten years more than 5,000 apartments will be made more energy efficient. The total volume of the programme is EUR 200 million. BayernLB has contributed an initial EUR 70 million of pooled subsidy funds towards the refurbishment work.

BayernLB plays active role in geothermal projects

BayernLB is part of a municipal lending consortium with Kreissparkasse München Starnberg for AFK-Geothermie GmbH, the first inter-municipal geothermal project for the towns of Aschheim, Feldkirchen and Kirchheim. Financing for the first two phases of construction is EUR 40 million, with expansion up to 2036 taking total investment to EUR 170 million.

Thüga Holding: EUR 300 million Schuldschein note loan and bilateral loan with interest rate hedging

BayernLB has refinanced Thüga Holding's acquisition financing with a EUR 300 million Schuldschein note and bilateral loan. On closing, the Schuldschein note was three times oversubscribed. Roughly half of the order volume came from the savings banks sector. BayernLB also provided interest rate hedging for Thüga.

Stadtwerke München: EUR 750 million Schuldschein note loan

BayernLB and HSBC have jointly arranged a successful EUR 750 million Schuldschein note loan for Stadtwerke München GmbH. Investor interest was exceedingly high. The final order book amounted to EUR 1.7 billion, of which more than half came from public-sector banks, setting a new milestone for the Schuldschein market.

EUR 40 million financing to construct a new office building for E.ON Bayern in Regensburg

The financing is in support of a closed-end real estate fund launched by Real I.S. AG. The property has around 28,000m² of office space and was awarded the advance certificate in gold by the German Sustainable Building Council.

Project on new collaboration model with Bavarian savings banks successfully completed

With a clear sales orientation, a sustainable focus on transparency and profitability and the introduction of professional sales management, the foundations have been laid for a relaunch of the cooperation with the savings banks.

LIGHTS]

Pariser Höfe in Stuttgart

BayernLB is lending around EUR 70 million for the construction of the Pariser Höfe in Stuttgart, to the Reiss & Co. Real Estate of Munich. The company is developing a mixed-use building with around 20,000m² of residential space and 7,300m² of office space on plot A1 of the Stuttgart 21 project.

Good performance in foreign notes and coins and precious metals

The BayernLB office in Nuremberg has been doing well in foreign notes and coins and precious metals: every day more than 1,500 orders for foreign notes and coins, precious metals and travellers cheques are being processed. The volume traded in the first half of 2010 exceeded EUR 1 billion, making BayernLB market leader in the Sparkassen-Finanzgruppe.

Financing for the largest solar plant in the Czech Republic

Project financing has been arranged through a club deal for the largest photovoltaic park in the Czech Republic. LBBW and BayernLB are each financing this major project by S.A.G. Solarstrom with CZK 642.4 million, or about EUR 25 million. The term of the loan is based on the stipulations of the Czech Republic's feed-in tariff. Disbursement was made as scheduled on 30 June 2010.

European Investment Bank: EUR 1.5 billion benchmark transaction sets the format for Eurocooperation bonds

Successful placing of a EUR 1.5 billion fixed-coupon bond with a term of just under six years with institutional investors and savings banks. Banca Akros, Crédit Agricole CIB and BayernLB were lead managers in a consortium of 25 banks from ten countries in the European Association of Savings Banks and Cooperative Banks which launched the first Eurocooperation bond, a new pan-European fixed-rate bond format for the EIB.

BayernLB supports Bavarian companies building a solar energy plant in Spain

BayernLB is providing project financing to build and operate the 7.02 MW Heliergia solar energy plant in the province of Murcia in South Eastern Spain. The plant is being built by EEPro GmbH, based in Lower Bavaria. The mounting systems for the facility are being delivered by the Bavarian company Schletter GmbH of Kirchdorf bei Haag.

EUR 45 million project financing for a 22.661 MWp solar energy park in Brandenburg

This facility is being built on a 56 hectare open air site near the town of Reckahn, around 90km south-west of Berlin. The plant is being built by the Bavarian firm Beck Energy GmbH, based in Koltitzheim, one of the market leaders in installing high efficiency solar power plants.

GBP 75 million financing for Centrium, a prime office building in London

BayernLB is financing the landmark Centrium building in central London (West End/midtown) for the BVK Internationaler Immobilien special fund managed by Cornelia Kampmeier of GLL Real Estate Partners. The amount provided is around GBP 75 million of the total GBP 125 million invested in the property, which was purchased in 2009.

M51 Kiplev-Sønderborg Motorway – project financing

As part of a consortium of six banks, BayernLB has successfully completed the DKK 1.2 billion (EUR 162 million) financing for the M51 motorway project with Kiplev Motorway Group (KMG). This is the first road building project in Denmark which has taken the form of a public-private partnership. It covers the construction and operation of a section of the M51 between Kiplev and Sønderborg, with 18 km of side roads and seven interchanges. The shareholders in KMG belong to the Strabag Group.

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[SECTION 3]

[BOARD OF MANAGEMENT]



Gerd Haeusler, Chief Executive Officer

Corporate Center Legal Services | Corporate Development & BoM Support | Marketing & Internal Communication | External Communication & Press | Human Resources | Audit | Economics & Research

Stefan Ermisch, Deputy Chief Executive Officer

Financial Office, IT & Operations Group Treasury & Investor Relations | Group Accounting & Tax | Group Controlling | Operations & Services | Group IT

Stefan W. Ropers, Member of the Board of Management

Corporates & Markets Corporate Credit | Relationship Management | Structured Credit | Treasury Products | Capital Markets | Strategic Client & Portfolio Management

Dr. Edgar Zoller, Member of the Board of Management

Real Estate, Public Sector & Savings Banks (savings banks central bank function) Savings Banks | Real Estate | German Public Sector | Bayerische Landesbodenkreditanstalt

Jan-Christian Dreesen, Member of the Board of Management

Mittelstand & Retail Customers Mittelstand | Mittelstand Sales Management | Bayerische Landesbausparkasse

Marcus Kramer, Member of the Board of Management

Corporate Center Group Compliance
Risk Office RO Credit Analysis | Group Risk Control

Stephan Winkelmeier, Member of the Board of Management

Restructuring Unit

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[SECTION 4]

Overview

Germany's economy continued to rebound during the first half of 2010. After a weak start to the year, due in part to a severe winter, it had made up for lost ground and recovered strongly by spring. In the second quarter, real gross domestic product rose by 2.2 percent, 3.7 percent higher than last year. The pace of the recovery also beat expectations at the start of the year. Even so, it should be borne in mind that this figure was more than 2.5 percent lower than the peak of economic activity at the start of 2008.

On the demand side, the traditional pattern emerged of an export-led recovery of the German economy. Exports plunged by 18 percent during the global downturn of 2008/09, and this explains the unusually severe nature of the recession given their huge contribution to overall economic demand. Gross domestic product in Germany, for example, contracted by 4.7 percent in real terms in 2009, compared with -3.8 percent in the eurozone excluding Germany and -2.4 percent in the United States. Most of the credit for the jump in exports since mid-2009 can be attributed to the global economic recovery, which has shown a strength surpassing expectations. This is particularly true of the emerging markets, which have almost regained their pre-crisis growth momentum since spring 2009. Exports were also buoyed by the depreciation of the euro against the dollar and other currencies which started at the end of 2009.

However, domestic end-demand (excluding changes in inventories) showed no significant signs of recovery up to mid 2010 principally because of weak private consumption, which contracted over the three quarters to the end of the first quarter of 2010. While consumer prices continued to post only very modest rises as expected, this weakness in demand came as a surprise as the mostly very cautious forecasts for the German labour market in 2010 had failed to materialise, at least by the middle of the year. In July, the seasonally adjusted number of registered unemployed was 200,000 lower than at the end of 2009.

On the financial markets, the big event of the first half of the year was the sovereign debt crisis in the eurozone. After the general elections in Greece in autumn 2009, the new government revised the estimates for the public deficit upwards by a significant margin. Within a climate of general uncertainty created by the financial crisis and the recession, this piece of news caused spreads between Greek government bonds and German Bunds to widen markedly. As is typical during financial crises, a herd mentality emerged among investors and contagion followed. In this nervous environment, banks again lost confidence in each other. Although the EU Commission and European Central Bank (ECB) continued to emphasise that the eurozone should be seen as a collective whole rather than as individual member states, it was the countries, which are ultimately responsible for their own public debt, which came in for scrutiny from financial market participants. Besides Greece, particular criticism was meted out to Portugal, Ireland and Spain. Following a period of uncertainty and intensive discussions, the Greek government finally called on the International Monetary Fund (IMF) for help in April, and on 2 May a rescue package for Greece worth EUR 110 billion was provided. By that time, the crisis had long since spread to other countries and threatened to escalate, jeopardising the hard-won stability of the financial markets. On the weekend of 8-9 May 2010, the EU heads of state and governments agreed on a EUR 750 billion rescue safety net for the eurozone members, of which EUR 440 billion is in the

form of loans guaranteed by the members themselves. The ECB also gave its support to the package by announcing that it would buy government bonds from eurozone countries with dysfunctional markets. Germany's bond market has benefited from the increased interest of investors in the public finances of individual eurozone members. In summer 2010, yields on 10-year Bunds fell to 2.5 percent.

The sovereign debt crisis has uncovered fundamental flaws in the structure of the monetary union. The Maastricht Treaty's caps on public deficits and public debt, the Stability and Growth Pact rules, and monitoring by the EU Commission have been shown to have little effect. Changes to the rules to secure the euro's long-term future are now being negotiated and focus on the earlier detection of adverse trends – including the international competitiveness of member countries –, automatic penalties for improper conduct, insolvency rules for individual countries and a mechanism to eject a member from the monetary union if it continues to breach the rules. However, no consensus has yet emerged among EU members as there appear to be huge reservations about amending the Treaty.

Earnings, financial position and assets

Income statement

Despite a clearly weaker second quarter, on the whole, the BayernLB Group posted satisfactory results for the first half of 2010, closing the period with earnings before taxes of EUR 554 million (H1 2009: EUR 426 million). Earnings for the first half of the year came in well above the pro-rata forecasted figure.

To improve the comparability of earnings between periods, the figures for the year before period presented below have been adjusted to remove the earnings contributions of Hypo Group Alpe Adria (HGAA), Klagenfurt, Austria which was deconsolidated on 30 December 2009. On 30 June 2010, SaarLB was deconsolidated from the BayernLB Group after the majority stake in the bank was sold. However, since the items from SaarLB's income statement are fully incorporated in the first half of 2010, no adjustments are needed for comparison purposes.

The sharp improvement in the funding situation compared to the start of 2009 and resulting lower refinancing costs meant that net interest income at EUR 983 million was not only above target, but also 5.5 percent higher than in the year before period.

Compared to the first quarter when risk provisions are traditionally low, risk provisions for the credit business rose sharply in the second quarter of 2010 to a total of EUR –392 million for the first half of 2010 (H1 2009: EUR –357 million). The figure, however, was in line with expectations. MKB, which operates in Eastern and South Eastern Europe, accounted for around 70 percent of the provisions while risk provisions at BayernLB fell. Although growth is expected to resume over the long-term in the region where MKB operates, the valuation of MKB's assets took into account the difficult economic situation and associated uncertainties that it faces. The exceedingly hard and economically damaging proposal by the new Hungarian government to fund the budget deficit with a national bank levy has heightened uncertainty regarding that country's growth prospects, at least in the short term. The good quality of the portfolios held by other Group units, however, was demonstrated by risk provisions for the credit business that were well below forecast in some cases.

Net commission income was within the forecasted range at EUR 121 million (H1 2009: EUR 150 million). This figure includes a EUR 24 million fee to the Financial Market Stabilisation Fund (SoFFin) for a government-backed bond issued in January 2009.

After a strong first quarter of 2010 powered by the market recovery, earnings growth in the second quarter slowed significantly due to the anxiety surrounding the sovereign debt crisis in the eurozone. Gains or losses on fair value measurement chalked up a good performance overall, rising to EUR 443 million for the first half of 2010 (H1 2009: EUR 401 million). Customer-related trading accounted for EUR 161 million (H1 2009: EUR 162 million) of this amount while write-backs on investment portfolios affected by the financial market crisis contributed EUR 171 million (H1 2009: EUR 117 million). The remaining EUR 111 million is primarily due to valuation gains on interest rate hedging derivatives and other effects resulting from the application of IAS 39. Gains or losses from the fair value option amounted to EUR 0 million (H1 2009: EUR 76 million). The gains from the fair value option in the previous year period were largely due to wider credit spreads on BayernLB's own structured liabilities valued at fair value.

Gains or losses on investments was a negative EUR –35 million. This figure includes a figure of EUR –18 million on the deconsolidation of SaarLB. The gains on investments of EUR 271 million posted in the previous year period were largely due to valuation gains on the credit default swap agreement (“Umbrella”) with the Free State of Bavaria as part of the hedging transaction. The goal of the “Umbrella” is to offset losses and fluctuations in the value of the ABS portfolio.

Despite a number of non-recurring charges in the first half of 2010, administrative expenses were within budget at EUR –751 million (H1 2009: EUR –720 million). The figure for the previous year period includes non-recurring income under personnel costs of EUR 33 million from the release of provisions made in 2008 for performance-related pay. Excluding this effect, Group personnel costs fell by 4.3 percent in the first half of 2010 to EUR 348 million, well in line with the Project Hercules restructuring programme.

Other income, which principally includes the activities of the Group’s real estate subsidiaries, dropped to EUR 43 million (H1 2009: EUR 124 million). Primarily responsible for this decrease was a EUR –72 million adjustment to the net present value of BayernLB’s hybrid capital which shared proportionally in FY 2009’s loss. The adjustment was reported in the 2009 Annual Report and recognised as an expense.

Group gains on restructuring came to EUR 134 million. Restructuring expenses of EUR –32 million from personnel reduction measures associated with Project Hercules were more than offset by one-off income of EUR 166 million, which is largely attributable to the recognition of actuarial gains relating to changes to the pension plan as part of the restructuring programme. In the first half of 2009, the Group posted losses on restructuring of EUR –245 million related to the planned reduction in personnel.

Return on equity (RoE)¹ was 7.5 percent (H1 2009: 10.9 percent). The cost-income ratio (CIR)² came in at a very satisfactory 46.9 percent (H1 2009: 45.0 percent).

Balance sheet

As at 30 June 2010, total assets amounted to EUR 340.7 billion, an increase of EUR 1.9 billion on the 2009 year-end figure. This was due to two developments with contrary effects. SaarLB’s deconsolidation reduced the Group’s total assets by around EUR 17 billion compared with the end of 2009, while exchange-rate movements added EUR 5 billion to the euro value of balance sheet items denominated in US dollars. Assets and liabilities held for trading also rose by around EUR 12 billion each. This increase was not driven by business performance, but rather resulted from interest and currency-related rises as well as positive and negative fair values of derivative financial instruments.

¹ Operating profit/loss – minority interests/subscribed capital + hybrid capital instruments + capital reserve and retained earnings. Excludes BayernLabo’s earnings and share in Group equity.

² CIR = administrative expenses/net interest income + net commission income + gains or losses on fair value measurement + gains or losses on hedge accounting + other income.

Adjusted for the impact of the deconsolidation of SaarLB, loans and advances to domestic customers saw a 3.0 percent increase to EUR 103.9 billion. This underlines again the important role BayernLB plays in financing the German economy. Overall, loans and advances to customers at the Group level rose slightly by EUR 2.1 billion to EUR 153.9 billion on a reporting currency basis.

There was a pleasing increase in liabilities to customers. Customer deposits rose EUR 6.9 billion to EUR 94.3 billion, an indication of the trust customers place in BayernLB and its subsidiaries. Securitised liabilities fell by EUR 2.7 billion to EUR 85.2 billion (adjusted for the deconsolidation of SaarLB). In addition to the various structured bonds issued by BayernLB during the first half of the year, the Bank placed a EUR 1 billion jumbo Pfandbrief at the end of June with a re-offer yield of 7 basis points above mid-swap.

Subordinated capital fell EUR 0.9 billion to EUR 7.8 billion as a result of maturities and the deconsolidation of SaarLB. Equity rose slightly to EUR 14.6 billion (up EUR 0.5 billion).

As at 30 June 2010, exposure to the national governments of financially weaker eurozone countries amounted to around EUR 1 billion in total, broken down as follows: Greece: EUR 0.2 billion, Ireland: EUR 0.2 billion, Italy: EUR 0.6 billion, Portugal: < EUR 0.1 billion, Spain: 0. This represents a further drop in exposure of EUR 0.7 billion since 31 December 2009.

Banking supervisory ratios and capital

In the first half of 2010, risk positions pursuant to the Solvency Ordinance, consisting of credit and market risk positions and operational risks, fell by 4.0 percent to EUR 130.3 billion. The main cause of this decrease was the deconsolidation of SaarLB. This effect was counteracted by the depreciation of the euro, which added around 15 percent to the value in euros of US dollar-denominated risk positions compared with the 2009 year-end figure. Equity was also impacted by the deconsolidation of SaarLB. As at 30 June 2010, it was EUR 18.2 billion compared with EUR 21.4 billion as at 31 December 2009. Core capital was EUR 13.5 billion, down EUR 1.3 billion since the end of the previous year.

The core capital ratio is a solid 10.4 percent (10.9 percent at 31 December 2009), while the own funds ratio is 14.0 percent (15.7 percent at 31 December 2009).

Segment reporting

The segment report is based on the monthly internal management report to the Board of Management and reflects the BayernLB Group's six segments. The four business segments Corporates & Markets; Real Estate, Public Sector & Savings Banks; Mittelstand & Retail Customers; and Eastern Europe incorporate BayernLB's operating business areas, the institutions BayernLabo and LBS Bayern and consolidated subsidiaries. In addition to these are two additional segments: Restructuring Unit, and Central Areas and Others. The above segments were redefined as at 1 July 2009 as part of the BayernLB Group's restructuring and resizing program.

The contribution of the individual segments to 2010 first half earnings before taxes of EUR 554 million (H1 2009: EUR 426 million) is shown below:

EUR million	1 Jan – 30 Jun 2010	1 Jan – 30 Jun 2009 ¹
Corporates & Markets	423	279
Mittelstand & Retail Customers	113	155
Real Estate, Public Sector & Savings Banks	44	120
Eastern Europe	-175	-95
Restructuring Unit	217	251
Central Areas and Others	-3	-274

¹ Previous year's figures adjusted due to the restructuring and resizing of the BayernLB Group on 1 July 2009.

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

Corporates & Markets

- Strong interim results
- Customer franchise expanded
- Successful cross-selling of Markets products
- Earnings growth boosted by favourable capital markets environment

The segment is composed of the Corporates & Markets Business Area plus consolidated subsidiaries assigned to the segment. Corporates & Markets' strategy is based on being a strong, customer-orientated banking partner for large companies, financial institutions and institutional customers.

With total income of EUR 594 million (H1 2009: EUR 419 million) and earnings before taxes of EUR 423 million (H1 2009: EUR 279 million), Corporates & Markets made the largest single contribution by far to Group net income. Earnings were mainly generated from core business activities. The segment's return on equity was 18.9 percent (H1 2009: 15.3 percent), while the cost-income ratio was 28.1 percent (H1 2009: 32.4 percent).

A good performance in the first half of 2010 meant that Corporates achieved earnings before taxes of EUR 163 million (H1 2009: EUR 245 million), well above forecast. A significant resurgence in new business contributed to the results.

Markets turned in very satisfactory earnings before taxes of EUR 259 million (H1 2009: EUR 30 million), boosted in particular by the favourable market environment in the first quarter of 2010. In addition to income from business with financial institutions and institutional customers directly allocated to Markets, there was also a positive trend in the contribution from customer-induced business with Corporates, Mittelstand, Savings Banks and Real Estate customers. Product margins after costs are recognised solely in the business area responsible for the customer relationship. Asset-liability management (ALM) also reported positive earnings before taxes in the first half of 2010.

Corporates primarily serves globally-operating German firms and selected large multinationals in the core markets of Germany, Europe and North America and is divided into Relationship Management, Corporate Credit and Structured Credit. Markets is divided into Treasury Products, Capital Markets and Asset-Liability Management and is responsible for providing capital markets and treasury products. Relationship management for financial institutions and institutional customers such as insurers and investment companies is also located here.

Mittelstand & Retail Customers

- Dynamic and successful expansion of Mittelstand business at BayernLB
- Over 2 million retail customers at DKB – deposits up 14.5 percent to EUR 29.5 billion
- Strong new business at LBS Bayern
- Earnings at banking subsidiaries down on same period last year

This segment comprises business with Mittelstand (middle market) companies at BayernLB, LBS Bayern and the subsidiaries DKB, Banque LBLux and SaarLB.

In the first half of 2010 the Mittelstand & Retail Customers segment produced earnings before taxes of EUR 113 million (H1 2009: EUR 155 million). In the Mittelstand Division, both earnings and the number of customers grew at a pleasing pace, aided by its new “Integrated Corporate Finance Bank” strategy. Driven by the strong new business, net interest income was well above forecast and the year before figure. There was a positive trend in risk provisioning in the segment, which fell by one-third from the previous-year period to EUR –73 million. However, the good performance at Mittelstand was not sufficient to compensate for the decline in earnings at the subsidiaries allocated to the segment compared to the prior year period. In particular, extraordinary items at Banque LBLux and SaarLB weighed on results. As planned in the restructuring project, the stake in SaarLB was reduced to a minority position. Return on equity was 4.7 percent (H1 2009: 8.3 percent), while the cost-income ratio was 60.7 percent (H1 2009: 50.7 percent).

In H1 2009, earnings before taxes at Mittelstand were EUR –17 million; this rose to EUR 28 million in H1 2010, highlighting the fact that the business unit has performed successfully and is ahead of forecast. To that extent, it is contributing to the reorientation of BayernLB. Regionally, the division continues to concentrate on the home market of Bavaria.

Target customers are Mittelstand companies with turnover of EUR 50 million to 1 billion which are provided with all types of banking products, complex financing solutions and advisory services. Bavarian companies with turnover of less than EUR 50 million are served by the savings bank in their region. BayernLB provides complementary products to them in a close partnership, mainly in foreign, subsidy, corporate finance and syndicated business. Under its motto “Integrated Corporate Finance Bank” the Mittelstand division is able to differentiate itself from the competition.

Another focus has been a commitment to future growth markets, especially clean technology.

DKB is a strategic component of the BayernLB Group and a major contributor to the Mittelstand segment’s business. DKB’s results in the first half of 2010 benefitted from its business model – a strict concentration on retail customers, infrastructure and corporate customers. The number of retail customers, and hence deposits, went up. The amount of deposits rose 14.5 percent to EUR 29.5 billion, while the number of retail customers climbed to around two million by 30 June 2010. In the infrastructure and corporate customer business, earnings were boosted in particular by the target sectors of residential, energy, utilities and renewable energy.

Earnings before taxes at the DKB sub-group in the first half of 2010 were lower than in the same period the previous year, but DKB expects earnings to improve in the second half.

LBS Bayern as a unit of BayernLB belongs to the Sparkassen-Finanzgruppe. It is the leader in the Bavarian home loan and savings market with a market share of 41.1 percent of new business by number of contracts and a record 40.1 percent by volume as at 30 June 2010. The savings banks work closely with LBS Bayern as key distribution partners. Strong new business weighed on net commission income. The previous record of EUR 7.8 billion for home savings in 2003 could possibly be beaten in 2010.

Banque LBLux S.A. is one of the leading commercial banks in the Luxembourg financial centre and specialises in providing personal services to corporates in the Benelux area and advising international private customers. Corporate Banking offers companies a range of individually structured financial services in all areas of corporate, real estate and acquisitions financing. The Banque LBLux Private Banking & Wealth Management division is primarily active in international asset consulting and management. As part of a strict policy of risk reduction, Banque LBLux disposed of Greek government bonds, resulting in a charge of EUR 24 million; otherwise, half-year earnings were solid and in line with forecasts.

SaarLB is a Franco-German Mittelstand bank. BayernLB’s stake in SaarLB was cut to 49.9 percent at the end of June 2010 after it sold 25.2 percent of its shareholding. As a result, SaarLB was deconsolidated from the BayernLB Group. Earnings were below forecast at SaarLB in the first half of 2010. Earnings before taxes declined by EUR 30 million from the previous-year period.

Real Estate, Public Sector & Savings Banks

- Project on new collaboration model with Bavarian savings banks successfully completed
- Very good results from trading in foreign notes and coins and precious metals
- Lending to Bavarian municipalities at BayernLabo more than doubled
- With an investment volume of EUR 6 billion, Real I.S. AG is among the largest institutional fund sponsors
- New business in commercial real estate on a conservative basis

This segment comprises the Real Estate, Public Sector and Savings Banks divisions, the development bank BayernLabo and the subsidiary Real I.S. AG.

Real Estate, Public Sector & Savings Banks generated pre-tax earnings of EUR 44 million (H1 2009: EUR 120 million). Return on equity was 5.7 percent (H1 2009: 24.5 percent), while the cost-income ratio was 54.2 percent (H1 2009: 45.3 percent). The EUR 76 million decline in earnings before taxes resulted from a EUR 40 million decrease in net interest income and a EUR –63 million increase in risk provisions for the credit business. In the comparable period in 2009, risk provisions benefitted from high releases and made a positive contribution of EUR 12 million. Net commission income rose roughly 12 percent. Administrative expenses declined by 12 percent, largely as a result of the successful implementation of restructuring measures.

The Real Estate division focuses on the home market in Bavaria and Germany, Western Europe and other selected European neighbours. Germany accounted for around half of all new business volume. The emphasis is on long-term commercial real estate financing and real estate services. Sustainability is increasingly an issue, from building design right through to providing subsidised loans.

The Savings Banks division serves as the central hub within BayernLB to provide all product groups to the savings banks in and outside of Bavaria. Business with the savings banks is an integral part of the Bank's business model. For the entire BayernLB Group, savings banks play a central role both as customers and major sales partners. In March this year the project on a new collaboration model with Bavarian savings banks was successfully completed. The result was a new paradigm in savings bank business with a clear sales orientation, a sustainable focus on transparency and profitability and the introduction of professional sales management. The project laid the foundation to put the partnership with the savings banks on a new footing and ensure this important customer group will continue to be provided with a competitive range of products.

Public sector customers are served by the Public Sector Germany department. Customers include the German federal government, German state governments and municipalities and also all companies and public institutions organised as public agencies such as development banks, public utilities, churches, foundations and social insurance schemes. It also performs the Bank's role as principal bank for the Free State of Bavaria.

At BayernLabo, the volume of commitments made under the subsidised housing programme was stable while municipal lending more than doubled. Since mid-2009 BayernLabo has also offered the Investkredit Kommunal Bayern programme, which is funded by KfW.

Real I.S. AG, a wholly-owned subsidiary of BayernLB, is the Group's asset management company for commercial real estate. With an investment volume of more than EUR 6 billion, Real I.S. AG is one of the largest institutional fund sponsors.

Eastern Europe

- Additional risk provisioning charge of EUR 125 million
- Hungarian banking levy has negative effect

Since the sale of Hypo Group Alpe Adria (HGAA) at the end of 2009, this segment includes just the MKB sub group strategic subsidiary (MKB Group). MKB is a commercial bank based in Hungary with smaller banking subsidiaries in Bulgaria and Romania, operating primarily in the corporate and retail customer segments. MKB Group holds a strong position in the Hungarian leasing market via its subsidiary MKB Euroleasing.

The current economic slump in South-Eastern Europe weighed on mid-year earnings which amounted to EUR –175 million and were significantly below the previous year period (H1 2009: EUR –95 million, or EUR 28 million excluding HGAA). BayernLB and MKB jointly conducted a detailed screening of the assets in MKB's lending portfolio. As a result, risk provisioning was sharply raised by EUR –125 million to EUR –260 million. This was the major factor behind the deterioration in earnings. Although growth is expected to resume over the long-term in the region, the value of the assets concerned was adjusted to reflect the more difficult economic situation. The positive long-term economic prospects for South-Eastern Europe are, however, currently being overshadowed in Hungary by the introduction of a very high national banking levy which in part is potentially confiscatory in nature. The levy will amount to around EUR 50 million in 2010 and weigh heavily on MKB's earnings.

Restructuring Unit

- Despite a weaker euro, the nominal volume of the ABS portfolio fell EUR 0.7 billion to EUR 16.3 billion in the first half
- Risk assets successfully decreased by EUR 1.5 billion compared to 31 December 2009 to EUR 18.5 billion

The Restructuring Unit directly holds much of the Bank's non-core business – especially the hedged asset-backed securities (ABS) portfolio – and serves to implement the new strategy. This segment serves to structurally separate the core and non-core business at the Bank. The segment comprises investment and loan portfolios. The Restructuring Unit also oversees the indirect reduction of non-core activities in the business areas and subsidiaries via the tracking function it has established.

Thanks to the favourable market environment, earnings before taxes in the first half of 2010 were positive at EUR 217 million (H1 2009: EUR 251 million). Write up and sales in the investment portfolio made a major contribution of EUR 86 million to the results. The loan portfolio also contributed EUR 81 million to earnings before taxes, chiefly due to the positive trend in risk provisions.

The investment portfolio in the Restructuring Unit contains the ABS portfolio and a “non-structured” part. The ABS portfolio is largely hedged by a guarantee agreement (Umbrella) with the Free State of Bavaria. The guarantee covers a maximum amount of EUR 4.8 billion. This applies after the Bank has borne a first-loss of EUR 1.2 billion, around half of which was already recognised in the annual financial statements in each of the years 2007 and 2008. The nominal volume of the ABS portfolio fell 4 percent from EUR 17.0 billion to EUR 16.3 billion, even though the dollar appreciated by 15 percent in the first half.

The non-structured part consists of single-name investments in securities and credit derivatives which do not fall within the focus of BayernLB's new strategy. This portfolio too saw a further significant reduction of 24.6 percent in the first half, from a nominal value of EUR 12.6 billion to EUR 9.5 billion.

The lending transactions mainly come from the Financial Institutions, Public Sector and Real Estate divisions and also shipping and aircraft financings which have been transferred to the Restructuring Unit. Credit volumes fell 12.1 percent in the first half from EUR 20.6 billion to EUR 18.1 billion.

Central Areas and Others

This segment comprises Corporate Center, Financial Office, IT & Operations, Risk Office, the GBW AG subsidiary (sub-group) and Others.

No operating business is allocated to the central areas for earnings purposes except for shareholdings that are directly related to what the Central Areas do. The services performed by the Central Areas are almost entirely charged to the Group's business areas, institutions and subsidiaries.

GBW AG is a group focused on the real estate sector in Bavaria whose core business is leasing, managing and administering its own portfolio of residential property.

Transactions executed in the overall interests of the Bank or Group and therefore not allocated to the individual segments are aggregated under Others. Also included under Others is the cost of funding the strategic subsidiaries and investment gains and losses on unallocated equity.

Earnings before taxes in the first half of 2010 were a negative EUR –3 million (H1 2009: EUR –274 million). Net interest income rose to EUR 20 million (H1 2009: EUR –116 million) as the cost of funding the stake in HGAA ceased when it was deconsolidated at the end of 2009 and investment income from unallocated capital rose. The fall in other income to EUR –28 million (H1 2009: EUR 29 million) is largely the result of a writedown in net present value (EUR –72 million) of BayernLB's hybrid capital which shared proportionally in the Bank's losses in 2009 and which was reported in 2009.

Transformation process at the BayernLB Group

The implementation of the transformation programme launched by the Group at the start of 2009 under the name Hercules is now well advanced and is clearly bearing fruit. Disposing of non-core activities such as HGAA, LB Swiss, the majority stake in SaarLB and other disposal measures taken in the Restructuring Unit has concentrated the Group's assets more on its core activities.

Earnings from the Group's core business with large and medium-sized companies, real estate customers and retail banking have stabilised, while personnel and operating expenses have been significantly reduced as part of the restructuring process. The restructuring goals set at the start of 2009 for Project Hercules, due to be completed in 2013, received a sustainable boost when HGAA was rapidly divested. This means that over 70 percent of the goals for reducing risk assets, headcount and administrative expenses have been met, putting the Group very well on track.

Core and non-core businesses were defined as part of Project Hercules, under which non-core activities were to be scaled back to free up liquidity and capital, a process which is now being actively driven forward. Non-core activities have been pooled in the Restructuring Unit segment and also include additional loan portfolios managed by the Restructuring Unit but still retained by the original segments. Core business now accounts for around 83 percent of Group earnings before taxes.

1 Jan–30 Jun 2010	Core activities (EUR million)	%	Non-core activities (EUR million)
Total earnings	1,215	77.7	348
Risk provisions	–315	80.3	–77
Administrative expenses	–527	70.2	–224
Earnings before taxes	457	82.5	97
Risk assets (reference date)	79,734	72.9	29,628

The good results of the transformation have again strengthened the already solid capital position, with a core capital ratio of 10.4 percent. The leverage ratio (the ratio of total assets to equity) has improved sharply from 37.4 at the start of 2009 to 23.4. Over the same period, total assets fell by 19.2 percent from EUR 421.5 billion to EUR 340.7 billion. As expected therefore, BayernLB passed the stress test carried out by the Committee of European Banking Supervisors (CEBS) with outcomes well above the minimum core equity ratio required in all scenarios.

Forecast

The renewed deepening of the financial crisis brought about by the sovereign debt crisis has extended the high levels of uncertainty which have been in place for several years. Nevertheless, the Bank expects the global economic recovery to continue in the second half of 2010 and next year. The assumption must be, however, that momentum will slow, especially in the industrialised countries, as the restocking of inventories by companies should now largely be complete and the boost from the stimulus packages is easing off. Concerted action by governments to reduce their large budget deficits in 2011 will also dampen the upturn in industrialised nations. In the eurozone, a welcome development that will work against this effect will be the weak euro. On financial markets, BayernLB forecasts yields on government bonds will generally rise slightly and stock markets will continue to recover as the rising trend in corporate earnings is still intact. The key risks are from the sovereign debt crisis in the eurozone and the uncertainties over future monetary and finance policies, together with the exit strategies of governments and central banks, especially an economic policy which is insufficiently coordinated internationally. BayernLB also regards rising protectionism in some industrialised countries as a further source of uncertainty.

Based on the environment in the forecast period, the BayernLB Group expects to see moderate business growth in its remaining core businesses. The Bank still expects to see a slow recovery in 2010, which should continue into 2011 and gain pace. Events of particular significance that could have an impact on assets, the financial situation and earnings will continue to be the ongoing financial crisis and economic growth which is still unstable in spite of the general recovery and currently very dependent on exports. The possible impact of legislative measures currently being planned or implemented has largely not been taken into account. This relates, for example, to new regulations under Basel III and the debate on a bank levy. Based on the current ministerial draft, BayernLB would face an additional expense in the form of a contribution to a restructuring fund for banks (bank levy) in the mid double-digit million range, but this may be lower if the amount of the levy is based on profitability, as is anticipated. This would tend to shrink the Bank's capital base, contrary to the intention of Basel III to strengthen the equity base of banks. A uniform approach to a bank levy either by the G20 or within the European Union is not in sight. Competition would therefore be inevitably distorted.

To improve its public finances, the Hungarian parliament passed a very high bank tax without any international consultation. This is likely to cost MKB around EUR 50 million in the current financial year.

The markets continue to be noticeably jumpy. However, the increase in transparency from the stress tests by the Committee of European Banking Advisors (CEBS) at 91 European banks in July 2010 should have a calming effect. BayernLB passed the test in all three scenarios and was very well capitalised. Under the toughest scenario, whereby European sovereign risks in the trading book, including the Federal Republic of Germany, were included in the stress test, BayernLB achieved a core capital ratio of 8.8 percent. An additional internal simulation conducted by the Bank looked at the effects of a stress test on exposures to these countries carried in the banking book as well. The core capital ratio in this case was 8.4 percent.

BayernLB's restructuring plan was submitted on time to the EU Commission on 29 April 2009. There is basic agreement with the EU Commission in Brussels over the key points of the restructuring plan. By their very nature, proceedings of this type involve uncertainty. The statements in this forecast are based on the assumption that the state aid will be approved on the terms currently proposed.

The focus in the rest of 2010 will be to largely complete the restructuring of the Bank that was initiated in 2009. It is now important for the Bank to focus on customer business so it can expand its earnings base in the core businesses.

Business with large corporates and customer-related capital markets business, bundled together within the Corporates & Markets Business Area, the Bank's largest earnings producer, will be expanded in a targeted fashion. In addition, the Bank's market position will be further expanded in the Mittelstand segment in Bavaria and the rest of Germany, and also in the savings bank and real estate business.

Based on the current outlook for the economy and the capital markets, BayernLB Group is optimistic that its new business model and the changes it involves will lay the foundations for the earnings, financial position and assets to continue to grow in the medium term. BayernLB's funding situation has markedly improved. Funding requirements for the full year were largely covered in the first half of 2010. In the second half of 2010, refinancing needs are expected to be in the low single-digit billions of euros. No problems in raising the funding on capital markets are currently anticipated.

Earnings for the full year are not expected to be a simple continuation of the first half results as these were largely underpinned by very good gains from fair value measurement posted in the first half and cannot therefore be replicated. Overall, however, BayernLB still expects to be in the black for FY 2010. The performance by the BayernLB Group's core business in the first half of 2010 has reinforced the positive forecast for the full year that was made in the spring.

No definite statement can be made on restocking the hybrid capital instruments and paying back interest due until BayernLB's HGB (German GAAP) single-entity financial statements are prepared in early 2011. Just as with consolidated net income, net profit reported in the HGB single-entity financial statements for the first half of 2010 was better than expected, but additional write-downs on shareholdings can be expected before the end of the year.

The statements made in this outlook section should be read in conjunction with the outlook given in the 2009 annual report. Changes in the general economic situation, however, might have a corresponding impact on the BayernLB Group and BayernLB.

Risk report

The risk report of the 2009 consolidated financial statements gives a detailed description both of the principles, methods, procedures and organisational structures of the risk management used within the BayernLB Group and of the internal control and risk management system for ensuring the accounts have been properly prepared and are reliable. The information provided in the risk report of the Group Interim Report therefore relates mainly to the changes in the first half of 2010.

Figures in the tables may be rounded up or down to the last decimal place shown.

Key developments in the first half of 2010 and outlook for the whole year

The resizing of the BayernLB Group based on the refocused business model continued to be a priority in the first half of 2010.

Significant progress was made in decreasing credit portfolios with elevated risk profiles. The volume of the ABS portfolio was reduced by EUR 1 billion to EUR 16.5 billion in the first half of the year. Receivables from US credit insurers (monoliners) and in the leveraged finance portfolio each fell by around one-fifth to EUR 1.3 billion and EUR 2.8 billion respectively. In BayernLB, these portfolios are assigned to the Restructuring Unit with the exception of the leveraged finance portfolio for the Mittelstand and certain project financings.

As planned, the stake in Landesbank Saar (SaarLB) was cut back to less than 50 percent at the end of June 2010. This reduced the BayernLB Group's credit volume by around 5 percent. By contrast, Hungarian bank MKB and Deutsche Kreditbank (DKB), whose business models are both focused on retail and medium-sized commercial customers, were able to increase their volumes in line with strategy by around 1 and 4 percent respectively.

The volume of sovereign debt from financially weaker eurozone countries was cut to around EUR 1.0 billion in the first half of the year, a significant overall fall of around EUR 0.7 billion. The situation in these countries is being closely monitored; however no imminent threat of default is apparent at this time.

As part of the effort to harmonise standards across the Group, a project was launched at the Hungarian subsidiary MKB at the start of 2010, in close cooperation with BayernLB, to further improve risk management and monitoring. To achieve this goal, an array of experts from BayernLB is working on site at MKB to assist on the project. An additional advisory credit committee with representation from BayernLB has also been set up for credit exposures above a defined size. More information on this can be found in the segment report on Eastern Europe in the Management Report.

Although economic trends have not always been conducive to the strategic goal of reducing risk, the BayernLB Group enjoys a solid risk buffer and this was confirmed in the stress tests of the Committee of European Banking Supervisors (CEBS) conducted in July this year. The BayernLB Group's core capital ratio was significantly above minimum requirements, even under the toughest stress conditions defined and tested by the CEBS. More information on regulatory capital adequacy can be found in the "Banking supervisory ratios and capital" section of the Management Report.

Besides regulatory capital adequacy, the BayernLB Group's risk-bearing capacity as calculated using in-house processes (ICAAP) was also adequate at all times.

A fundamental aim, besides ensuring risk-bearing capacity, is to ensure that solvency is strictly maintained. The BayernLB Group achieves this by managing and monitoring the liquidity situation efficiently and continuously. The impact of the resizing and the conservatively planned liquidity structure were the main reasons why the BayernLB Group was successfully able to insulate itself in liquidity management from the highly volatile markets in the first half of the year that resulted from the debt crisis in certain European countries. This was also reflected in stronger funding from retail operations, making fewer issues on the international capital markets necessary compared to the previous year.

In the wake of the sovereign debt crisis that followed on from the financial crisis in certain countries, uncertainty still remains high on the future direction of the economy and financial markets. Given this environment, the options for taking active, preventative measures with respect to the existing portfolios continue to be limited. Internal risk management will therefore remain focused on systematically limiting risks in new business and implementing further measures to reduce and manage risks in the current portfolio in the second half of 2010.

Risk-bearing capacity

As part of the Internal Capital Adequacy Assessment Process (ICAAP), an assessment is carried out to determine if there are sufficient cover funds to take on the risks entered into. The risk level (risk capital requirement) determined by the ICAAP is calculated using internal statistical models.

The ICAAP is supplemented by an extensive set of stress tests. The resulting potential risk capital requirement is also covered by risk cover funds.

The method of calculating risk-bearing capacity is assessed and refined on a regular basis to ensure it adequately takes account of external factors and internal strategic goals. The confidence level used for calculating economic risk capital in the ICAAP is based on the strategic target rating. Since 2009, economic risk has therefore been calculated on the basis of a confidence level of 99.95 percent (which corresponds to an A2 rating on Moody's ratings scale).

The main risk types used for calculating economic risk are credit, country, specific interest rate, market, investment, operational risk and other risks. Other risk types include typical building savings risks at LBS. The economic risk for each risk type is generally calculated using the value at risk (VaR) method. Liquidity risk is factored in using stress scenarios.

EUR million	BayernLB Group	
	30 Jun 2010	31 Dec 2009
Economic risk per type of risk	6,438	6,194
• Credit and country risk (counterparty risk)	3,397	3,347
• Credit risk (specific interest-rate risk)	1,658	1,513
• Market risk	715	575
• Operational risk	359	452
• Investment risk	186	170
• Other risk	123	137

Economic risk has not changed significantly in terms of size or profile in the first half of 2010. This overall slight increase of 4 percent was largely driven by wider credit spreads (specific interest rate risk) and the new way of modelling and investing the equity portfolio (market risk).

Besides using the results of value-at-risk testing, which is largely based on historical statistical data, a number of stress scenarios involving elevated risk situations are assessed (e.g. “weak economic environment”, “sector crisis” and “market/liquidity crisis” scenarios). In the scenarios, events that are exceptional or improbable but plausible are deliberately selected.

Potential losses from the various scenarios amounted to EUR 3,472 million as at 30 June 2010 (31 December 2009: EUR 3,596 million). The minimal falls in the values was due to the continuing uncertainty in respect of the occurrence of potential stress scenarios.

The BayernLB Group holds sufficient risk cover funds to meet its risk capital requirements resulting from the ICAAP calculation and the stress scenarios. The BayernLB Group had adequate risk-bearing capacity as at 30 June 2010.

Management of the individual risk types in the Group

Credit risk

The BayernLB Group’s credit risk is illustrated below from two perspectives: internal risk reporting as part of the management approach and the balance sheet approach, which takes an accounting view.

Measuring counterparty risk, internal rating systems and early warning

Risk measurement at portfolio level is carried out using an analytical system. The risk contribution of each individual business partner to the entire portfolio in the event of an unexpected loss is also calculated for the purposes of risk analysis.

In line with the Internal Ratings Based (IRB) approach, BayernLB uses approved regulatory rating procedures, in which borrowers are assigned to rating classes on a 25-tier master rating scale on the basis of default probabilities.

Rating procedures are maintained and refined by BayernLB largely in collaboration with RSU Rating Service Unit GmbH & Co. KG and Sparkassen Rating und Risikosysteme GmbH. All rating procedures are continuously reviewed to validate their ability to correctly determine default probabilities in each customer and financing segment. The validation process involves both quantitative and qualitative analyses, in which the rating factors, accuracy and calibration of the process, quality of the data and design of the model are assessed on the basis of statistical and qualitative analyses and user feedback. Further information can be found under the Solvency Ordinance heading on BayernLB's website.

During the economic crisis, the rating procedures proved to be robust and accurate. New findings that come to light over the course of the crisis are quickly integrated into the rating systems.

In 2010, intensive work was also carried out to refine the pricing method and the early warning system. By recognising negative changes in the risk profile at an early stage through the use of suitable risk early warning indicators, the aim is to allow sufficient flexibility to implement risk avoidance/risk minimisation measures. The market data based early warning system has been expanded to encompass many additional risk indicators. In terms of individual factors, this includes price information (shares and CDS), volatility, market capitalisation and other peer group comparison factors. The pricing method has been completely redeveloped and now supports even more detailed mapping of different business characteristics.

Limiting counterparty risks at business partner and portfolio level

The Group Risk Management Principles stipulate that counterparty risks at borrower/borrower unit level are to be monitored daily in the Risk Office using a Bank-wide limit system. In the limit system, the timing element of default risks is factored in by subdividing the limits into maturity bands. Comparable processes have been implemented in the subsidiaries.

To limit the large credit risks, the maximum gross exposure for each borrower unit is limited to EUR 500 million Group-wide in accordance with Section 19 (2) of the German Banking Act (Kreditwesengesetz (KWG)). Justified exemptions can be approved by the relevant competence holder.

Risk concentrations in individual sub-portfolios are avoided by setting and monitoring risk-orientated upper limits, for example, for sectors or countries.

Problem loan management

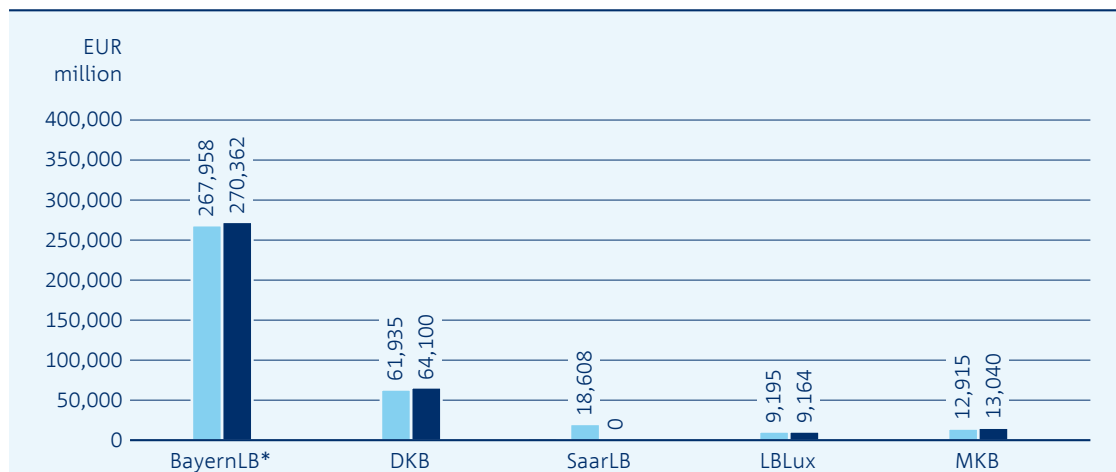
All credit exposures are monitored continuously as part of a reporting process in terms of their financial situation, collateral, compliance with limits, contractual obligations and internal and external agreements. Exposures with elevated risk are detected early on in the early risk detection process using defined early warning indicators. Problem exposures are classified in terms of their level of risk in accordance with standard international categories (special mention, sub-standard, doubtful and loss) and, if necessary, are made subject to special restructuring and risk monitoring.

By initiating suitable measures such as intensive support or problem loan handling at an early stage, BayernLB aims to minimise or completely prevent potential defaults from occurring.

Portfolio overview pursuant to IFRS 7.34 a (Management Approach)

The BayernLB Group credit portfolio charts below are based on the internal risk reports to the Board of Management.

Gross credit risk by BayernLB Group unit



■ 31 Dec 2009 Total: EUR 370,610

■ 30 Jun 2010 Total: EUR 356,666

* Incl. BayernLabo and LBS Bayern

The consolidation policy being pursued by the owners continued during the first half of 2010. Following on from the sale of Hypo Group Alpe Adria (HGAA) at the end of 2009, the shareholding in SaarLB was reduced to less than 50 percent. A further reduction of the stake is planned as from 2011. The resulting deconsolidation of SaarLB as at 30 June 2010 reduced the Group's gross credit risk by EUR 18.6 billion (–5.0 percent), while increasing BayernLB's exposure, as the EUR 4.5 billion in receivables from SaarLB to BayernLB now form part of BayernLB's credit risk. This effect is the main reason behind the EUR 2.4 billion rise in BayernLB's portfolio to EUR 270.4 billion. Overall, the credit portfolio within the Group as a whole fell by 3.8 percent to EUR 356.7 billion between the first halves of 2009 and 2010.

By contrast, Hungarian bank MKB and Deutsche Kreditbank (DKB), whose business models are both focused on retail customers and medium-sized commercial customers, increased their volumes in line with strategy by 1.0 percent and 3.5 percent respectively.

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

The BayernLB Group has the following sub-portfolios:

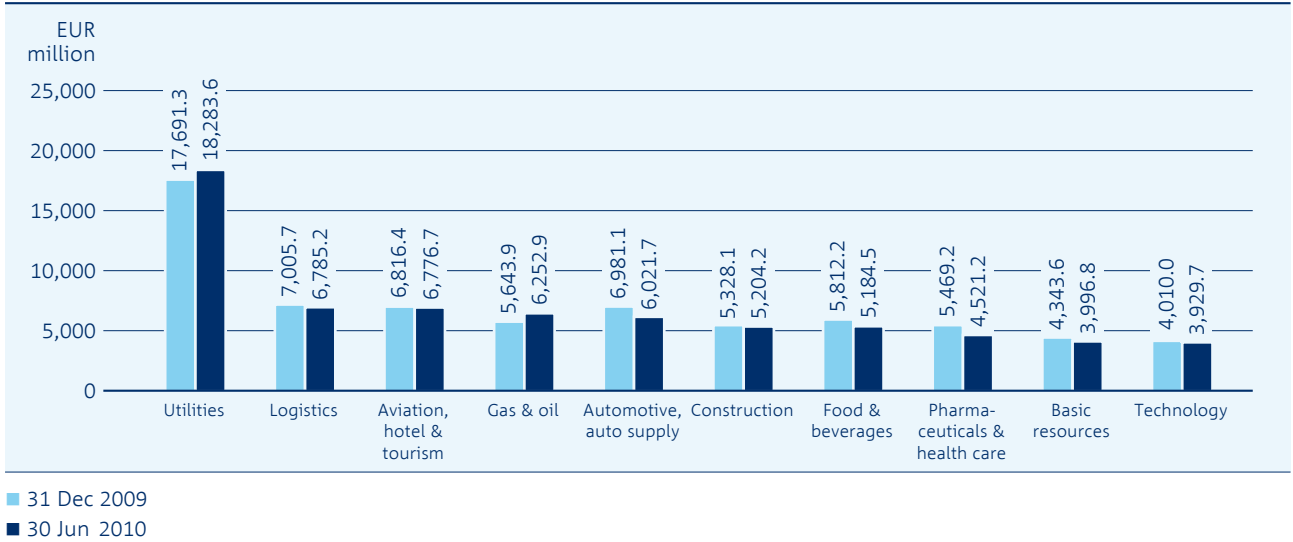
Gross credit risk by sub-portfolio within the BayernLB Group

Breakdown by sub-portfolio EUR million	Exposure 30 Jun 2010		Exposure 31 Dec 2009	
	Gross	Net	Gross	Net
Total	356,666	249,236	370,610	258,221
Real estate	49,208	12,469	50,647	15,234
Financial institutions (FI) incl. ABS	181,149	152,272	189,756	154,398
• of which sovereigns/public sector and non-profit organisations	47,612	39,305	47,777	32,894
Corporates	83,004	67,368	85,969	71,196
Other	43,305	17,126	44,239	17,393
• of which retail customers	42,972	17,016	43,824	17,260

Across all sub-portfolios, the consolidation policy led to a reduction in gross exposure of between 2 and 5 percent. The impact of SaarLB's deconsolidation was felt in the Financial Institutions sub-segment, since the main focus of SaarLB's business is the banking sector. However, gross exposure in the Real Estate and Corporate Customers sub-portfolios also continued to fall, a trend already evident at the end of 2009. In addition to SaarLB, the downsizing strategy at BayernLB in particular also contributed to this decrease.

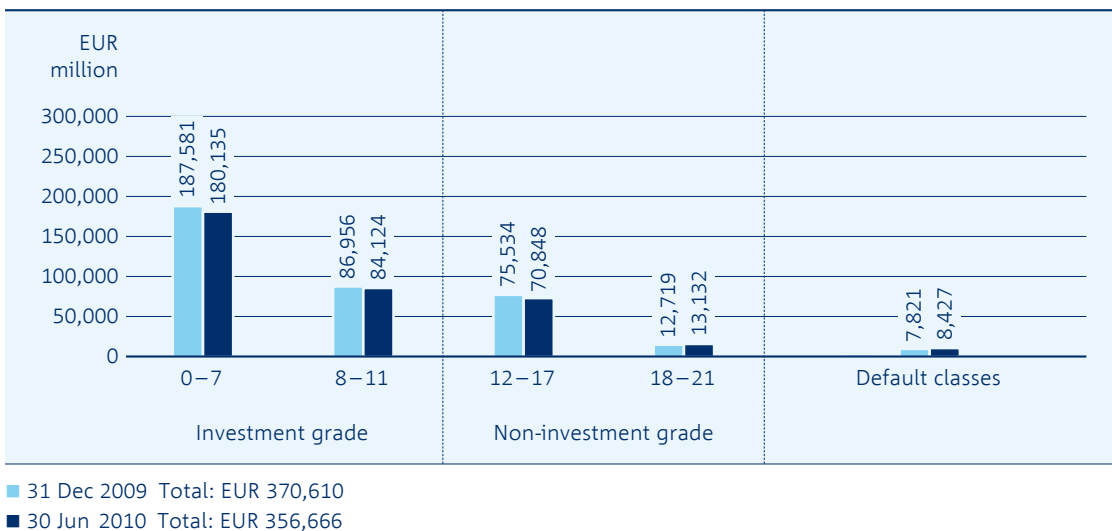
The portfolio's weightings remained stable across the board as the reduction in size of the portfolio was very uniform across each of the sub-portfolios.

The 10 largest sectors within the Corporate Customers sub-portfolio (gross credit risk)



The Corporate Customer business remains an important core business area for the BayernLB Group, accounting for around 23 percent of the total gross exposure. In the majority of the ten largest sectors in the Corporate Customers segment, the consolidation policy has led to a fall in gross credit risk. An increase was only recorded in relatively low-risk sectors: oil and gas industry at BayernLB and utilities at DKB, in particular the targeted renewable energy sector.

Gross credit risk by rating classes within the BayernLB Group



Since the rating structures at SaarLB and BayernLB are very similar, the deconsolidation of SaarLB had no impact on the Group's rating structure. The investment grade share remained unchanged at 74 percent.

In the non-investment-grade range, the effects of the recession continued to cause downgrades in the first half of 2010. These were the main reasons behind the rise in rating classes 18–21. The increase of EUR 606 million in the default categories slightly raised the proportion of non-performing loans in the portfolio as a whole from 2.1 percent to 2.4 percent.

Sub-portfolios by rating classes

31 Dec 2009					
Rating classes (EUR million net)	Real estate	FI/ABS	Corporates	Other*	Total
Total	15,234	154,398	71,196	17,393	258,221
0–7	3,006	134,548	11,087	2,765	151,407
8–11	4,646	13,957	33,808	8,077	60,488
12–14	3,450	3,019	15,076	4,178	25,724
15–18	2,448	1,018	7,595	1,428	12,489
19–21	904	522	1,965	594	3,984
Default classes	781	1,335	1,663	350	4,129

30 Jun 2010					
Rating classes (EUR million net)	Real estate	FI/ABS	Corporates	Other*	Total
Total	12,469	152,272	67,368	17,126	249,236
0–7	2,504	134,592	10,400	2,978	150,474
8–11	4,481	11,226	33,121	8,014	56,843
12–14	2,385	3,776	13,886	3,991	24,038
15–18	1,374	1,101	7,039	1,126	10,640
19–21	884	81	1,676	551	3,192
Default classes	841	1,496	1,246	465	4,049

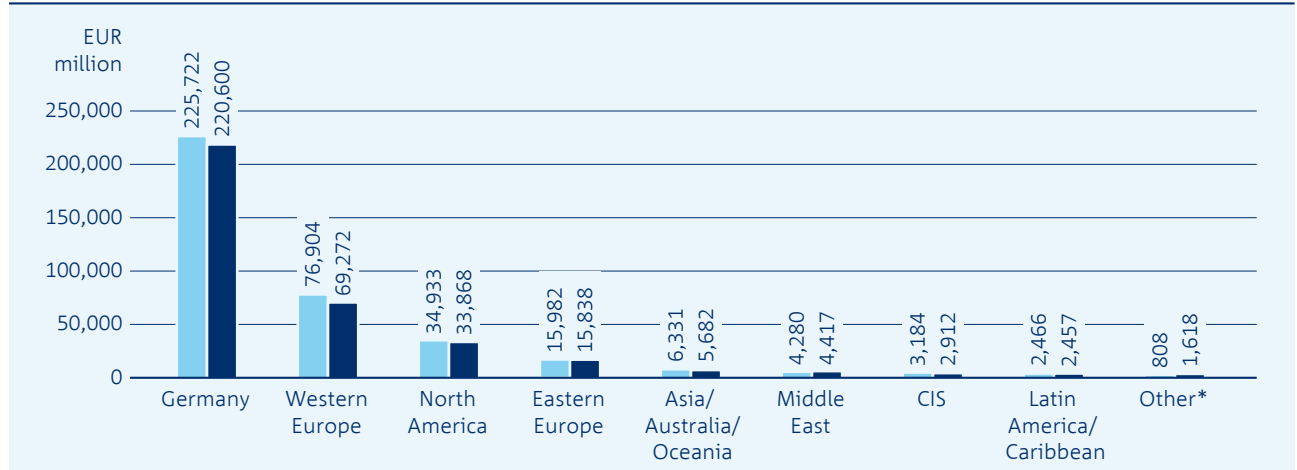
* Of which retail customers in 2009: EUR 17,260 million and 2010: EUR 17,016 million

As well as the changes in the portfolio described above, the net figures for the portfolio also show changes in the value of collateral. It can thus be seen that the Real Estate sub-portfolio contains additional collateral that has significantly reduced net exposure in rating classes 12–14 and 15–18.

Regions

The BayernLB Group uses the official Bundesbank codes for its breakdown of exposure by country. Countries are grouped into regions on the basis of global and regional economic relationships.

Gross credit risk by region within the BayernLB Group



■ 31 Dec 2009 Total: EUR 370,610
 ■ 30 Jun 2010 Total: EUR 356,666

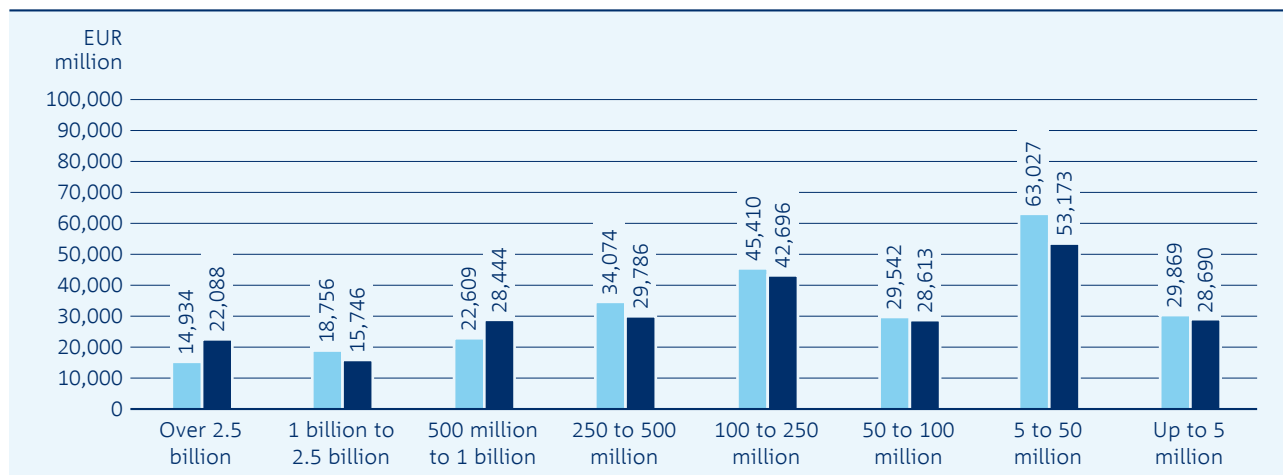
* International organisations such as the IMF, World Bank, etc.

The Group’s gross foreign credit risk fell by EUR 8.8 billion to EUR 136 billion, largely due to the deconsolidation of SaarLB (foreign volume EUR 8 billion): of this EUR 7.1 billion related to Western Europe, including EUR 2.8 billion in France.

The regional distribution of the portfolio now reflects the strategic reorientation of the Group, with a strong focus on business in Germany (EUR 220.6 billion or 62 percent) and other countries in Europe. Nevertheless, the wider distribution of credit risk shows that the Group continues to serve customers worldwide on a selective basis. Overall, the regional breakdown of the portfolio was stable in the first half of the year.

Gross credit risk was cut by a total of EUR 5.1 billion in financially weaker eurozone countries. Specifically, Portugal now accounts for EUR 1.4 billion (of which less than EUR 0.1 billion national government), Italy EUR 5.0 billion (of which EUR 0.6 billion national government), Ireland EUR 1.2 billion (of which EUR 0.2 billion national government), Greece EUR 1.0 billion (of which EUR 0.2 billion national government) and Spain EUR 8.0 billion (no national government risk) of gross credit risk.

Net credit risk by size



■ 31 Dec 2009 Total: EUR 258,221
 ■ 30 Jun 2010 Total: EUR 249,235

There was a slight increase overall in portfolio concentration, largely due to the reduction in medium and small size categories as a result of the deconsolidation of the SaarLB portfolio and the rise in large exposures. However, large exposures greater than EUR 2.5 billion are comprised exclusively of receivables from Landesbanks with liability guarantees, deposits at the Deutsche Bundesbank or receivables from the Free State of Bavaria.

Portfolio overview (balance sheet approach)

Under banking regulations, credit risk is defined differently for the purposes of risk management (the “management approach”) and the balance sheet. The maximum credit risk under IFRS 7.36 a (the “balance sheet approach”), for instance, does not take account of close-out netting, which increases reported risk, while the management approach recognises revocable commitments and does not offset impairment charges, reducing the amount reported under IFRS 7.36 a. Overall, therefore, the figures shown in the management approach and the balance sheet approach are only comparable to a limited extent.

In the tables below, which use the balance sheet approach, “impaired” refers to specific loan-loss provisions. The portfolios shown here are included when setting portfolio loan-loss provisions.

Financial assets that are neither past due nor impaired

31 Dec 2009 Financial assets that are neither past due nor impaired EUR million	Maximum credit risk (Balance sheet approach)						
	Rating classes						Total
	0-7	8-11	12-17	18-21	Default classes	Unrated*	
Cash reserves	3,254	10	–	129	–	117	3,510
• Loans and receivables	2,803	–	–	129	–	115	3,047
• Available for sale	450	–	–	–	–	2	453
Loans and advances to banks	60,057	7,240	2,149	2,405	3	137	71,992
• Loans and receivables	59,992	7,236	2,149	2,405	3	136	71,921
• Fair value option	65	–	–	–	–	–	65
Loans and advances to customers	45,338	44,910	40,144	10,817	540	9,657	151,405
• Loans and receivables	44,610	44,922	40,144	10,817	540	9,657	150,689
• Fair value option	728	81	–	–	–	–	809
Assets held for trading*	32,344	4,007	838	251	136	97	37,672
• Held for trading	32,344	4,007	838	251	136	97	37,672
Positive fair values from derivative financial instruments	3,790	208	27	–	–	–	4,026
• Held for trading	3,790	208	27	–	–	–	4,026
Investments*	40,463	6,959	1,088	2,366	68	102	51,046
• Available for sale	15,281	1,615	312	870	68	56	18,201
• Fair value option	857	162	17	–	–	4	1,040
• Loans and receivables	24,324	5,219	759	1,495	–	42	31,839
• Held to maturity	–	–	–	1	–	–	1
Contingent liabilities	7,431	4,015	4,051	430	89	363	16,379
Irrevocable loan commitments	15,190	12,242	5,991	857	83	61	34,423
Total	207,866	79,591	54,288	17,255	918	10,533	370,452

* Excluding equity positions

30 Jun 2010	Maximum credit risk (Balance sheet approach)						
Financial assets that are neither past due nor impaired	Rating classes						
EUR million	0–7	8–11	12–17	18–21	Default classes	Unrated*	Total
Cash reserves	2,673	72	11	10	–	46	2,813
• Loans and receivables	2,025	72	–	10	–	46	2,153
• Available for sale	647	–	–	–	–	–	648
Loans and advances to banks	55,972	6,632	5,062	380	11	608	68,664
• Loans and receivables	55,895	6,632	5,014	380	11	606	68,537
• Fair value option	67	–	–	–	–	–	67
Loans and advances to customers	48,355	41,250	38,211	10,995	207	7,693	146,710
• Loans and receivables	46,238	41,170	38,325	10,995	207	7,693	144,627
• Fair value option	764	80	–	–	–	–	844
Assets held for trading*	40,291	4,439	4,493	313	23	77	49,636
• Held for trading	40,291	4,439	4,493	313	23	77	49,636
Positive fair values from derivative financial instruments	5,094	16	27	–	–	–	5,138
• Held for trading	5,094	16	27	–	–	–	5,138
Investments*	39,397	4,507	2,146	1,493	522	66	48,131
• Available for sale	27,419	3,641	807	101	486	18	32,473
• Fair value option	9,053	193	1,069	–	26	–	10,340
• Loans and receivables	2,925	673	310	1,392	9	48	5,358
• Held to maturity	–	–	–	–	–	–	–
Contingent liabilities	7,025	3,937	3,944	367	72	456	15,802
Irrevocable loan commitments	13,860	12,016	6,616	1,301	83	28	33,903
Total	212,668	72,869	60,510	14,859	917	8,973	370,796

* Excluding equity positions

As a result of opposing trends, maximum credit risk is almost unchanged since 31 December 2009. On the one hand the figure was reduced as a result of the deconsolidation of SaarLB, on the other hand it was boosted by changes in the euro exchange rate for positions denominated in US dollars and a rise in assets held for trading; the latter was the result of a rise in the fair values of financial derivatives due to increases in interest rates and currencies.

Financial assets that are past due but not impaired

31 Dec 2009	Maximum credit risk (Balance sheet approach)					Fair value collateral
	Past due for:					
	< 30 days	30 days to 3 months	3 months to 1 year	> 1 year	Total	
Financial assets that are past due, but not impaired						
EUR million						
Cash reserves	–	–	–	–	–	–
Loans and advances to banks	82	11	4	10	108	23
• Loans and receivables	82	11	4	10	108	23
Loans and advances to customers	1,072	452	482	22	2,028	531
• Loans and receivables	1,072	329	386	22	1,809	531
Assets held for trading*	5	–	–	–	5	1
• Held for trading	5	–	–	–	5	1
Positive fair values from derivative financial instruments	–	–	–	–	–	–
Investments*	–	–	–	–	–	–
Contingent liabilities	30	5	–	–	36	9
Irrevocable loan commitments	64	13	18	–	95	23
Total	1,254	482	504	32	2,271	587

30 Jun 2010	Maximum credit risk (Balance sheet approach)					Fair value collateral
	Past due for:					
	< 30 days	30 days to 3 months	3 months to 1 year	> 1 year	Total	
Financial assets that are past due, but not impaired						
EUR million						
Cash reserves	–	–	–	–	–	–
Loans and advances to banks	70	17	13	9	109	–
• Loans and receivables	70	17	13	9	109	–
Loans and advances to customers	291	377	208	21	897	154
• Loans and receivables	291	377	208	21	897	154
Assets held for trading*	–	–	–	–	–	–
• Held for trading	–	–	–	–	–	–
Positive fair values from derivative financial instruments	–	–	–	–	–	–
Investments*	–	–	–	–	–	–
Contingent liabilities	1	–	–	–	1	–
Irrevocable loan commitments	4	–	–	–	4	–
Total	367	394	222	30	1,012	154

* Excluding equity positions

Financial assets past due but not impaired fell by more than half in the first six months of 2010, partly because of the deconsolidation of SaarLB, which reported a large amount in the under 30 days category at 31 December 2009, and partly because of migration to the impaired financial assets category.

Financial assets that are impaired

Financial assets that are impaired EUR million	30 Jun 2010		31 Dec 2009	
	Maximum credit risk	Fair value collateral	Maximum credit risk	Fair value collateral
Cash reserves	–	–	–	–
Loans and advances to banks	142	–	218	–
• Loans and receivables	142	–	218	–
Loans and advances to customers	4,669	2,823	3,860	2,560
• Loans and receivables	4,607	2,772	3,790	2,492
• Available for sale	62	52	70	68
Assets held for trading*	–	–	–	–
Positive fair values from derivative financial instruments	–	–	–	–
Investments*	2,263	–	2,147	2
• Available for sale	1,463	–	1,505	–
• Fair value option	–	–	–	–
• Loans and receivables	800	–	642	2
Contingent liabilities	94	–	100	5
Irrevocable loan commitments	98	–	98	2
Total	7,267	2,823	6,423	2,569

* Excluding equity positions

The effects of the recent recession were still clearly being felt in the first half of 2010, and the amount of impaired financial assets rose by 12 percent. Most of this increase was at MKB.

Information on portfolios with elevated risk profiles (Financial Stability Board recommendations)

The Financial Stability Board issued recommendations on the disclosure of information on portfolios with elevated risk profiles in order to strengthen trust between financial market participants through the resulting transparency. The portfolios with elevated risk profiles pursuant to the Financial Stability Board are the asset-backed securities (ABS) portfolio, the leveraged finance portfolio and the exposure to US monoliners.

The BayernLB Group's ABS portfolio

The portfolio for the securitisation business can be broken down into two segments: investments in asset-backed securities (ABS) and transactions for customers structured exclusively by BayernLB (customer transactions).

Asset-backed securities

As at 30 June 2010, the consolidated ABS portfolio of the BayernLB Group amounted to EUR 16.5 billion; this was EUR 1.0 billion less than at 31 December 2009, largely because of repayments and the deconsolidation of Landesbank Saar. The lion's share of the portfolio (98.7 percent) is held by BayernLB, the balance by Banque LBLux S.A.

The Banque LBLux S.A. ABS portfolio (EUR 0.2 billion) mainly falls into the asset classes prime RMBS (EUR 0.1 billion) and CMBS (EUR 0.1 billion). Of these, 94 percent are rated between AAA and A, and 6 percent BBB.

The following portfolio information relates to BayernLB's EUR 16.3 billion portfolio of asset-backed securities covered by the guarantee agreement with the Free State of Bavaria.

Guarantee agreement with the Free State of Bavaria

On 19 December 2008, a guarantee agreement was entered into between BayernLB and the Free State of Bavaria. The guarantee covers actual losses in BayernLB's ABS portfolio, above a first loss of EUR 1.2 billion. The guarantee covers a maximum amount of EUR 4.8 billion. The guarantee largely offsets changes in the valuation of ABS instruments and thus reduces the need for more capital resulting from ratings downgrades in the ABS portfolio.

The ABS portfolio hedge covers insolvency, non-payment of capital and interest, capital write-downs and losses incurred from any sales before maturity.

Since 1 July 2009, the entire ABS portfolio has been managed by the Restructuring Unit. The RU has been systematically reducing the portfolio, while ensuring losses are kept to a minimum.

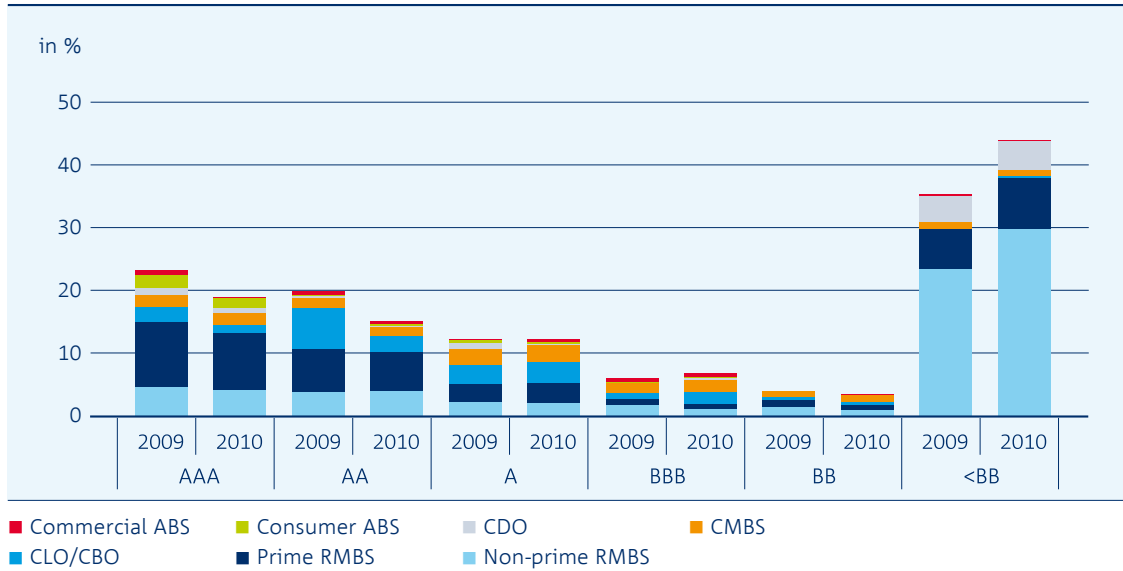
Losses on the ABS portfolio forecast by the Bank and external consultants remain within the guarantee framework in all scenarios. Realised losses from defaults and sales of ABS stood at EUR 380 million as at 30 June 2010.

Measurement of the ABS portfolio

In its ongoing assessment of the credit quality of an ABS security, BayernLB focuses on the value and expected change in value of the underlying pool of securitised receivables and on the suitability of the collateralised structural elements. Based on asset-class and country-specific stress-testing procedures, impairment classifications are carried out and loss estimates compiled. The assumptions used are continually checked for suitability and the plausibility checked using valuations by the portfolio advisers appointed under the guarantee agreement.

The accounting value of ABS instruments is continuously updated using prices provided by market data suppliers, counterparties, brokers and BayernLB's portfolio advisors. The prices of different price sources are checked for plausibility using statistical methodology. If a security has a wide range of prices compared with similar securities, it is assessed separately and the unrealistic prices eliminated. After this quality assurance is carried out, the relevant price is obtained through averaging.

The ABS portfolio guaranteed by the Free State of Bavaria by asset class and rating

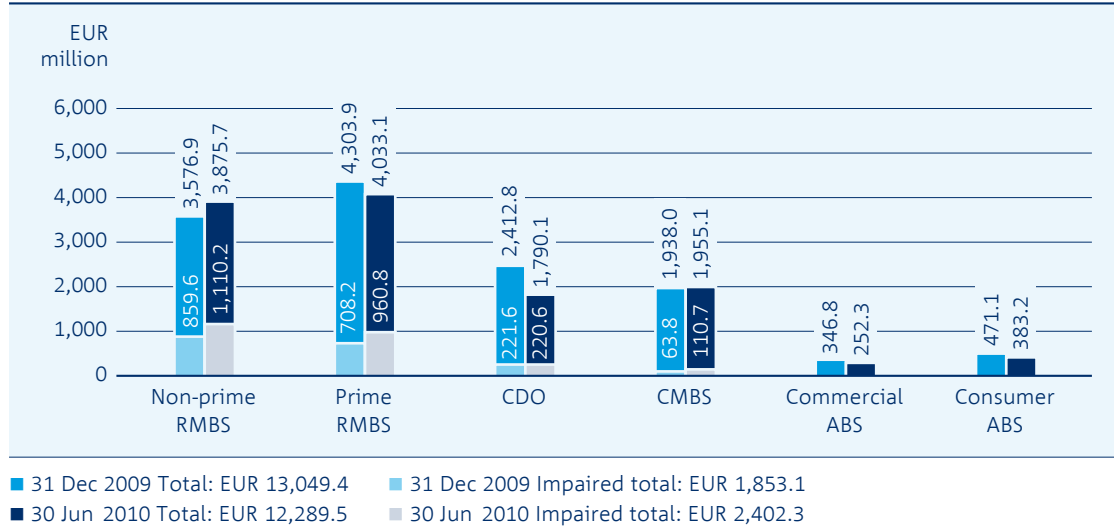


Breakdowns are based on nominal values and the lowest rating of each individual ABS security by S&P, Moody’s and Fitch. As at 30 June 2010, 53 percent (31 December 2009: 61 percent) of the portfolio was rated investment grade (BBB or above), and 47 percent (31 December 2009: 39 percent) sub-investment grade.

The rating migration to the sub-investment grade segment took place principally in US non-prime RMBS and prime RMBS and in CDOs. As before, 93 percent of sub-investment grade holdings as at 30 June 2010 fell into these asset classes. These securities were nearly all rated AAA when issued. Since the financial crisis began in 2007, the associated available credit enhancement has proved insufficient to absorb anticipated losses in full as had originally been assumed, especially in these segments. The losses have been the result of the historic turmoil on the US mortgage and real estate markets (for RMBSs) and the high number of credit events related to US and Icelandic banks (for CDOs).

By contrast, the credit enhancement for ABS securities in other asset classes today appears to be mostly sufficient to cover rising losses in the portfolios underlying our ABS securities. On a positive note, arrears and defaults in securitised portfolios in the first half of 2010 stabilised as a result of government rescue packages, prudent interest rate policies by central banks and the gathering pace of the improving economic environment in Europe and Asia.

Changes in IFRS carrying amounts and impairments in the ABS portfolio of the BayernLB Group by asset class



Customer transactions

The nominal volume of transactions structured for customers fell over the first half of the year from EUR 2.6 billion as at 31 December 2009 to EUR 1.9 billion as at 30 June 2010; of this, EUR 1.3 billion are transactions not related to core customers which are scheduled for wind-down and hence have been allocated to the Restructuring Unit.

The fall was caused both by actively terminating transactions and as a result of repayments. To date, BayernLB has not experienced any losses on or established loan loss provisions for these transactions.

Leveraged finance

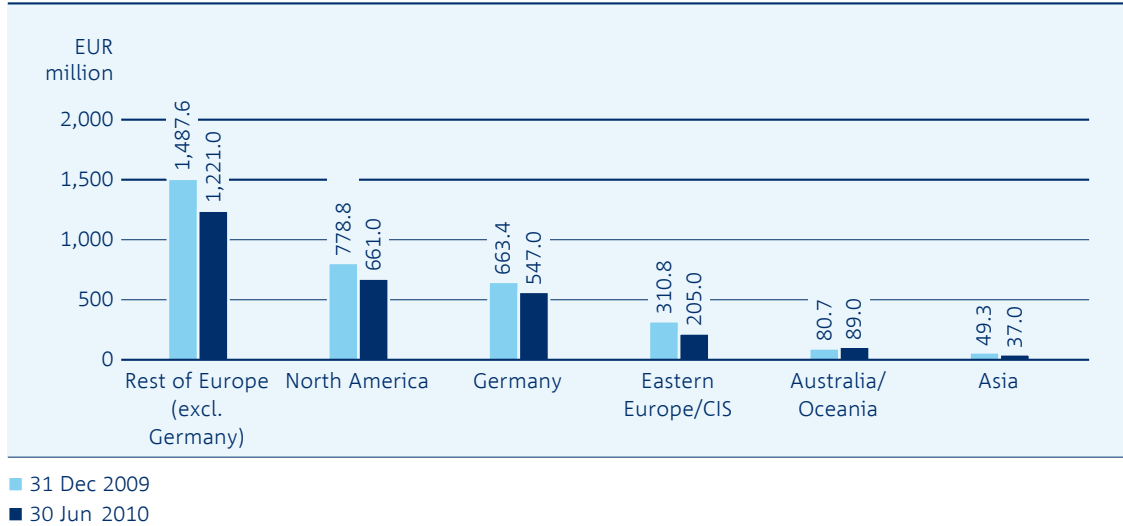
Leveraged finance transactions generally involve a high level of debt, repayments from the operating cashflow of the asset financed and hence relatively long maturities (normally more than five years). This definition covers both the financing of corporate acquisitions and other financing with the characteristics mentioned.

The BayernLB Group’s overall exposure in respect of this portfolio was EUR 2.8 billion as at 30 June 2010 compared with EUR 3.4 billion on 31 December 2009.

In line with the focusing of the business model, most of this portfolio has been successively wound down in BayernLB’s Restructuring Unit since 1 July 2009. Financing is now only provided to the Mittelstand and certain project financings in accordance with tight risk-strategy standards.

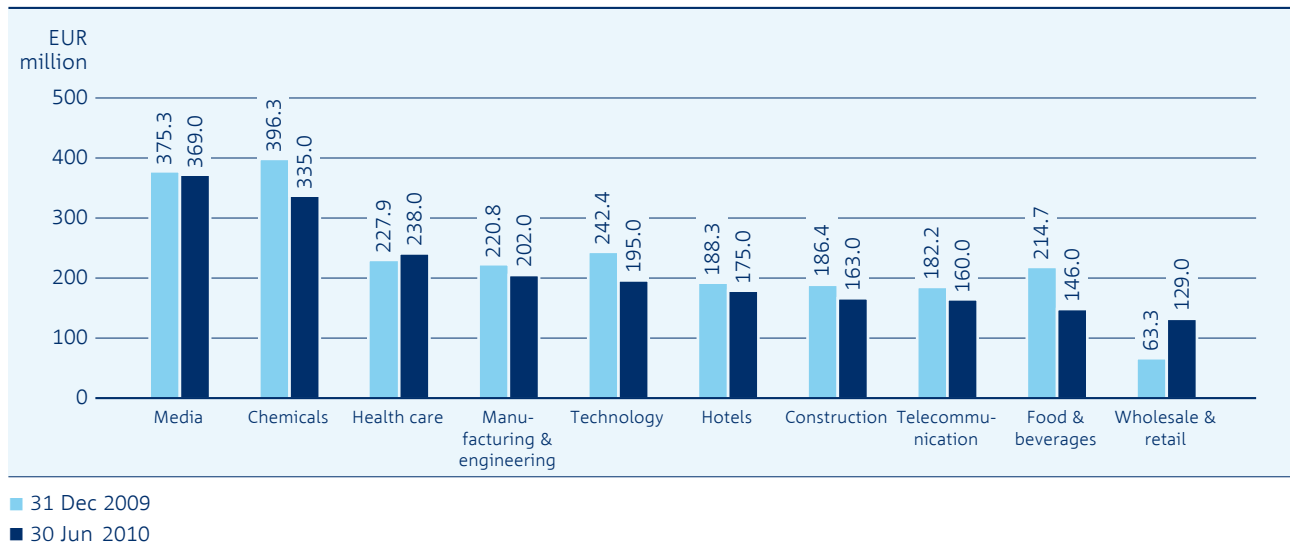
The charts below give a breakdown of the BayernLB Group’s leveraged finance transactions by region, sector and rating.

Geographical breakdown



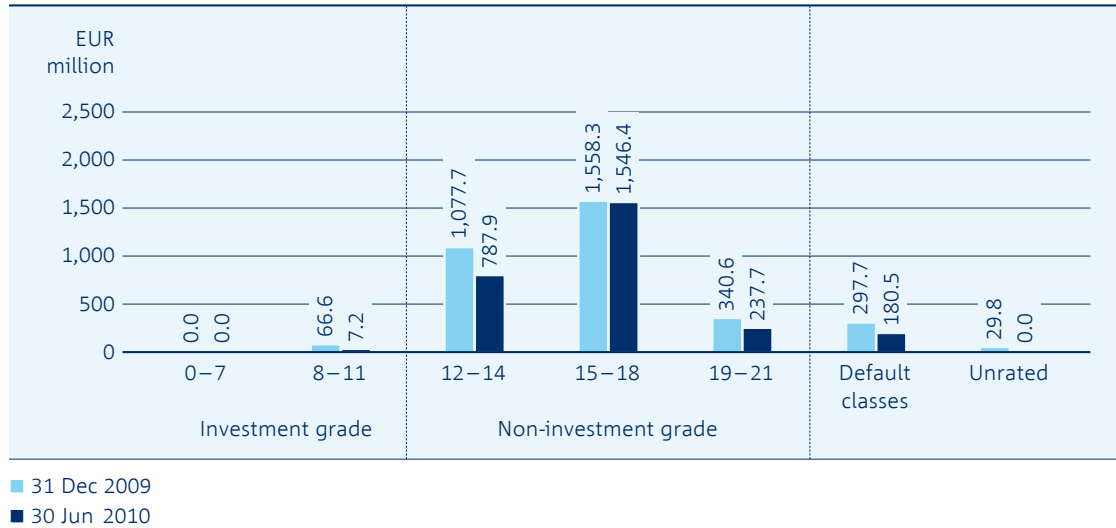
Lending in Eastern Europe including the CIS relates to the subsidiary MKB, which has cut its leveraged financing activities by one third.

Sector breakdown



Reductions in the individual sectors in the first half were very varied, so the ranking within the top ten has changed somewhat.

Rating category breakdown



The trend towards lower ratings anticipated because of the financial crisis continued in the first half of 2010.

Overall, however, market conditions for managing leveraged finance transactions have improved markedly. The market for refinancing existing business has improved and prices on the secondary market have in some cases recovered sharply, making it easier to reduce the portfolio.

Monoliner exposure

Nearly all of the BayernLB Group’s nominal exposure to US monoliners (insurers that specialise, among other things, in hedging structured securities), totalling around EUR 1.3 billion as at 30 June 2010 (31 December 2009: EUR 1.6 billion), is booked by BayernLB.

Around EUR 1.2 billion (31 December 2009: EUR 1.5 billion) relates to indirect exposures, where monoliners are not the direct borrowers but act as guarantors. The Bank based its loan approvals in these cases 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 further reduction in the exposure in the first half of 2010 was achieved through sales on the secondary market and the restructuring of financings which BayernLB either initiated itself or was a party to.

As at 30 June 2010, the direct exposure was EUR 0.1 billion (31 December 2009: EUR 0.1 billion).

Market risk

In the BayernLB Group, various instruments are used to monitor and set limits on market price risk, including risk sensitivity, value at risk, stress tests and ratios for calculating risk-bearing capacity. Market risks, including the specific risk of a change in interest rates allocated to the credit risk, are normally measured as part of the daily monitoring process using the value-at-risk method based on a one-day holding period and confidence level of 99 percent. BayernLB's value-at-risk method is based on historical simulations, which take into account correlations.

The reliability of procedures for measuring market risk is regularly assessed for quality and the quality of individual risk procedures. The main procedures for measuring market risk were providing high-quality forecasts as at 30 June 2010.

In addition, for the interest rate risk in the investment book, an interest-rate shock scenario of +130/–190 basis points is calculated at both Bank and Group level. As at the reporting date, the calculated change in net present value relative to equity at BayernLB and in the Group was considerably below the outlier criterion of 20 percent.

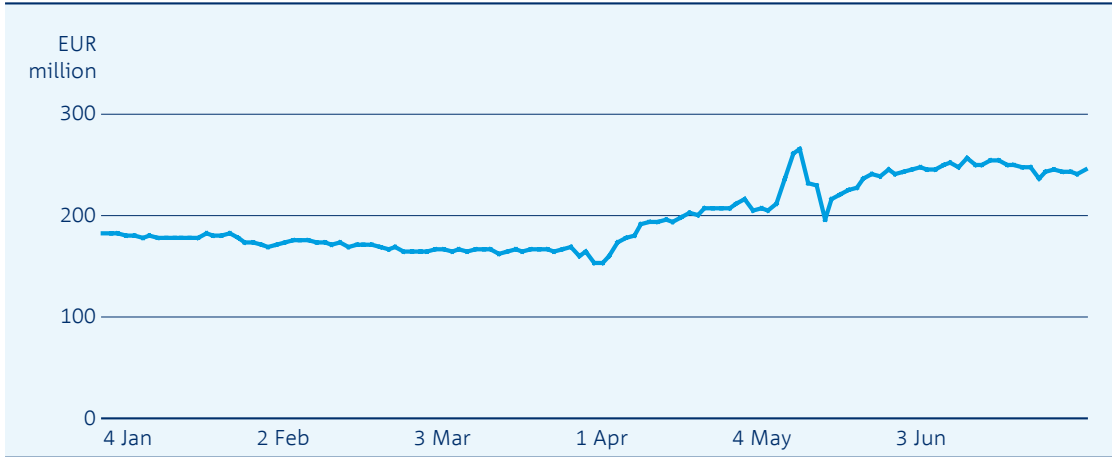
As at 30 June 2010, the market risk in the BayernLB Group on a 12-month average was EUR 215.8 million in the trading and investment books (value at risk with a one-day holding period and 99 percent confidence level). Compared with the end of 2009, the average value at risk has fallen by 25 percent and fluctuated over the course of the year within a range of EUR 269.3 million to EUR 155.3 million.

2009/2010 comparison of total market risk

EUR million	12-month comparison as at 30 Jun 2010			12-month comparison as at 31 Dec 2009		
	Average	High	Low	Average	High	Low
Specific interest-rate VaR	85.7	168.8	54.4	132.1	223.1	63.8
General interest-rate VaR	114.6	143.3	90.4	112.5	141.3	91.7
Currency VaR	26.7	74.0	5.9	57.6	144.0	8.3
Alternative investments VaR	4.3	9.4	0.5	8.7	13.0	2.8
Equities VaR	6.3	10.0	1.7	8.6	14.5	2.6
Volatility VaR	2.4	6.4	0.5	4.9	7.6	0.9
Commodities VaR	2.1	3.4	1.2	2.4	5.5	1.2
Total VaR	215.8	269.3	155.3	266.7	390.9	177.7

In the BayernLB Group, value at risk was largely impacted by specific and general interest rate risks, followed by currency risks. Commodity risks, equity risks, risks from alternative investments and volatility risks fell again year-on-year and remain insignificant. Within the Group, BayernLB has the largest share of market risks.

Value at risk during H1 2010



Market risk VaR peaked in June. The increase was due to widening credit spreads following the Greek crisis (note especially the leap in risk in early May). A new way of modelling equity following the revision of MaRisk and a change in investment strategy pushed up interest rate risk in general, and hence overall VaR too.

Liquidity risk

Liquidity planning for the first half of 2010 was heavily affected by the focus on core business areas – especially the strengthening of the retail and Mittelstand business – and downsizing of the BayernLB Group successfully commenced in 2009. The impact of the resizing and the conservatively planned liquidity structure were the main reasons why BayernLB was able to successfully insulate itself in its liquidity management from the sometimes highly volatile markets seen in the first half of the year as a result of the debt crisis in certain European countries.

This was reflected in stronger funding from retail operations, making fewer issues on the international capital markets necessary compared to the previous year. Further support was provided by the ongoing wind-down of non-core business through the Restructuring Unit. The deconsolidation of SaarLB and the sale of other equity interests reduced the investment portfolio and associated liquidity risks.

This comfortable liquidity position in the first half of 2010 means BayernLB Group is not dependent on collateral-backed borrowing from the ECB or other central banks and raised no new funding through open market transactions in the first half of 2010.

In the period under review, all liquidity ratios calculated for both internal management and regulatory purposes remained within the regulatory/internal limits at all times, even in the stress scenarios considered. The Liquidity Ordinance ratio (which must always exceed 1.0) was 1.65 at BayernLB on 30 June 2010, having varied between 1.58 and 1.72 over the first half. In 2009 the range was 1.27 to 1.65.

BayernLB is monitoring current efforts to improve regulatory supervision of liquidity risks and actively contributing to the current discussion on the structure of the Basel Committee's new liquidity directive through trade associations and bank initiatives. In order to meet the new liquidity directive in terms of boosting the liquidity standard in London, in the second quarter of 2010 BayernLB submitted a request for a "whole-firm liquidity modification", as the London office is an integral part of liquidity monitoring and management at BayernLB. The existing liquidity risk data pool in the Bank meant that the extensive reporting requirements involved could be satisfied in full.

In view of the high market volatility BayernLB remains cautious on the market and will stick with its conservative liquidity policy despite the positive trend described and the highly satisfactory liquidity position at the half-way stage. If the market environment were to deteriorate again, BayernLB Group would have sufficient liquidity reserves to cover funding needs in all maturity bands at all times.

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 2010, the situation compared with 31 December 2009 was as follows:

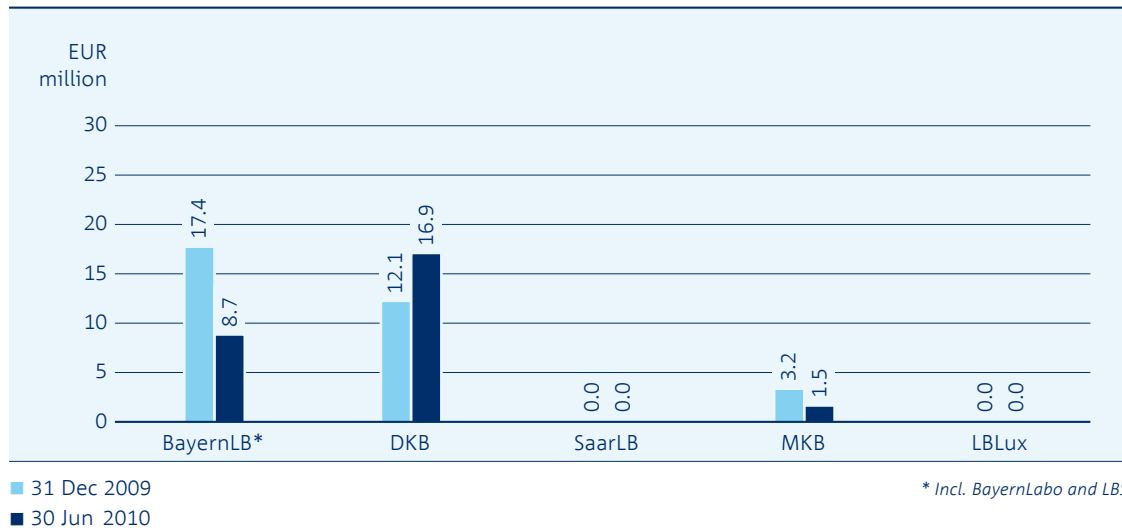
30 Jun 2010	Up to 1	Up to 3	Up to	Up to
Cumulated figures in EUR million	month	months	1 year	5 years
Liquidity surplus	23,786	25,436	32,228	25,508
• arising from				
– potential liquidity coverage	43,071	47,445	44,629	13,821
• less				
– liquidity gap from balance sheet items	14,637	13,858	3,437	–16,176
– liquidity gap from commitments and guarantees	7,177	9,927	9,874	3,353
– liquidity gap from termination rights	–1,845	–1,309	–2,098	–1,372
– liquidity gap from derivatives	–684	–468	1,187	2,507
31 Dec 2009	Up to 1	Up to 3	Up to	Up to
Cumulated figures in EUR million	month	months	1 year	5 years
Liquidity surplus	28,981	27,698	31,905	33,303
• arising from				
– potential liquidity coverage	45,502	45,787	44,106	21,635
• less				
– liquidity gap from balance sheet items	12,245	10,902	5,292	–15,591
– liquidity gap from commitments and guarantees	5,520	8,145	8,344	3,150
– liquidity gap from termination rights	–1,062	–834	–1,775	–981
– liquidity gap from derivatives	–182	–124	340	1,754

As is clear from the liquidity surpluses shown above, the BayernLB Group continues to have comfortable excess liquidity in all maturity bands, which would allow it to survive any stress situations which may occur.

Operational risk

For the purposes of disclosure under the Solvency Ordinance (SolvV) and Basel II, BayernLB has applied the standardised approach (STA) since 1 January 2007 to calculate capital requirements for operational risk at Group and Bank level.

Losses by Group units



The figures above are not period-end figures but include all losses recorded in the first half of 2010; this means they also include SaarLB, which was deconsolidated at the end of the first half.

The loss figures that apply specifically to BayernLB and MKB in H1 2010 are half and less than half respectively of the figures for all of 2009.

As was the case in 2009, the further steep increase in losses at DKB is mainly due to credit card misuse and fraud. Improvements to the risk management system initiated by DKB have already cut new cases of misuse sharply. The time needed to process and book such cases means that these measures have not yet had an impact on the amount of losses shown at the reporting date.

58	Consolidated Interim Financial Statements
58	<i>Statement of comprehensive income for the period from 1 January to 30 June 2010</i>
58	<i>Income statement</i>
59	<i>Statement of comprehensive income</i>
59	<i>Other comprehensive income – tax</i>
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[SECTION 5]

Statement of comprehensive income for the period from 1 January to 30 June 2010

Income statement

EUR million	Notes		1 Jan – 30 Jun 2010	1 Jan – 30 Jun 2009
• Interest income		5,891		8,933
• Interest expenses		–4,909		–7,664
Net interest income	(5)		983	1,269
Risk provisions for the credit business	(6)		–392	–704
Net interest income after risk provisions			591	565
• Commission income		406		507
• Commission expenses		–285		–278
Net commission income	(7)		121	228
Gains or losses on fair value measurement	(8)		443	466
Gains or losses on hedge accounting			11	31
Gains or losses on investments	(9)		–35	245
Income from interests in companies valued at equity			–2	–14
Administrative expenses	(10)		–751	–1,030
Other income	(11)		43	181
Operating profit/loss			420	672
Restructuring	(12)		134	–246
Earnings from ordinary activities/ Earnings before taxes			554	426
Income taxes			–68	–24
Earnings after taxes			486	402
Minority interests			28	32
Consolidated net income			514	433

Figures in the tables may be rounded up or down to the next unit.

Statement of comprehensive income

EUR million	1 Jan – 30 Jun 2010	1 Jan – 30 Jun 2009
Earnings after taxes as per the income statement	486	402
Other comprehensive income not recognised in profit or loss:		
• Changes in the revaluation reserve	199	208
– change in valuation	21	–250
– reclassification adjustment due to realised gains and losses	177	457
• Currency-related changes	–52	59
– change in valuation	–52	59
– reclassification adjustment due to realised gains and losses	–	–
• Share of other comprehensive income of associates and joint ventures	–3	1
Other comprehensive income before taxes	143	267
Tax not recognised in profit or loss	7	–19
Other comprehensive income after taxes	150	248
Total reported comprehensive income recognised and not recognised in profit or loss	636	650
• attributable:		
– to BayernLB shareholders	655	671
– to minority interests	–18	–21

Other comprehensive income – tax

EUR million	1 Jan – 30 Jun 2010			1 Jan – 30 Jun 2009		
	Amount before taxes	Taxes	Amount after taxes	Amount before taxes	Taxes	Amount after taxes
Changes in the revaluation reserve	199	6	205	208	–27	181
Currency-related changes	–52	1	–51	59	8	66
Share of comprehensive income of associates and joint ventures	–3	–	–3	1	–	1
Other comprehensive income	143	7	150	267	–19	248

Figures in the tables may be rounded up or down to the next unit.

Balance sheet as at 30 June 2010

Assets

EUR million	Notes	30 Jun 2010	31 Dec 2009
Cash reserves		2,814	3,512
Loans and advances to banks	(13)	71,758	74,606
Loans and advances to customers	(14)	153,906	158,962
Risk provisions	(15)	-2,939	-2,820
Portfolio hedge adjustment assets		985	674
Assets held for trading	(16)	49,787	37,787
Positive fair values from derivative financial instruments (hedge accounting)		5,147	4,037
Investments	(17)	51,360	54,039
Interests in companies valued at equity	(18)	195	72
Investment property	(19)	2,725	2,761
Property, plant and equipment	(20)	795	836
Intangible assets	(21)	257	266
Current tax assets		95	188
Deferred tax assets		2,891	2,980
Non-current assets and disposal groups held for sale		-	29
Other assets	(22)	915	887
Total assets		340,691	338,818

Figures in the tables may be rounded up or down to the next unit.

Liabilities

EUR million	Notes	30 Jun 2010	31 Dec 2009
Liabilities to banks	(23)	87,860	91,484
Liabilities to customers	(24)	94,300	92,197
Securitised liabilities	(25)	85,232	92,968
Liabilities held for trading	(26)	40,755	29,304
Negative fair values from derivative financial instruments (hedge accounting)		3,074	2,380
Provisions	(27)	3,038	3,286
Current tax liabilities		181	359
Deferred tax liabilities		2,927	3,009
Other liabilities	(28)	943	1,053
Subordinated capital	(29)	7,830	8,717
Equity	(30)	14,551	14,061
• Equity excluding minority interests		14,312	13,674
– subscribed capital		5,914	5,914
– specific-purpose capital		612	612
– hybrid capital instruments		512	514
– capital reserve		4,688	4,688
– retained earnings		3,511	3,526
– revaluation reserve		–1,338	–1,537
– foreign currency translation reserve		–100	–42
– consolidated net income		514	–
• Minority interests		239	387
Total liabilities		340,691	338,818

Figures in the tables may be rounded up or down to the next unit.

Statement of changes in equity

EUR million	Parent								Minority interests		Consolidated equity
	Subscribed capital	Specific-purpose capital	Hybrid capital instruments	Capital reserve	Retained earnings	Revaluation reserve	Currency translation reserve	Consolidated net income	Equity before minority interests		
As at 31 Dec 2008	3,556	612	545	1,476	4,830	-2,265	-136	-	8,618	2,573	11,191
Adjustments pursuant to IAS 8 ¹					10	-114	1		-103		-103
As at 1 Jan 2009	3,556	612	545	1,476	4,840	-2,379	-135	-	8,515	2,573	11,087
<i>Other comprehensive income</i> ²						169	77		246	10	256
Consolidated net income								359	359	-32	327
<i>Total consolidated net profit/loss</i>						169	77	359	605	-22	583
Capital increase/ capital decrease	3,000			4,000					7,000		7,000
Changes in the scope of consolidation and other			-1		-80				-81	-3	-84
Adjustments pursuant to IAS 8 ¹					-	1	-10	74	65		65
As at 30 Jun 2009	6,556	612	544	5,476	4,760	-2,209	-68	433	16,104	2,548	18,652
As at 1 Jan 2010	5,914	612	514	4,688	3,526	-1,537	-42	-	13,674	387	14,061
<i>Other comprehensive income</i> ²						199	-58		142	9	151
Consolidated net income								514	514	-28	486
<i>Total consolidated net profit/loss</i>						199	-58	514	655	-18	637
Capital increase/ capital decrease									-		-
Changes in the scope of consolidation and other			-2		-15				-17	-130	-147
As at 30 Jun 2010	5,914	612	512	4,688	3,511	-1,338	-100	514	14,312	239	14,551

Figures in the tables may be rounded up or down to the next unit.

¹ Information on year-on-year changes is provided in the Notes.

² Items that have been offset directly against equity are shown separately in the Notes.

Cash flow statement (condensed)

EUR million	1 Jan – 30 Jun 2010	1 Jan – 30 Jun 2009
Cash in hand at end of previous period	3,512	3,796
+/- cash flow from operating activities	-327	-4,964
+/- cash flow from investment activities	122	44
+/- cash flow from financing activities	-450	5,335
+/- exchange-rate, scope of consolidation and valuation-related change in cash in hand	-43	29
Cash in hand at end of period	2,814	4,240

Figures in the tables may be rounded up or down to the next unit.

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Notes to the consolidated interim financial statements

The BayernLB Group consolidated interim financial statements as at 30 June 2010 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.

Unless otherwise stated, all amounts are given in EUR million and rounded. Figures in the tables may be rounded up or down to the next unit and are not normally preceded by a symbol if it is clear from the context.

Accounting policies

(1) Basis

The accounting methodology used for the interim financial statements as at 30 June 2010 was essentially the same as that used for the 2009 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 2009.

Please note that earnings-related figures in period comparisons include the earnings of the sub-group Hypo Alpe-Adria-Bank International AG, Klagenfurt, Austria, which was deconsolidated on 30 December 2009.

Income tax expenses for the interim financial statements are calculated on the basis of the expected income tax ratio for the full year.

In the reporting period, the revised standards IAS 27 “Consolidated and Separate Financial Statements”, IAS 32 “Financial Instruments: Presentation”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 1 “First-time Adoption of International Financial Reporting Standards”, IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations” and IFRS 7 “Financial Instruments: Disclosures” and changes resulting from the IASB’s annual improvement process (as at: 16 April 2009) had to be observed for the first time. For the BayernLB Group, the changes had no material impact on the interim financial statements as at 30 June 2010. The same applies to the interpretations of IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”, IFRIC 17 “Distributions of Non-cash Assets to Owners” and IFRIC 18 “Transfers of Assets from Customers”, which had to be applied for the first time in the reporting period.

(2) Changes on the previous year

Since 31 December 2009, gains or losses from non-current assets held for sale and disposal groups have been reported under the corresponding items on the income statement rather than under other income. Gains or losses on repurchases of own issues have been recognised under

other income since 31 December 2009 (formerly: gains or losses on investments). The comparable figures as at 30 June 2009 were accordingly adjusted by EUR 4 million and EUR 20 million respectively.

In addition, the following adjustments, which were also described in the consolidated financial statements as at 31 December 2009, were made to the first half of 2009 in accordance with IAS 8.42:

In accordance with the amendments to IAS 39 and IFRS 7 “Reclassification of Financial Assets” by the IASB and Commission Regulation 1004/2008, BayernLB reclassified certain securities as at 1 July 2008 from the available-for-sale category to the loans and receivables category. This included one security that did not meet all the criteria for reclassification. Consequently, the investments and revaluation reserve items were each overstated as at 30 June 2009 by EUR 113 million.

The fair value of some interest rate/currency swaps was restated because only the currency component had been recognised. Consequently, the gains or losses on fair value measurement item in the first half of 2009 was increased by EUR 75 million. As a result, consolidated net income was adjusted by reducing retained earnings and the currency translation reserve by EUR 70 million and EUR 4 million respectively as at 30 June 2009.

The impact of these changes on the income statement items in the previous year period is shown in the following overview:

Impact on the relevant income statement items between 1 January and 30 June 2009

EUR million	1 Jan – 30 Jun 2009		1 Jan – 30 Jun 2009 After adjustment
	Before adjustment	Adjustment	
Net interest income	1,269	–	1,269
Gains or losses on fair value measurement	391	75	466
Gains or losses on investments	265	–20	245
Income from interests in companies valued at equity	–10	–4	–14
Other income	158	23	181
Income taxes	–24	–	–24
Consolidated net income	359	74	433

Certain embedded derivatives measured at fair value that were recognised under liabilities held for trading were additionally reported as contingent liabilities. In accordance with IAS 8.42, the comparable figures were adjusted so that the contingent liabilities reported as at 31 December 2009 were reduced by EUR 2,287 million.

The corresponding adjustments are recognised in the statement of comprehensive income (including the income statement), statement of changes in equity, cash flow statement and the notes (including segment reporting).

(3) Scope of consolidation

In addition to the parent company, the group of companies consolidated within BayernLB comprises 46 subsidiaries (31 December 2009: 52), of which two (31 December 2009: two) are special-purpose entities and three (31 December 2009: seven) are special funds that are fully consolidated in accordance with IAS 27 and SIC 12. The interim financial statements do not contain any proportionately consolidated entities.

Three (31 December 2009: three) joint ventures and five (31 December 2009: three) associated companies are valued at equity.

Changes at BayernLB:

Under an agreement of 18/21 December 2009, BayernLB sold a 25.2 percent holding in the share capital of Landesbank Saar, Saarbrücken, to the Saarland for EUR 65 million. BayernLB ended its majority stake in Landesbank Saar on 21 June 2010 after complying with all the terms of the agreement; its stake has now fallen to 49.9 percent. BayernLB has therefore completed another step in its goal to restructure and focus on core business areas and regions.

As stated by BayernLB in the 2009 Annual Report, all liabilities of Landesbank Saar established after 21 June 2010 are no longer covered by the letter of comfort.

Following the sale, the Landesbank Saar sub-group was deconsolidated in accordance with IAS 27.34. Assets of EUR 18,920 million and liabilities of EUR 18,524 million were derecognised. The principal impact of the sale on the equity of the BayernLB Group was a EUR 126 million reduction in minority interests. The deconsolidation loss of EUR –18 million was reported under gains or losses on investments. The losses of EUR –8 million from sub-group Landesbank Saar are recognised in the income statement of the BayernLB Group.

The remaining 49.9 percent stake in Landesbank Saar is reported at equity in the interim financial statements of the BayernLB Group as an associated company. The fair value of the remaining equity stake was used for the initial recognition in accordance with IAS 27.37.

Changes to the sub-groups:

In the consolidated MKB Bank Zrt. sub-group, Budapest, MKB Általános Biztosító Zrt., Budapest, was incorporated for the first time as an associated company at equity within the scope of consolidation as at 30 June 2010 without any material impact on the net assets, financial position and earnings of the BayernLB Group.

BayernLB's scope of consolidation is determined on the basis of materiality criteria. Due to their secondary importance individually and as a group in relation to the net assets, financial position and earnings of the Group, 221 companies (31 December 2009: 236) were neither consolidated nor valued 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

(4) Notes to the segment report

The segment report reflects the business structure of the BayernLB Group. As at 1 July 2009, the external segment report was reorganised as part of the reorientation and resizing of the BayernLB Group to reflect the new business strategy and new internal segments. The current and prior-period figures have been adjusted in line with the new segmentation. Six segments are shown: the operational business areas including the dependent entities Bayerische Landesbodenkreditanstalt (BayernLabo) and Bayerische Landesbausparkasse (LBS Bayern), the Group's strategic subsidiaries, the Restructuring Unit and the Central Areas & Others segment.

Most of the former Corporates and Financial Markets segments, plus business with financial institutions (from the former Financial Institutions/Sovereigns segment) were incorporated into the new Corporates & Markets segment.

The Mittelstand & Retail Customers segment comprises the Mittelstand Division, the Group's strategic subsidiaries Deutsche Kreditbank Aktiengesellschaft, Berlin (sub-group), Landesbank Saar, Saarbrücken (sub-group), Banque LBLux S.A., Luxembourg, and Bayerische Landesbausparkasse (LBS Bayern).

The Real Estate, Public Sector & Savings Banks segment was created by merging the Real Estate and Savings Banks divisions with the public sector business (from the former Financial Institutions/Sovereigns segment). Bayerische Landesbodenkreditanstalt (BayernLabo) was also allocated to the segment.

Since the sale of Hypo Alpe-Adria-Bank International AG (HGAA), Klagenfurt, at the end of 2009, the Eastern Europe segment comprises the strategic subsidiary MKB Bank Zrt., Budapest (sub-group).

The new Restructuring Unit segment was created to separately manage the key portfolios of the business areas defined as non-core business under the restructuring project, as well as the Credit Investment Portfolio (CIP).

The Central Areas & Others segment includes the central areas Corporate Center, Financial Office, IT & Operations and the Risk Office. The Central Areas & Others segment shows the earnings contributions which are not attributable to any of the other 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.

Segment operating earnings include the earnings of the consolidated subsidiaries and units assigned to the segment. The members of the Board of Management in charge of each segment (Dezernents) are responsible for earnings and serve as segment managers as defined in IFRS 8.9.

Segment reporting is based on IFRS 8 and therefore on the monthly management reports submitted to the Board of Management, which functions as the chief operating decision maker under IFRS 8.7. The management reports and therefore the segmentation is based on the accounting methodology used in the consolidated financial statements under IFRS. Segment reporting does not therefore need to be reconciled with the IFRS accounting methodology used in the consolidated financial statements. Most of the earnings contributions shown under the segments are from financial services. The additional information about products and services required under IFRS 8.32 and on non-current assets by geographical region required under IFRS 8.33 (b) is not available and the costs of providing the information would also be disproportionately high.

Segment reporting as at 30 June 2010

EUR million	Corporates & Markets	Mittelstand & Retail Customers	Real Estate, Public Sector & Savings Banks	Eastern Europe	Restructuring Unit	Central Areas & Other	Consolidation	Group
Net interest income	204	398	145	169	104	20	-57	983
Risk provisions for the credit business	-14	-73	-51	-260	9	-2	-	-392
Net commission income	51	-10	27	38	19	-5	-	121
Gains or losses on fair value measurement	308	42	5	16	118	-20	-26	443
Gains or losses on hedge accounting	23	-2	-6	-	-1	-3	1	11
Gains or losses on investments	-12	-19	-	12	-15	-	-	-35
Income from interests in companies valued at equity	-	-	-	-4	-	-	1	-2
Administrative expenses	-170	-280	-97	-138	-37	-29	-	-751
Other income	21	33	9	-7	-	-28	16	43
Operating profit/loss	409	90	31	-175	196	-67	-65	420
Restructuring	14	23	12	-	21	64	-	134
Earnings from ordinary activities/ Earnings before taxes	423	113	44	-175	217	-3	-65	554
Income taxes	-70	-36	-4	-9	-43	91	3	-68
Earnings after taxes	353	77	40	-184	174	87	-62	486
Risk positions	47,861	37,040	11,974	8,835	20,155	4,447	-	130,312
Average economic/ reported equity	3,820	3,480	953	711	2,135	323	3,211	14,633
Return on equity (RoE) (%)	18.9	4.7	5.7	-44.2	10.8	-	-	7.5¹
Cost-income ratio (CIR) (%)	28.1	60.7	54.2	64.0	15.5	-	-	46.9
Average headcount	716	3,059	567	3,793	209	2,318	-	10,663

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

Segment reporting as at 30 June 2009

EUR million	Corporates & Markets	Mittelstand & Retail Customers	Real Estate, Public Sector & Savings Banks	Eastern Europe ³	Restructuring Unit	Central Areas & Other	Consolidation	Group ¹
Net interest income	96	501	185	509	105	-116	-10	1,269
Risk provisions for the credit business	46	-109	12	-440	-202	-10	-	-704
Net commission income	81	-14	24	116	33	-11	-	228
Gains or losses on fair value measurement	171	83	21	79	138	-3	-24	466
Gains or losses on hedge accounting	70	-84	-	48	-3	-	-	31
Gains or losses on investments	-29	15	-	-8	253	23	-9	245
Income from interests in companies valued at equity	-1	-	-	-12	-	-4	3	-14
Administrative expenses	-145	-264	-110	-432	-51	-28	-	-1,030
Other income	31	35	12	47	-1	29	29	181
Operating profit/loss	320	162	144	-94	272	-121	-11	672
Restructuring	-41	-7	-23	-1	-20	-153	-	-246
Earnings from ordinary activities/ Earnings before taxes	279	155	120	-95	251	-274	-11	426
Income taxes	-35	-65	-13	-41	-65	196	-1	-24
Earnings after taxes	244	90	108	-136	186	-78	-13	402
Risk positions	46,412	44,612	13,082	41,100	24,243	5,860	190	175,500
Average economic/ reported equity	4,174	3,772	1,176	3,410	2,153	312	616	15,612
Return on equity (RoE) (%)	15.3	8.3	24.5	-6.3	26.6	-	-	10.5²
Cost-income ratio (CIR) (%)	32.4	50.7	45.3	54.2	18.8	-	-	47.4
Average headcount	813	3,435	635	12,000	229	2,476	-	19,588

1 Adjusted figures (see note 2).

2 Bayerische Landesbodenkreditanstalt's (BayernLabo) earnings and equity are not included in the return on equity (expressed in percent) at Group level.

3 Includes the earnings of the sub-group Hypo Alpe-Adria-Bank International AG, Klagenfurt, Austria.

Pursuant to the German Solvency Ordinance (SolvV), reported economic equity has been allocated to the segments on the basis of risk positions for the purpose of internal management. Economic equity is reconciled with reported equity in the Consolidation column.

The increase in risk positions as reported in the period comparison under the Central Areas & Others segment is attributable to the operational risks in the deconsolidated sub-groups of Hypo Alpe-Adria-Bank International AG, Klagenfurt, and Landesbank Saar, Saarbrücken (EUR 2,076 million); the operational risks from both units were transferred to the Central Areas & Others segment. Operational risks are calculated on the basis of the standardised approach as defined under Section 272 SolvV using average gross income over the past three years. Risk positions reported for the month of July 2009 – the first time the new segment structure was reported – were used as the basis for the comparison between the two periods. The changes in risk positions (EUR 4,275 million) between June and July 2009 were reported under the Central Areas & Others segment.

Reported return on equity is calculated at segment level by dividing operating earnings by economic equity. For the segments, economic equity is derived from the higher of actual allocated economic equity capital or budgeted equity capital. For the previous period, due to the reorganisation, the actual allocated economic equity was used for simplicity. 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 hedge accounting, and other income.

For all units for which external income tax figures are available from interim financial statements, these have been incorporated into the segment report. For all other units, a standard tax rate has been applied. The resulting residual income tax balance of EUR +91 million (30 June 2009: EUR +196 million) in comparison to the consolidated figure has been recognised in the Central Areas & Others segment under income taxes.

Notes on delimitation of segments:

The Corporates & Markets segment includes the Corporates & Markets Business Area and the consolidated units BayernInvest Kapitalanlagegesellschaft mbH, Munich, and Kommanditgesellschaft Allgemeine Leasing GmbH & Co., Grünwald, (valued at equity), which contribute to the segment's performance. The business area serves large corporate customers in Germany as well as multinationals in Germany and in the core markets of Europe and North America. This is also where all of BayernLB's trading and issuing activities and asset-liability management (ALM) are bundled. BayernLB's business relationships with banks, insurers and other institutional customers (in the former Financial Institutions/Sovereigns segment) were incorporated into the Corporates & Markets Business Area.

The Mittelstand & Retail Customers segment serves corporate customers throughout Germany with sales of up to EUR 1 billion. Its main market, however, is Bavaria. Customers are served either independently or in partnership with the savings banks. The segment also includes the Group's strategic subsidiaries Deutsche Kreditbank Aktiengesellschaft, Berlin (sub-group), and Banque LBLux S.A., Luxembourg, which are principally active in retail and private banking. The segment also comprises the legally dependent institute Bayerische Landesbausparkasse

(LBS Bayern), the consolidated special fund LBMUE I-III, Munich, and the income statement and deconsolidation gains or losses of Landesbank Saar, Saarbrücken (sub-group).

The Real Estate, Public Sector & Savings Banks segment comprises BayernLB's commercial and residential real estate customers in Germany and abroad plus the consolidated subsidiary Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich. It also carries out all BayernLB's services for the Bavarian savings banks and conducts transactions with government and non-Bavarian municipal customers from the public sector (from the former Financial Institutions/Sovereigns segment). In addition, the legally dependent institution Bayerische Landesbodenkreditanstalt (BayernLabo) is also allocated to this segment.

The Eastern Europe segment was established to reflect those business activities conducted primarily in Eastern and South Eastern Europe. It includes the Group strategic subsidiary MKB Bank Zrt., Budapest (sub-group). The earnings of Hypo Alpe-Adria-Bank International AG, Klagenfurt (sub-group), are also included in the comparison figures.

The Restructuring Unit segment was established on 1 July 2009 as part of the BayernLB Group's restructuring and resizing programme. In line with internal management policy, selected portfolios (non-core activities) have been segregated from the operating activities of the business segments and placed in this segment. The Restructuring Unit also incorporates asset-backed securities affected by the financial market crisis including the hedging instruments concluded for them and individual positions from troubled securities portfolios (formerly the Credit Investments Portfolio segment). The consolidated units Giro Balanced Funding Corporation, Delaware (USA), and Giro Lion Funding Limited, Jersey (UK), which contribute to the segment's performance, are also allocated to this segment.

The Central Areas & Others segment includes the earnings contributions from the central areas Corporate Center, Financial Office, IT & Operations and Risk Office. This mainly concerns the earnings from the relevant participations and expenditure on the refinancing and management of these participations. The refinancing costs of the Group's strategic subsidiaries are also allocated to 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 Bayerische Wohnungs-AG, Munich, which are subsidiaries subject to consolidation, are also allocated to this segment.

The Consolidation column shows consolidation entries that are not allocated to any segment.

Income from normal banking operations after risk provisioning (net interest income and net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on investments and income from companies valued at equity) was EUR 1,128 million (30 June 2009: EUR 1,521 million), of which EUR 53 million relates to Europe excluding Germany (30 June 2009: EUR 389 million), EUR 199 million to America (30 June 2009: EUR 43 million) and EUR 6 million to Asia/Pacific (30 June 2009: EUR –33 million).

Notes to the statement of comprehensive income

(5) Net interest income

EUR million	1 Jan–30 Jun 2010	1 Jan–30 Jun 2009
Interest income	5,891	8,933
• From credit and money market transactions	3,650	5,690
• From bonds, notes and other fixed-interest securities	540	973
• Current income from equities and other non-fixed interest securities	3	5
• Current income from non-consolidated subsidiaries, joint ventures, associates and other interests	9	18
• Current income from profit-pooling and profit transfer agreements	–	2
• From hedge accounting derivatives	1,206	1,509
• From derivatives in economic hedges	483	736
Interest expenses	4,909	7,664
• From liabilities to banks and customers	2,091	3,299
• For securitised liabilities	1,246	2,028
• For subordinated capital	213	246
• For hedge accounting derivatives	829	1,323
• For derivatives in economic hedges	387	691
• Other interest expenses	142	77
Total	983	1,269

(6) Risk provisions in the credit business

EUR million	1 Jan–30 Jun 2010	1 Jan–30 Jun 2009
Additions	688	1,063
Direct write-offs	24	33
Reversals	253	375
Recoveries on written-off receivables	63	17
Other risk provision gains or losses	4	–
Total	392	704

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

(7) Net commission income

EUR million	1 Jan – 30 Jun 2010	1 Jan – 30 Jun 2009
Securities business	29	35
Broker fees	–6	–5
Credit business	93	152
Payments	13	30
Foreign commercial operations	1	3
Home loan savings business	–18	–16
Trust transactions	9	9
Other services	–	20
Total	121	228

(8) Gains or losses on fair value measurement

EUR million	1 Jan – 30 Jun 2010	1 Jan – 30 Jun 2009
Net trading income	443	354
• Interest-related transactions	251	541
• Equity-related and index-related transactions and transactions with other risks	–1	6
• Currency-related transactions	71	150 ¹
• Credit derivatives	144	–236
• Other financial transactions	22	–
• Refinancing of trading portfolios	–15	–77
• Trading-related commissions	–4	–8
• Fair value adjustments	–25	–22
Fair value gains or losses from the fair value option	–	112
Total	443	466

¹ Comparison figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

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.

(9) Gains or losses on investments

EUR million	1 Jan – 30 Jun 2010	1 Jan – 30 Jun 2009
Gains or losses on loans and receivables investments	-102	-105
• Gains or losses on sale	-32	-6
• Income from writebacks	18	36
• Expenses from writedowns	87	135
Gains or losses on available-for-sale investments	85	350
• Gains or losses on sale	-44	2
• Income from writebacks	156	551
• Expenses from writedowns	27	203
Gains or losses on deconsolidation	-18	-
Total	-35	245¹

1 Comparison figure adjusted due to the reallocation of gains or losses from repurchases of own issues to the other income item (see note 2).

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

(10) Administrative expenses

EUR million	1 Jan – 30 Jun 2010	1 Jan – 30 Jun 2009
Staff costs	348	464
• Salaries and wages	297	364
• Social security contributions	34	63
• Expenses for pensions and other employee benefits	17	37
Other administrative expenses	363	457
Amortisation and depreciation of property, plant and equipment and intangible assets (not including goodwill)	39	109
Total	751	1,030

(11) Other income

EUR million	1 Jan – 30 Jun 2010	1 Jan – 30 Jun 2009
Other income	421	611 ¹
Other expenses	378	430 ^{1,2}
Total	43	181

1 Comparison figure adjusted due to the reallocation of gains or losses from repurchases of own issues from the gains or losses on investments item (see note 2).

2 Comparison figure adjusted because gains or losses from non-current assets held for sale and disposal groups have been reported since 31 December 2009 under the corresponding income statement items (see note 2).

The Other income item includes an adjusted net present value figure of negative EUR –72 million for the loss sharing by the hybrid capital reported in the 2009 Annual Report.

(12) Gains or losses on restructuring

EUR million	1 Jan – 30 Jun 2010	1 Jan – 30 Jun 2009
Income from restructuring measures	166	5
Expenses from restructuring measures	32	251
Total	134	-246

Restructuring gains or losses principally comprise expenditure on staff reduction as part of Project Hercules and gains from restructuring-related pension plan changes resulting in particular from the recognition of actuarial gains.

Notes to the balance sheet
(13) Loans and advances to banks

EUR million	30 Jun 2010	31 Dec 2009
Loans and advances to domestic banks	45,932	44,952
Loans and advances to foreign banks	25,827	29,654
Total	71,758	74,606

(14) Loans and advances to customers

EUR million	30 Jun 2010	31 Dec 2009
Loans and advances to domestic customers	103,887	105,209
Loans and advances to foreign customers	50,019	53,753
Total	153,906	158,962

(15) Risk provisions

EUR million	30 Jun 2010	31 Dec 2009
Specific loan loss provisions	2,451	2,295
Portfolio provisions	488	525
Total	2,939	2,820

Specific loan loss provisions

EUR million	Loans and advances to banks		Loans and advances to customers		Other asset items		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
As at 1 Jan	792	515	1,502	2,265	1	6	2,295	2,786
Changes recognised in profit or loss	3	110	418	514	–	–	421	624
• Additions	8	121	608	750	–	–	615	871
• Reversals	2	4	148	183	–	–	149	187
• Unwinding	3	7	42	53	–	–	45	60
Changes not recognised in profit or loss	–25	40	–239	–218	–	–2	–265	–180
• Currency-related changes	9	1	15	9	–	–	25	10
• Changes in the scope of consolidation	–27	–	–127	2	–	–2	–154	–
• Utilisation	27	–	154	251	–	–	181	251
• Transfers/Other changes	19	39	26	22	–	–	45	61
As at 30 June	770	665	1,680	2,561	1	4	2,451	3,230

Portfolio provisions

EUR million	Loans and advances to banks		Loans and advances to customers		Other asset items		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
As at 1 Jan	47	103	478	549	–	1	525	653
Changes recognised in profit or loss	–2	–22	–	54	–	1	–2	33
• Additions	5	–	65	194	–	1	69	195
• Reversals	6	22	65	140	–	–	71	162
Changes not recognised in profit or loss	–	–	–35	–40	–	–	–35	–40
• Currency-related changes	–	–	11	–4	–	–	11	–4
• Changes in the scope of consolidation	–	–	–20	–	–	–	–20	–
• Utilisation	–	–	24	33	–	–	24	33
• Transfers/other changes	–	–	–2	–3	–	–	–2	–3
As at 30 Jun	45	81	443	563	–	2	488	646

Risk provisions for contingent liabilities and other liabilities are shown as provisions for risks in the credit business (see note 27).

(16) Assets held for trading

EUR million	30 Jun 2010	31 Dec 2009
Bonds, notes and other fixed-interest securities	7,273	6,691
Equities and other non-fixed interest securities	119	94
Receivables held for trading	900	1,163
Positive fair values from derivative financial instruments (not hedge accounting)	41,496	29,839
Total	49,787	37,787

Assets held for trading includes the fair value from the guarantee agreement with the Free State of Bavaria ("Umbrella") in the amount of EUR 2,807 million (31 December 2009: EUR 2,319 million).

(17) Investments

EUR million	30 Jun 2010	31 Dec 2009
Bonds, notes and other fixed-interest securities	50,402	53,046 ¹
Equities and other non-fixed interest securities	213	263
Interests in non-consolidated subsidiaries, joint ventures, associated companies and other interests	605	710
Other investments	140	20
Total	51,360	54,039

¹ Comparison figure adjusted due to separate reporting of other investments.

(18) Interests in companies valued at equity

EUR million	30 Jun 2010	31 Dec 2009
Joint ventures	24	28
Associated companies	171	44
Total	195	72

(19) Investment property

EUR million	30 Jun 2010	31 Dec 2009
Land and buildings leased	2,685	2,731
Undeveloped land	39	29
Unused buildings	1	1
Total	2,725	2,761

(20) Property, plant and equipment

EUR million	30 Jun 2010	31 Dec 2009
Land and buildings for own use	651	681
Business and office equipment	144	155
Total	795	836

(21) Intangible assets

EUR million	30 Jun 2010	31 Dec 2009
Goodwill	149	150
Intangible assets produced in-house	2	3
Other intangible assets	105	113
Total	257	266

(22) Other assets

EUR million	30 Jun 2010	31 Dec 2009
Prepaid expenses	38	45
Other assets	876	842
Total	915	887

(23) Liabilities to banks

EUR million	30 Jun 2010	31 Dec 2009
Liabilities to domestic banks	64,336	66,527
Liabilities to foreign banks	23,524	24,957
Total	87,860	91,484

(24) Liabilities to customers

EUR million	30 Jun 2010	31 Dec 2009
Liabilities to domestic customers	80,605	79,880
Liabilities to foreign customers	13,695	12,317
Total	94,300	92,197

(25) Securitised liabilities

EUR million	30 Jun 2010	31 Dec 2009
Bonds and notes issued	81,362	88,738
Other securitised liabilities	3,870	4,230
Total	85,232	92,968

(26) Liabilities held for trading

EUR million	30 Jun 2010	31 Dec 2009
Trading portfolio liabilities	49	138
Negative fair values from derivative financial instruments (not hedge accounting)	40,579	29,068
Fair value adjustments	127	98
Total	40,755	29,304

(27) Provisions

EUR million	30 Jun 2010	31 Dec 2009
Provisions for pensions and similar obligations	2,402	2,567
Other provisions	637	719
• Provisions for the credit business	181	198
• Restructuring provisions	320	371
• Miscellaneous provisions	136	150
Total	3,038	3,286

(28) Other liabilities

EUR million	30 Jun 2010	31 Dec 2009
Prepaid income	107	122
Accruals	189	250
Other liabilities	647	681
Total	943	1,053

(29) Subordinated capital

EUR million	30 Jun 2010	31 Dec 2009
Subordinated liabilities	5,776	6,359
Profit participation certificates (debt component)	923	1,031
Contributions of silent partners (debt component)	434	716
Hybrid capital	696	611
Total	7,830	8,717

(30) Equity

EUR million	30 Jun 2010	31 Dec 2009
Equity excluding minority interests	14,312	13,674
• Subscribed capital	5,914	5,914
– statutory nominal capital	2,300	2,300
– undated capital contributions from silent partners	3,614	3,614
• Specific-purpose capital	612	612
• Hybrid capital instruments	512	514
– profit participation capital (equity component)	342	344
– dated capital contributions from silent partners (equity component)	170	170
• Capital reserve	4,688	4,688
• Retained earnings	3,511	3,526
– statutory reserve	1,268	1,268
– other retained earnings	2,243	2,258
• Revaluation reserve	–1,338	–1,537
• Foreign currency translation reserve	–100	–42
• Consolidated net income	514	–
Minority interests	239	387
Total	14,551	14,061

Dated silent partnership contributions, including those callable by the lender, and profit participation certificates, are compound financial instruments and must 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 components – with the exception of repurchases and resales in the first half of 2010 – corresponds to the value as at 31 December 2009. For a detailed description of the accounting methodology, see note 23 on page 160f of the 2009 Annual Report.

Notes on the financial instruments

(31) Fair value of financial instruments

EUR million	Fair value 30 Jun 2010	Carrying amount 30 Jun 2010	Fair value 31 Dec 2009	Carrying amount 31 Dec 2009
Assets				
• Cash reserves	2,814	2,814	3,512	3,512
• Loans and advances to banks ¹	73,496	71,758	76,315	74,606
• Loans and advances to customers ¹	157,159	153,906	160,249	158,962
• Assets held for trading	49,787	49,787	37,787	37,787
• Positive fair values from derivative financial instruments (hedge accounting)	5,147	5,147	4,037	4,037
• Investments	50,404	51,360	52,481	54,039
• Non-current assets or disposal groups held for sale	–	–	17	17
Liabilities				
• Liabilities to banks	89,082	87,860	91,009	91,484
• Liabilities to customers	95,605	94,300	92,816	92,197
• Securitised liabilities	85,943	85,232	93,447	92,968
• Liabilities held for trading	40,755	40,755	29,304	29,304
• Negative fair values from derivative financial instruments (hedge accounting)	3,074	3,074	2,380	2,380
• Subordinated capital	7,473	7,830	7,905	8,717

1 Carrying amount before deducting risk provisions for loans and advances to banks in the amount of EUR 815 million (31 December 2009: EUR 839 million) and loans and advances to customers in the amount of EUR 2,123 million (31 December 2009: EUR 1,979 million).

(32) Reclassification of financial assets

Pursuant to the IASB's amendments to IAS 39 and IFRS 7 – "Reclassification of Financial Assets" – and to EU Commission Regulation 1004/2008, selected available-for-sale and held-for-trading assets were reclassified by BayernLB as loans and receivables as at 1 July 2008. The reclassified holdings relate mainly to the ABS securities.

There were no other reallocations during the reporting period.

The fair values and the carrying amounts of the reclassified securities broken down by category as at the balance sheet date pursuant to IAS 39 in conjunction with IFRS 7.12A (b) were:

EUR million	Fair value 30 Jun 2010	Carrying amount 30 Jun 2010	Fair value 31 Dec 2009	Carrying amount 31 Dec 2009
Available-for-sale securities reclassified as loans and receivables	27,816	28,887	30,508	32,069
Held-for-trading securities reclassified as loans and receivables	240	235	231	240
Total	28,056	29,122	30,739	32,309

The nominal volume of reclassified securities was EUR 30,955 million as at the balance sheet date (31 December 2009: EUR 34,203 million).

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

EUR million	Without reclassification ¹	With reclassification ²	Without reclassification ¹	With reclassification ²
	1 Jan–30 Jun 2010	1 Jan–30 Jun 2010	1 Jan–30 Jun 2009	1 Jan–30 Jun 2009
Reclassification from the available-for-sale category				
• Interest income	232	232	500	499
• Gains or losses on hedge accounting	48	48	22	22
• Gains or losses on investments	–112	–110	–143	–106
• Change in the revaluation reserve	763	300	–367	284
Total	931	470	12	699
Reclassification from the held-for-trading category				
• Interest income	1	2	4	4
• Gains or losses on fair value measurement	–	–	11	–
Total	1	2	15	4

¹ Taking account of former categories

² Taking account of categories after reclassification

(33) Loans and receivables and financial liabilities at fair value through profit or loss

The maximum default risk from loans and receivables at fair value through profit or loss was EUR 183 million (31 December 2009: EUR 181 million) on the balance sheet date. Rating-related changes in the fair value of financial assets in the reporting period were EUR 3 million (30 June 2009: EUR 0 million), and EUR –2 million (30 June 2009: EUR –20 million) since designation.

Rating-related changes in the fair value of financial liabilities in the reporting period were EUR –26 million (30 June 2009: EUR 125 million), and EUR –23 million (30 June 2009: EUR 412 million) since designation.

The credit rating-related changes in fair value are determined by subtraction, in which the fair value based on the credit spreads at the end of the reporting period is compared with the fair value based on the credit spreads at the beginning of the reporting period.

The difference between the carrying amount of the financial liabilities and the redemption amount at maturity is EUR 561 million (31 December 2009: EUR 143 million).

(34) Derivatives transactions

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

EUR million	Nominal value		Positive fair value	Negative fair value
	30 Jun 2010	31 Dec 2009	30 Jun 2010	30 Jun 2010
Interest-rate risks	1,754,271	1,397,651	38,507	36,373
Currency risks	136,423	121,016	4,618	5,540
Equity and other price risks	2,337	1,289	329	483
Credit derivative risks	33,874	44,661	3,189	1,257
Total	1,926,904	1,564,617	46,643	43,652
of which:				
Trading derivatives	1,781,157	1,401,144	35,561	36,947

(35) 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 9,282 million (30 June 2009: EUR 43,404 million) and repurchased or redeemed such instruments in the amount of EUR 17,345 million (30 June 2009: EUR 37,545 million).

Supplementary information

(36) Trust transactions

EUR million	30 Jun 2010	31 Dec 2009
Assets held in trust	13,427	11,487
• Loans and advances to banks	129	139
• Loans and advances to customers	6,358	6,496
• Other assets	6,939	4,852
Liabilities held in trust	13,427	11,487
• Liabilities to banks	27	28
• Liabilities to customers	6,460	6,607
• Other liabilities	6,939	4,852

(37) Contingent liabilities and other liabilities

EUR million	30 Jun 2010	31 Dec 2009
Contingent liabilities	15,504	15,887
• Liabilities from guarantees and indemnity agreements	15,404	15,844 ¹
• Liabilities from collateral furnished for third-party obligations	101	43
Other liabilities	34,069	34,780
• Placement and underwriting commitments	92	83
• Irrevocable credit commitments	33,977	34,697
Total	49,573	50,667

¹ Comparison figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

(38) Administrative bodies of BayernLB

Board of Administration

Georg Fahrenschon

Chairman
State Minister
Bavarian State Ministry of Finance
Munich

Gerd Haeusler

until 31 March 2010
First Deputy Chairman
until 31 March 2010
Director
RHJ International
Zurich

Siegmond Schiminski

until 30 June 2010
Second Deputy Chairman
until 30 June 2010
Chairman of the Board of Directors
Sparkasse Bayreuth
Bayreuth

Dr. Michael Bauer

since 15 January 2010
Deputy Secretary
Bavarian State Ministry of Finance
Munich

Professor Dr. Georg Crezelius

Professor
University of Bamberg
Bamberg

Dr. Dr. Axel Diekmann

Shareholder of
Verlagsgruppe Passau GmbH
Passau

Joachim Herrmann

State Minister
Bavarian State Ministry of the Interior
Munich

Diethard Irrgang

Chairman of the General Staff Council
BayernLB
Munich

Dr. Klaus von Lindeiner-Wildau

Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Alexander Mettenheimer

since 1 August 2010
Financier (retired)
Munich

Hans Schaidinger

Lord Mayor
Regensburg

Walter Strohmaier

since 1 August 2010
Chairman of the Board of Directors
Sparkasse Niederbayern-Mitte
Straubing

Klaus Weigert

until 14 January 2010
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 responsibilities from 1 July 2010)

Gerd Haeusler

since 15 April 2010
Chairman
Corporate Center Central Area
(excluding Group Compliance)

Stefan Ermisch

Deputy Chairman
Interim Chairman
until 14 April 2010
Financial Office Central Area
IT & Operations Central Area

Stefan W. Ropers

Corporates & Markets Business Area

Dr. Edgar Zoller

Real Estate, Public Sector &
Savings Banks (Savings Banks Central Bank)
Business Area
Bayerische Landesbodenkreditanstalt¹

Jan-Christian Dreesen

Mittelstand & Retail Customers Business Area
Bayerische Landesbausparkasse¹

Marcus Kramer

since 1 May 2010
Risk Office Central Area
Group Compliance

Stephan Winkelmeier

since 1 July 2010
Restructuring Unit Central Area

Dr. Ralph Schmidt

until 31 March 2010

¹ Institution of the Bank

(39) Related party disclosures

Loans and advances to/(contingent) liabilities to the Free State of Bavaria

EUR million	30 Jun 2010	31 Dec 2009
Receivables	2,990	2,746
Assets held for trading	2,819	2,319
Liabilities	98	439
Liabilities held for trading	3	3
Liabilities held in trust	5,871	5,989
Contingent liabilities	2	2

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

EUR million	30 Jun 2010	31 Dec 2009
Loans and advances to banks	3,677	2,108
Loans and advances to customers	306	240
Risk provisions	35	–
Assets held for trading	80	–
Investments	2,510	77
Other assets	5	11
Liabilities to banks	9,659	10,317
Liabilities to customers	63	54
Securitised liabilities	407	4
Liabilities held for trading	31	–
Negative fair values from derivative financial instruments (hedge accounting)	29	–
Other liabilities	383	8
Subordinated capital	144	–
Contingent liabilities	14	14
Other commitments	50	17

Loans and advances to other related parties amounted to EUR 31 million as at the reporting date (31 December 2009: EUR 34 million).

With the exception of the guarantee agreement with the Free State of Bavaria (“Umbrella”), business with related parties is transacted in the course of ordinary activities at standard market terms and conditions.

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 position 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 development of the Group in the remainder of the financial year.

Munich, 24 August 2010

Bayerische Landesbank
The Board of Management

Gerd Haeusler

Stefan Ermisch

Stefan W. Ropers

Dr. Edgar Zoller

Jan-Christian Dreesen

Marcus Kramer

Stephan Winkelmeier

92 [Review report

[SECTION 6]

Review report

To Bayerische Landesbank, Munich

We have reviewed the condensed consolidated interim financial statements - comprising the statement of financial position, condensed statement of comprehensive income (including income statement), 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 2010 to 30th June 2010 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 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes
Wirtschaftsprüfer
(German Public Auditor)

Eberhard Feil
Wirtschaftsprüfer
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