Facts and figures

[**BAYERNLB** | GROUP FINANCIAL REPORT]

30 SEPTEMBER 2010

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Note:

This Group financial report as at 30 September 2010 has been prepared with great care. The information is presented voluntarily for our customers and the public. The report does not contain all the information and data required under IAS 34 (Interim Financial Reporting) nor does it fully comply with the disclosure and valuation standards of IFRS. The results have not been audited or reviewed for correctness.

Foreword

In the first nine months of 2010, BayernLB posted earnings before taxes of EUR 669 million. This was an increase of four percent on the previous year period and is therefore in line with our forecasts. Contributing to this with satisfactory results in all segments was the third quarter of 2010, which closed with earnings before taxes of EUR 115 million and operating earnings of EUR 125 million. Our regained earnings power puts us in a position to absorb even one-off charges, such as the high banking levy in Hungary (EUR 38 million) and charges for writing down the present value of our hybrid capital instruments (EUR 81 million).

The results also emphasise that the new BayernLB, which implemented its new strategy early on and is now a good two-thirds of the way to completion, is on the right track. We are approaching the remaining third of the restructuring with full concentration to meet our goals of further improving the Bank without limitations.

Focussing on our customers in clearly-defined core markets and the new risk profile are having a positive impact on the Bank's performance. This is illustrated by the very good performance in the Corporates & Markets segment (earnings before taxes rose by approx. 10 percent to EUR 454 million) and in the Mittelstand & Retail Customer segment (earnings before taxes of EUR 202 million). We are far ahead of our forecasts in the Mittelstand business, which achieved earnings before taxes of EUR 53 million (previous year period: EUR –13 million). Thanks to our new risk profile and the better economic environment, risk provisions for the credit business fell to EUR 378 million in the first nine months of 2010, down sharply from EUR 715 million in the previous year period.

The cornerstone of these positive results continues to be net interest income of EUR 1,418 million, up a good three percent on the previous year period. Net commission income of EUR 186 million was slightly down on the previous year period (EUR 210 million). The strict cost discipline which forms a major part of BayernLB's new strategy continued to have a positive impact. Adjusted administrative expenses fell almost two percent on the previous year period to a lower-than-expected EUR 1,096 million.

Total assets fell further by EUR 6.8 billion from the previous year period to EUR 332.0 billion. The core capital ratio climbed in the same period by almost two percent to a very solid 11.1 percent (first nine months of 2009: 10.9 percent). Return on equity is currently 6.2 percent (previous year period: 7.9 percent). Overall the new BayernLB is actually ahead of target in all aspects of its self-imposed, medium-term goals.

We expect the results for the full year to be well in the black, although it is not possible to project the nine-month figures for the full financial year. Firstly the market situation remains volatile and secondly, credit risk provisions generally rise in Q4 across the sector, so we anticipate a poorer final quarter for 2010.

Although the path to a restructured and long-term successful BayernLB is not yet complete and we still have a lot of work to do, the latest results show that the new BayernLB is well positioned for beyond the 2010 financial year. This overall positive starting position provides the foundation for checking the Bank's potential strategic courses of action. Against this background, the BayernLB Board of Administration commissioned the Board of Management in the middle of September 2010 to objectively review a potential merger with WestLB focusing solely on banking and economic issues. The only criterion for any merger from BayernLB's point of view was simply the question of whether a merged bank could generate a sufficiently higher return on equity than BayernLB alone. The Board of Administration's mandate to the Board of Management was limited exclusively to this aspect and did not address the issue of whether a Landesbank consolidation should be pursued for reasons other than banking and economic considerations.

As part of a multi-stage review process agreed with WestLB, a range of detailed model calculations were established and bilateral discussions conducted with the aim of determining a suitable and feasible business model. Based on the extensive findings, the BayernLB Board of Management decided on 3 November 2010 to discontinue the merger talks with WestLB. In its detailed analysis, the Board of Management came to the conclusion that a merged bank would not generate sufficient added value compared to the profitability of an independent BayernLB and taking into account the implementation risks which are typically to be expected in a merger.

We will continue on the successful path of a customer-focused universal bank with a considerably improved risk profile and will continue to increase the earnings contribution of the Mittelstand and retail business. The Board of Management will continue to fulfil its obligations in the future and examine all seemingly sensible options, which could strengthen BayernLB under purely economic considerations.

The crucial factor for our long-term business success is the trust our customers place in us. We would like to offer you our most sincere thanks. And our mission in the future will continue to be acting as a reliable and high-performing partner for our customers. We would also like to express our equally sincere gratitude to our employees, who have risen to the challenges with great dedication and strong motivation and have made a major contribution to the positive results.

The Board of Management

Gerd Häusler   Stefan Ermisch   Dr. Edgar Zoller

Jan-Christian Dreesen   Marcus Kramer   Stephan Winkelmeier

BayernLB Group at a glance as at 30 September 2010

Income statement

EUR million	1 Jan – 30 Sep 2010	1 Jan – 30 Sep 2009*	Change in %
Net interest income	1,418	1,375	3.1
Risk provisions for the credit business	– 378	– 715	– 47.1
Net commission income	186	210	– 11.4
Gains or losses on fair value measurement	537	729	– 26.3
Gains or losses on investments	– 126	297	–
Administrative expenses	– 1,096	– 1,083	1.2
Operating profit/loss	**545**	**888**	**– 38.6**
Restructuring	124	– 246	–
Earnings before taxes	**669**	**642**	**4.2**

** Previous year figures adjusted for HGAA and SaarLB*

Balance sheet

EUR billion	30 Sep 2010	31 Dec 2009	Change in %
Total assets	332.0	338.8	– 2.0
Credit volume	234.4	249.4	– 6.0
Equity and subordinated capital	22.6	22.8	– 0.9

Banking supervisory ratios under the German Banking Act (KWG)

	30 Sep 2010	31 Dec 2009	Change in %/pp
Core capital (EUR billion)	13.8	14.8	– 6.5
Own funds (EUR billion)	18.8	21.4	– 12.0
Risk positions under the Solvency Ordinance (EUR billion)	124.8	135.8	– 8.1
Core capital ratio	11.1 %	10.9 %	0.2 pp
Total capital ratio	15.1 %	15.7 %	– 0.6 pp

Employees

	30 Sep 2010	31 Dec 2009	Change in %
Number of employees	10,802	11,821	– 8.6

Current ratings

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

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

Quarterly comparison

The table below is a comparison of the performance in the third quarter to the first and second quarters of 2010. It should be taken into account that the expenses and income items of SaarLB, which was deconsolidated as at 30 June 2010, are included in the first two quarters of 2010 and therefore the results cannot be directly compared with those of the third quarter.

EUR million	Q3 2010	Q2 2010	Q1 2010
Net interest income	435	503	480
Risk provisions for the credit business	14	–355	–37
Net interest income after risk provisions	**449**	**147**	**444**
Net commission income	65	71	50
Gains or losses on fair value measurement	94	52	391
Gains or losses on hedge accounting	–1	21	–10
Gains or losses on investments	–91	–45	10
Income from interests in companies valued at equity	4	–1	–1
Administrative expenses	–345	–383	–368
Other income	–51	55	–12
Operating profit/loss	**125**	**–84**	**504**
Restructuring	–10	139	–5
Earnings before taxes	**115**	**56**	**498**

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

Business performance as at 30 September 2010

Earnings

EUR million	1 Jan – 30 Sep 2010	1 Jan – 30 Sep 2009 (adjusted*)	1 Jan – 30 Sep 2009 (unadjusted)
Net interest income	1,418	1,375	1,934
Risk provisions for the credit business	– 378	– 715	– 1,292
Net interest income after risk provisions	**1,040**	**661**	**641**
Net commission income	186	210	325
Gains or losses on fair value measurement	537	729	828
Gains or losses on hedge accounting	10	– 27	13
Gains or losses on investments	– 126	297	272
Income from interests in companies valued at equity	2	0	– 12
Administrative expenses	– 1,096	– 1,083	– 1,554
Other income	– 8	103	174
Operating profit/loss	**545**	**888**	**687**
Restructuring	124	– 246	– 246
Earnings before taxes	**669**	**642**	**441**

** Previous year figures adjusted for HGAA and SaarLB*

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

The economy in the eurozone continues to recover, supported by the upturn in Germany. However, the major structural problems faced by some Southern European EMU countries and Ireland are weighing on the economy along with continuing weakness in the financial system. Against this backdrop, the BayernLB Group posted a satisfactory performance in the third quarter of 2010. With good earnings before taxes of EUR 115 million, the third quarter made a positive contribution to the total of EUR 669 million for the first nine months of 2010 (previous year period: EUR 642 million).

In order to aid comparison of the results for the period, the earnings contribution of Hypo Group Alpe Adria, Klagenfurt (HGAA), which was deconsolidated on 30 December 2009, was adjusted out of the figures for the previous year. By the same token, the expenses and income items of SaarLB for the third quarter of 2009 were also eliminated following the deconsolidation of SaarLB as at 30 June 2010 when the majority stake was disposed of.

Stable earnings – risk provisions fall significantly

Net interest income rose 3.1 percent to EUR 1,418 million in the first nine months compared to the year before period. Although interest margins remained under pressure, refinancing expenses decreased compared with 2009.

Credit risk provisions for the BayernLB Group in the first nine months of 2010 totalled EUR – 378 million and were therefore far below pro rata forecasts (previous year period: EUR – 715 million). While risk provisions for the credit business in Q2 were still largely dominated by the tough situation in Eastern and South Eastern Europe and the subsidiary MKB, which is active in this region, credit risk provisions in the third quarter were a positive EUR 14 million.

Net commission income was EUR 186 million (previous year period: EUR 210 million), slightly exceeding underlying forecasts. Lending commission in particular fell, as the Bank worked towards selectively reducing business.

Exceptionally favourable market conditions in the first quarter of 2010 had a positive impact on gains or losses on fair value measurement, which amounted to EUR 537 million (previous year period: EUR 729 million). Interest and foreign exchange-related transactions accounted for EUR 286 million (previous year period: EUR 565 million), of which EUR 200 million was from customer-related trading and EUR 86 million from valuation effects on interest-hedging derivatives and other effects under IAS 39. Write-ups on investment portfolios impacted by the financial markets crisis resulted in earnings of EUR 239 million (previous year period: EUR 157 million). Fair value option gains rose to EUR 12 million (previous year period: EUR 7 million).

Gains or losses on investments amounted to EUR –126 million in the first nine months (previous year period: EUR 297 million). Both in the current year and the previous year, the results were primarily influenced by measurement effects arising from the credit default swap (umbrella) established as part of the hedging transaction with the Free State of Bavaria. The aim of the “umbrella” is to offset losses and valuation changes in the asset backed securities portfolio, whereby for valuation reasons, period postponements in reporting gains or losses and interdependencies to gains or losses on fair value measurement arose.

Administration expenses were below forecasts at EUR –1,096 million (previous year period: EUR –1,083 million). The previous year period included exceptional income of EUR 33 million in staff costs, resulting from the reversal of provisions established in 2008 for performance-related pay. Adjusted for this amount, administrative expenses in the Group fell by 1.8 percent in the first nine months of 2010.

Other income, which depicts in particular the activities of the Group’s real estate subsidiaries, was EUR –8 million (previous year period: EUR 103 million). This slump was primarily driven by a EUR –81 million writedown in the present value of the loss absorbed by the hybrid capital, that was recognised in the financial statements for 2009. The Group also took a EUR –38 million charge from the banking levy imposed by Hungary on MKB Bank.

Gains or losses on restructuring in the BayernLB Group amounted to EUR 124 million. Restructuring expenses of EUR –42 million for staff cuts were more than offset by one-off income of EUR 166 million, which mainly reflected actuarial gains resulting from changes to pension plans under the restructuring measures. In the comparable period in 2009, the Restructuring item contained expenses of EUR –246 million related to planned staff cuts.

Return on equity (RoE) was 6.2 percent (previous year period: 7.9 percent). The cost/income ratio (CIR) was a satisfactory 51.1 percent (previous year period: 45.3 percent).

Banking supervisory capital and ratios

Risk positions reduced – solid core capital ratio

Risk positions in accordance with the Solvability Ordinance, consisting of credit and market risk positions as well as operational risks, fell 8.1 percent to EUR 124.8 billion since the end of 2009. In addition to the deconsolidation of SaarLB, the targeted reduction of non-core business contributed to this. The deconsolidation of SaarLB also impacted own funds, which amounted to EUR 18.8 billion as at 30 September 2010 (EUR 21.4 billion as at 31 December 2009). Core capital was EUR 13.8 billion (down EUR –1.0 billion on the end of 2009).

The core capital ratio improved to a very solid 11.1 percent (10.9 percent as at 31 December 2009), due to the reduction in risk positions; the own funds ratio stood at 15.1 percent (15.7 percent as at 31 December 2009).

Net assets and financial position

Assets

EUR million	30 Sep 2010	31 Dec 2009	Change in %
Cash reserves	1,768	3,512	–49.7
Loans and advances to banks	67,268	74,606	–9.8
Loans and advances to customers	152,267	158,962	–4.2
Risk provisions	–2,831	–2,820	0.4
Portfolio hedge adjustment assets	1,113	674	65.1
Assets held for trading	50,461	37,787	33.5
Positive fair values from derivative financial instruments (hedge accounting)	5,316	4,037	31.7
Investments including interests in companies valued at equity	48,724	54,111	–10.0
Investment property	2,722	2,761	–1.4
Property, plant and equipment	804	836	–3.8
Intangible assets	230	266	–13.6
Tax assets	2,963	3,168	–6.5
Other assets	1,232	916	34.5
Total assets	**332,036**	**338,818**	**–2.0**

Liabilities

EUR million	30 Sep 2010	31 Dec 2009	Change in %
Liabilities to banks	82,780	91,484	−9.5
Liabilities to customers	93,401	92,197	1.3
Securitised liabilities	81,256	92,968	−12.6
Liabilities held for trading	40,545	29,304	38.4
Negative fair values from derivative financial instruments (hedge accounting)	2,770	2,380	16.4
Provisions	3,014	3,286	−8.3
Tax liabilities	3,043	3,368	−9.7
Other liabilities	2,656	1,053	>100.0
Subordinated capital	7,746	8,717	−11.1
Equity	14,825	14,061	5.4
Total liabilities	**332,036**	**338,818**	**−2.0**

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

Total assets cut – credit business in Germany grows

Compared to the end of 2009, the Group's total assets were cut by EUR 6.8 billion to EUR 332.0 billion as at 30 September 2010 in line with strategy. Of particular importance here was SaarLB's deconsolidation which reduced the Group's total assets by around EUR 17 billion compared with the end of 2009. Assets and liabilities held for trading, on the other hand, reported an opposite trend, rising by over EUR 11 billion. Rather than being transaction-driven, however, the increase was the result of interest and currency-related increases in both the positive and negative fair values of derivative financial instruments.

Despite a decline in credit volume of around one percent to EUR 234.4 billion (adjusted for the deconsolidation of SaarLB), loans and advances to German customers gained 4.2 percent to EUR 105.3 billion. BayernLB thus is making a major contribution to financing the German economy and will expand this business in a targeted manner. Loans and advances to customers in the Group totalled EUR 152.3 billion as at 30 September 2010 (−4.2 percent down on the end of 2009).

Liabilities to customers rose 6.9 percent to EUR 93.4 billion. The positive growth in customer deposits demonstrates the trust that customers place in BayernLB and its subsidiaries. On the other hand, securitised liabilities dropped 7.6 percent to EUR 81.3 billion (each adjusted for the deconsolidation of SaarLB). In addition to various structured bonds, the Bank issued a jumbo Pfandbrief of EUR 1 billion at the end of June 2010. It also placed a public-sector Pfandbrief with a volume of EUR 500 million on 15 September 2010, as part of a syndicate on behalf of DKB.

Subordinated capital fell EUR 1.0 billion to EUR 7.7 billion as a result of maturities and the deconsolidation of SaarLB. Group equity rose slightly to EUR 14.8 billion (up EUR 0.8 billion).

Exposure to the sovereign debt of EMU countries that are currently experiencing financial difficulties totalled EUR 0.8 billion as at 30 September 10 and was broken down as follows: Greece: EUR 0.2 billion; Ireland: EUR 0.1 billion; Italy: EUR 0.5 billion; Portugal: < EUR 0.1 billion; Spain: 0. These exposures were therefore less than half the amount at 31 December 2009.

BayernLB in a process of transformation

Great progress has been made on implementing the transformation programme launched at the beginning of 2009 to restructure and downsize BayernLB (Project Hercules) and the project is clearly bearing fruit. The long-term customer focus is at the heart of this unique project for BayernLB which is of historic significance for the company.

The Bank has already met around 70 percent and 90 percent respectively of the restructuring objectives established in early 2009, specifically to cut risk assets and reduce administrative expenses. The same applies to the accompanying staff cuts. This places the project well on schedule for completion by the end of 2013.

BayernLB generated stable earnings in the core business with large and medium-sized companies, real estate customers and retail customers. The Mittelstand business continues to grow. The stronger customer orientation and concentration on sustainable and stable earnings emphasise BayernLB's position as a solid house bank.

Core and non-core business was defined under Project Hercules. The targeted reduction of non-core activities is being used to free-up liquidity and capital for other activities the Bank wishes to expand. Non-core activities have mainly been pooled in the Restructuring Unit (RU) segment and also include additional loan and securities portfolios managed by RU but still retained by the original segments. Separating core and non-core business and establishing the RU as the unit responsible for scaling back a large proportion of the non-core portfolio enabled the Bank to significantly reduce its risk exposure.

In focusing on core customers in defined core markets, the Bank is systematically implementing the concept of a competitive and forward-looking BayernLB, generating around 84 percent of the Group's earnings before taxes with its core activities.

Core activities contribute over 80 percent of earnings

1 Jan – 30 Sep 2010	Core activities (EUR million)	%	Non-core activities (EUR million)
Total earnings	1,574	78.0	445
Risk provisions	–305	80.6	–73
Administrative expenses	–790	72.1	–306
Earnings before taxes	**564**	**84.3**	**105**
Risk assets (reference date)	77,157	74.3	26,751

De-risking and de-leveraging are integral parts of the transformation process. Compared to the beginning of the process in early 2009, total assets declined 21 percent from EUR 421.5 billion to EUR 332.0 billion, risk positions fell 37 percent from EUR 197.7 billion to EUR 124.8 billion and the leverage ratio (ratio of total assets to equity) slumped 40 percent to 22.4 as at 30 September 2010. This boosted the core capital ratio from 8.2 percent to a very solid 11.1 percent.

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; Mittelstand & Retail Customers; Real Estate, Public Sector & Savings Banks and Eastern Europe incorporate BayernLB's operating business areas, the legally dependent institutions Bayerische Landesbodenkreditanstalt (BayernLabo) and Bayerische Landesbausparkasse (LBS Bayern) and consolidated subsidiaries. In addition to these are two additional segments: Restructuring Unit, and Central Areas & Others.

The Corporates & Markets segment produced earnings before taxes of EUR 454 million (previous year period: EUR 413 million). Return on equity was 13.5 percent (previous year period: 13.9 percent), while the cost/income ratio was 35.6 percent (previous year period: 29.7 percent). Earnings before taxes in the Corporates division were well above forecast at EUR 275 million (previous year period: EUR 318 million). Almost all earnings (97 percent) were generated from core business activities. The Markets division produced very good earnings before taxes of EUR 176 million (previous year period: EUR 101 million). In the third quarter of 2010, the Corporates division was lead manager in syndicated loans for Wacker AG, PHOENIX Pharmahandel & Co KG and EVONIK INDUSTRIES AG and, in cooperation with Markets, notched up further good market successes taking a lead role in placing corporate bonds and Schuldschein notes for BayWa AG, Thüga Holding and N-Ergie AG, among others.

In particular customer business with financial institutions and institutional customers, as well as earnings from customer-induced business on behalf of the Corporates, Mittelstand, Savings Banks and Real Estate segments was better than expected. This was supported by the favourable market environment and positive pre-tax earnings from asset liability management (ALM). Current transactions such as a syndicated EUR 2 billion revolving letter of guarantee facility for STRABAG SE, a EUR 500 million benchmark bond for Deutsche Bahn AG, and a EUR 250 million bond for Sixt AG will extend the positive trend into the fourth quarter. The new transaction pipeline is well filled.

The Mittelstand & Retail Customers segment serves retail customers and middle market companies throughout Germany. It includes the Deutsche Kreditbank (DKB) and Banque LBLux S.A. subsidiaries as well as LBS Bayern. Earnings before taxes in the Mittelstand & Retail Customers segment amounted to EUR 202 million (previous year period: EUR 205 million). The performance of the Mittelstand division, DKB and LBS Bayern was very positive. After Banque LBLux benefited from good market conditions in the previous year period, particularly in net interest income, this year losses on the disposal of securities weighed on results, leading to a much poorer performance overall. The deconsolidation effects from disposing of the majority stake in SaarLB also made themselves felt (EUR –18 million). The segment’s return on equity was 6.3 percent (previous year period: 7.2 percent), while the cost/income ratio was 59.1 percent (previous year period: 55.0 percent).

Under its new business strategy to become an integrated corporate finance bank, the Mittelstand division reported earnings before taxes of EUR 53 million, up significantly on the pro rata figure for the previous year (EUR –13 million) and far ahead of forecasts. Expanding existing customer relationships and gaining a large number of new clients (up around 50 percent on FY 2009) both contributed to this performance. Successful structuring more than doubled net commission income. The recent opening of a branch in Düsseldorf emphasised the Bank’s intention to grow outside its home market of Bavaria.

Deutsche Kreditbank is an inherent strategic element of the BayernLB Group for the retail market, boasting 2.1 million customers, and also makes a sizeable contribution to Mittelstand business, complementing the activities of BayernLB itself. DKB’s results benefitted from its business model – a strict concentration on retail customers, infrastructure and corporate customers. Earnings before taxes of the DKB sub-group surged 26 percent to EUR 88 million (previous year period: EUR 70 million).

As part of BayernLB, LBS Bayern belongs to the Sparkassen-Finanzgruppe and is once again the undisputed market leader on the Bavarian building savings market. In particular, market share expanded to over 40 percent in terms of number of contracts and loan volume. Despite the negative effect of strong new business on net commission income, earnings before taxes climbed to EUR 55 million (previous year period: EUR 53 million).

The Real Estate, Public Sector & Savings Banks segment posted earnings before taxes of EUR 111 million (previous year period: EUR 130 million). Return on equity was 11.8 percent (previous year period: 16.0 percent), while the cost/income ratio was 49.5 percent (previous year period: 45.9 percent). Net commission income rose roughly 16 percent. Administrative expenses also performed well, declining by 7 percent, largely as a result of the successful implementation of restructuring measures.

The Eastern Europe segment consists of the MKB subsidiary sub-group. Earnings before taxes of EUR –226 million (previous year period: EUR 49 million) were much less than the year before period. The deterioration in the results is due to the introduction of a very high national banking levy, which has a detrimental impact on investors. A significant rise in risk provisions in Q2 also played a role in this. The banking levy weighed on MKB's results to the tune of EUR 38 million.

The Restructuring Unit segment ringfences selected portfolios (non-core activities) from the operating activities of the business segments. The segment also includes asset-backed securities affected by the financial market crisis including the hedging instruments concluded for them and individual positions from troubled securities portfolios. The consolidated units Giro Balanced Funding Corporation and Giro Lion Funding Limited, which contribute to the segment's performance, are also allocated to this segment. Earnings before taxes were EUR 250 million (previous year period: EUR 232 million). As part of the restructuring measures, 18 percent of the risk assets defined as non-core business in the RU have been reduced since the end of 2009.

Segment reporting as at 30 September 2010

EUR million	Corporates & Markets	Mittelstand & Retail Customers	Real Estate, Public Sector & Savings Banks	Eastern Europe	Restructuring Unit	Central Areas & Others	Consolidation	Group
Net interest income	311	546	236	261	164	37	−136	1,418
Risk provisions for the credit business	6	−89	−48	−291	47	−3	0	−378
Net commission income	66	−8	49	57	25	−5	0	186
Gains or losses on fair value measurement	298	113	−13	15	146	−19	−2	537
Gains or losses on hedge accounting	19	−6	2	0	−1	−4	0	10
Gains or losses on investments	−23	−15	0	12	−99	−1	0	−126
Income from interests in companies valued at equity	1	4	0	−3	0	0	0	2
Administrative expenses	−252	−407	−143	−202	−53	−39	0	−1,096
Other income	12	43	16	−71	0	−14	6	−8
Operating profit/loss	**440**	**181**	**98**	**−222**	**228**	**−48**	**−133**	**545**
Restructuring	15	20	12	−4	22	60	0	124
Earnings from ordinary activities/Earnings before taxes	454	202	111	−226	250	12	−133	669
Return on equity (RoE) (%)	13.5 %	6.3 %	11.8 %	−37.3 %	8.5 %	–	–	6.2 %[1]
Cost/income ratio (CIR) (%)	35.6 %	59.1 %	49.5 %	76.8 %	15.8 %	–	–	51.1 %

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

Outlook

On 12 September 2010, the Group of Governors of Central Banks and Heads of Supervisions (GHoS) agreed higher minimum capital requirements which were approved by the G20 countries at the beginning of November 2010. The regulations, also known as “Basel III”, stipulate that hard capital requirements are to be increased qualitatively and quantitatively step by step, in a transition period lasting from 1 January 2013 to 1 January 2019. Based on current forecasts, the BayernLB Group will far exceed the higher minimum standards coming into effect in 2013.

However, the Bank is following with some concern the many additional, mostly uncoordinated, national and international efforts at regulation to soften the effects of the financial crisis which has not yet been entirely overcome, and to prevent such a situation arising again. In the interests of the entire economy, the competitiveness and above all the performance of the financial sector must not be weakened. Problems occur if measures to deal with the financial crisis are solely motivated by fiscal interests and place unnecessary pressure on the sector. One example of this is the very high banking levy, unrelated to performance, imposed in Hungary, which diminishes the capital of all banks conducting business in the country.

The good performance in customer business and the achievement of goals within Project Hercules to transform BayernLB should be regarded positively. The Bank will persist on its path and expects results will be solidly in the black for the full year 2010. It must be taken into account, however that a linear continuation of the results achieved so far is not possible. Firstly, BayernLB benefited from high gains on fair value measurement in the first nine months of 2010 and secondly, the sector traditionally sees an increase in risk provisions for the credit business in the fourth quarter. This is due to the value clarification period, which lasts until accounts are produced in March the following year and effectively extends the fourth quarter for the purposes of evaluating credit risk. Apart from the Hungarian MKB Bank, which operates in a difficult environment, BayernLB’s risk profile has further improved. On balance the Bank expects the final quarter of 2010 to be weaker.

The situation on the capital markets remains problematic and nervous, which adds an extra dimension of uncertainty to forecasts. Despite some good economic performance, recurrent concerns about the sovereign finances of individual European countries weigh on the financial markets and show the players’ lack of confidence.

No definite statements can be made on replenishing the hybrid capital instruments and paying back interest due until BayernLB’s HGB (German GAAP) single-entity financial statements are prepared in early 2011. In accordance with the latest projections for its operating business, BayernLB expects the results for the financial year 2010 to be satisfactory and better than forecast, despite writedowns on investments (including MKB) which have become necessary. This would enable the initial replenishment of profit participation capital marked down last financial year to offset losses.

Nonetheless, risks and negative effects from the ongoing EU state aid proceedings cannot be ruled out and at this point in time it is impossible to evaluate and quantify their impact on the results for the year.

Administrative bodies of BayernLB

Board of Administration (from 1 January to 30 September 2010)

Georg Fahrenschon
Chairman
State Minister
Bavarian State Ministry of Finance
Munich

Alexander Mettenheimer
since 1 August 2010
First Deputy Chairman
since 16 September 2010
Bankier a. D.
Munich

Walter Strohmaier
since 1 August 2010
Second Deputy Chairman
since 16 September 2010
Chairman of the Board of Directors of
Sparkasse Niederbayern Mitte
Straubing

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

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

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

Hans Schaidinger
Lord Mayor
Regensburg

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

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 (since 1 January 2010, including allocation of tasks)

Gerd Haeusler
since 15 April 2010
CEO
Corporate Center Central Area
(excluding Group Compliance)

Stefan Ermisch
Deputy CEO
Interim CEO
until 14 April 2010
Financial Office Central Area
IT & Operations Central Area

Dr. Edgar Zoller
Real Estate, Public Sector &
Savings Banks (Savings Banks Central Bank)
Business Area
Bayerische Landesbodenkreditanstalt[1]
Bayerische Landesbausparkasse[1]
since 3 November 2010

Jan-Christian Dreesen
Mittelstand & Retail Customers Business Area
Bayerische Landesbausparkasse[1]
until 2 November 2010
Corporates & Markets Business Area
since 3 November 2010

Marcus Kramer
since 1 May 2010
Risk Office Central Area
Group Compliance

Stephan Winkelmeier
since 1 July 2010
Restructuring Unit Central Area
Eastern Europe Segment

Stefan W. Ropers
until 25 October 2010
Corporates & Markets Business Area

Dr. Ralph Schmidt
until 31 March 2010

1 Institutions of the Bank

Bayerische Landesbank
Brienner Strasse 18
80333 Munich
Germany

www.bayernlb.de