



**BAYERNLB | GROUP FINANCIAL REPORT**  
30 SEPTEMBER 2011

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**Note:**

This Group financial report as at 30 September 2011 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

## *Ladies and Gentlemen.*

As has been the case throughout 2011, the third quarter was also dominated by the effects of the sovereign debt crisis, which triggered risk aversion of historic dimensions on the part of almost all market participants and has not yet let up. This crisis of confidence, in which the banks are no longer the main cause but rather the ones who are hurt by it, has weighed considerably on earnings. The tailwind from the markets that significantly boosted last year's earnings changed direction in 2011. However, the new BayernLB's satisfactory core and customer-driven business has enabled us to successfully cushion much of the impact. Overall, BayernLB posted positive earnings before taxes of EUR 152 million for the first nine months of this year. In particular, the slight year-on-year increase in net interest and commission income underlines the Bank's transformation into a customer-focussed, corporate and real estate financier and partner to the savings banks.

The Bank has also further reduced its foreign exposure at the same time as moderately increasing domestic activities, which shows its determination to continue the ongoing restructuring of the business model. Loans and advances to customers rose slightly to around EUR 157 billion, whereby a 6.7 percent decline in loans and advances to foreign customers to just under EUR 43 billion was offset by a 4 percent increase in loans and advances to domestic customers to around EUR 114 billion. In line with its new low-risk business model, BayernLB will continue to concentrate on its core business in future, focusing on the Bavarian and German markets, and will further reduce its other business.

Non-core business, such as residual holdings in Greek bonds, and in particular arbitrary government intervention in private-sector contractual relationships in Hungary took their toll on the Bank's earnings in the third quarter. As a result of a law passed in September by the Hungarian parliament after just a few days of deliberation, the Hungarian subsidiary bank MKB had to establish provisions of EUR 108 million. The law allows private individuals to repay loans in foreign currencies at an exchange rate below the market rate by the end of February 2012. If it had not been for this politically motivated act, BayernLB would also have closed the third quarter of 2011 with positive results instead of a loss of EUR 92 million.

As the situation on the markets has deteriorated, BayernLB once again had to mark down the Greek government bonds held by its Group subsidiaries DKB and Banque LBLux to a lower market value. Even though the Bank benefited overall from bond sales undertaken in 2010, the worsening market situation resulted in an additional impairment charge of EUR 25 million at the two subsidiaries. The bonds had already been written down by EUR 79 million at the end of June 2011.

This was compounded by charges for bank levies which totalled EUR 115 million in the reporting period. Of this amount, EUR 51 million was for the Hungarian bank levy alone; a total of EUR 65 million was paid by BayernLB and DKB for the German bank levy in the first nine months of 2011.

Charges relating to the new Hungarian Foreign Currency Loans Repayment Act were the primary factor triggering significantly higher risk provisions of EUR –323 million in the third quarter (previous-year period: EUR –378 million). Risk provisioning requirements at MKB remain high, also due to the continuing weak economic situation in Eastern and Southeastern Europe. Risk provisioning requirements at the new BayernLB core bank, on the other hand, remained low reflecting the good economic situation in our core markets and the Bank's good portfolio quality.

Despite the tough environment and the non-core business from the past, BayernLB is well on the way to becoming a new, low-risk customer bank with long-term profitability. The capital review conducted by the European Banking Authority in October 2011 has once again shown that the Bank has a solid capital base. This capital base is a major prerequisite for BayernLB being a reliable partner in future to its German customers at home and abroad and backing them with its balance sheet – even if the capital market should cease to be so accommodating. We also aim to comply in full with the capital requirements of the Basel III regulations by 2015 at the latest.

The past quarter also saw the owners and Board of Management of BayernLB in close and continuous dialogue with the EU Commission regarding the ongoing EU state aid proceedings. The EU Commission has announced that progress has been made towards completing the proceedings. Although the Bank also has a great interest in finding a professional and legitimate conclusion to the proceedings, both the Bank's owners and Board of Management place particular importance on ensuring the core value of the new BayernLB is not endangered.

With regards to the fourth quarter of 2011, BayernLB expects operating customer business to remain stable despite the gloomy economic outlook in its core markets. However, future developments on financial markets in the wake of the intensifying sovereign debt crisis and the impact of additional political initiatives cannot be estimated with sufficient accuracy at this time. It is as yet also impossible for the Bank to reliably anticipate the expenses from the law passed in Hungary on repayment of the foreign currency loans and potential offsetting measures. According to the law, customers with loans have until 31 December 2011 to decide to convert their loans. Repayment must be effected by 29 February 2012. In this uncertain climate, the BayernLB Board of Management is refraining from making an earnings forecast for full year 2011.

In view of the unknown political and economic factors mentioned, the Board of Management will focus even more strongly on the earnings factors which BayernLB can influence. To this end we will mainly build on the trusting relationship with our customers and the support of our dedicated employees.

We would like to thank you all sincerely for your loyal cooperation and the confidence you have placed in us.

Kind regards,



Gerd Haeusler,  
CEO



Dr. Edgar Zoller,  
Deputy CEO



Jan-Christian Dreesen,  
Member of the Board  
of Management



Marcus Kramer,  
Member of the Board  
of Management



Stephan Winkelmeier,  
Member of the Board  
of Management



Nils Niermann,  
Member of the Board  
of Management

# BayernLB Group at a glance as at 30 September 2011

## Income statement

EUR million	1 Jan – 30 Sep 2011	1 Jan – 30 Sep 2010	Change in percent
Net interest income	1,444	1,418	1.9
Risk provisions in the credit business	–323	–378	–14.4
Net commission income	189	186	1.5
Gains or losses on fair value measurement	110	537	–79.6
Gains or losses on financial investments	–145	–126	14.5
Administrative expenses	–1,102	–1,096	0.6
Expenses for bank levies	–115	–38	>100.0
Gains or losses on restructuring	–10	124	–
<b>Earnings before taxes</b>	<b>152</b>	<b>669</b>	<b>–77.3</b>

## Balance sheet

EUR million	30 Sep 2011	31 Dec 2010	Change in percent
Total assets	313,050	316,354	–1.0
Credit volume	224,794	231,207	–2.8
Equity and subordinated capital	21,403	21,638	–1.1

## Banking supervisory ratios under the German Banking Act (KWG)

	30 Sep 2011	31 Dec 2010	Change in percent/pp
Core capital (EUR billion)	13.6	13.9	–2.3
Own funds (EUR billion)	18.4	19.2	–4.0
Risk positions under the Solvency Ordinance (EUR billion)	117.1	123.9	–5.4
Core capital ratio	11.6%	11.2%	0.4 pp <sup>1</sup>
Total capital ratio	15.7%	15.5%	0.2 pp <sup>1</sup>

## Number of employees

	30 Sep 2011	31 Dec 2010	Change in percent
Number of employees	10,874	10,853	0.2

## Current ratings

	Long-term	Short-term	Pfandbriefs <sup>2</sup>
Fitch Ratings	A+	F1+	AAA
Moody's Investors Service	A1	Prime-1	Aaa

<sup>1</sup> Percentage points

<sup>2</sup> Applies to public-sector Pfandbriefs and mortgage Pfandbriefs

### Quarterly comparison

The table below compares performance in the third quarter to that in the first and second quarters of 2011.

EUR million	Q3 2011	Q2 2011	Q1 2011
Net interest income	468	497	479
Risk provisions in the credit business	-211	-63	-49
<b>Net interest income after risk provisions</b>	<b>257</b>	<b>434</b>	<b>430</b>
Net commission income	64	67	58
Gains or losses on fair value measurement	-41	91	60
Gains or losses on hedge accounting (hedge accounting)	10	10	36
Gains or losses on financial investments	-31	-69	-45
Income from interests in companies valued at equity	-20	0	8
Administrative expenses	-369	-370	-363
Expenses for bank levies	-27	-18	-70
Other income and expenses	68	-45	37
Gains or losses on restructuring	-3	-5	-2
<b>Earnings before taxes</b>	<b>-92</b>	<b>95</b>	<b>149</b>

*Rounding differences may occur in the tables.*

# Business performance as at 30 September 2011

## Earnings

EUR million	1 Jan – 30 Sep 2011	1 Jan – 30 Sep 2010	Change in percent
Net interest income	1,444	1,418	1.9
Risk provisions in the credit business	–323	–378	–14.4
<b>Net interest income after risk provisions</b>	<b>1,121</b>	<b>1,040</b>	<b>7.8</b>
Net commission income	189	186	1.5
Gains or losses on fair value measurement	110	537	–79.6
Gains or losses on hedge accounting (hedge accounting)	56	10	>100.0
Gains or losses on financial investments	–145	–126	14.5
Income from interests in companies valued at equity	–12	2	–
Administrative expenses	–1,102	–1,096	0.6
Expenses for bank levies	–115	–38	>100.0
Other income and expenses	60	30	96.8
Gains or losses on restructuring	–10	124	–
<b>Earnings before taxes</b>	<b>152</b>	<b>669</b>	<b>–77.3</b>

*Rounding differences may occur in the tables.*

Risk aversion on capital markets surged in the third quarter of 2011. The higher haircut on Greek bonds which has become necessary, the tough discussion about private sector involvement, but also increasing scepticism on whether the eurozone will be able to hold together in its current form triggered uncertainty among investors and had a drastic impact on equity prices and risk premiums for bank debt. The questions of under what conditions Italy can procure financing on the market and on what terms investors will take on new exposures to European sovereign debt outside a very small core group of countries have also had a major impact on the ways banks interact with each other and on the pricing of risk assets. As a result of this, additional impairments had to be taken on Greek government bonds.

In addition to the negative impact of the tough market environment described above, a law passed in Hungary at the end of September imposed major writedowns on the Group subsidiary MKB. The law entitles Hungarian borrowers to repay certain foreign currency loans prematurely at a fixed exchange rate which is favourable to them. Losses from the government-stipulated, non-market-related exchange rates are borne by the banks.

BayernLB Group's core business continued to perform well in the third quarter of 2011 with earnings before taxes of EUR 128 million due to solid, satisfactory client-driven business. However, this was overshadowed by the negative earnings contribution from non-core activities, i. e. business marked for winding down (earnings before taxes of EUR –220 million). Overall, Group earnings before taxes, which were EUR 244 million in the first half of 2011, fell to EUR 152 million as at 30 September 2011.

Net interest income amounted to EUR 1,444 million, up 1.9 percent on the previous-year period. This was boosted by increases in domestic business, which more than offset declining earnings contributions from foreign branches and MKB.

MKB accounted for about 70 percent of the risk provisions in the credit business totalling EUR –323 million. The Hungarian subsidiary had to set aside provisions of over EUR –100 million for potential costs which may arise as a result of the “Foreign Currency Loan Repayment Act” approved by the Hungarian government. Hungarian debtors can repay their loans taken out in Swiss francs, Japanese yen and euros at exchange rates far below current market rates. The exchange rate loss from this is to be borne by the Hungarian banks which are coming under fire on a broad front. In addition to this, MKB’s risk provisioning requirements remained high due to ongoing economic weakness in Eastern and Southeastern Europe. Risk provisioning requirements at BayernLB itself remained very low, as it benefited from favourable economic conditions in large parts of the eurozone and from its good portfolio quality.

Net commission income rose slightly by EUR 3 million to EUR 189 million. Heightened commission income at DKB and lower fees payable to the German Financial Market Stabilisation Fund (SoFFin) more than offset the decline in business at MKB.

Gains or losses on fair value measurement (including gains or losses on hedging transactions) for the first nine months of the year amounted to EUR 166 million. This cannot be compared with the previous-year period’s figure of EUR 547 million, as the latter contained high, market-driven write-ups in the investment portfolios. Changes in the valuation of cross-currency swaps totalling EUR –78 million had a dampening effect in H1 2011. However, market fluctuations due to the weakness of the euro caused these securities to rise considerably in the third quarter, so that a positive contribution of EUR 22 million from these instruments prevailed as at 30 September 2011.

Earnings from customer-driven trading transactions amounted to EUR 66 million (previous-year period: EUR 200 million). This includes fair value adjustments which had a negative impact in the third quarter of 2011 and weighed on nine-month earnings to the tune of EUR –63 million. The main trigger for this was the decline in interest rates. Lower interest rates caused the market values of OTC interest-rate swaps to rise and thus resulted in higher discounts for the counterparty-specific risks of such derivatives. In addition, higher discounts arose from the rating downgrades of some business partners.

Compared to the H1 results, the drop in interest rates in the third quarter also prompted a measurement loss on interest-rate derivatives.

A EUR 64 million rise in the value of ABS instruments covered by the “Umbrella” guarantee agreement with the Free State of Bavaria was, however, slightly more than offset by a corresponding decrease in the gains or losses on financial investments item. The aim of the “Umbrella” is to offset losses and measurement changes in the ABS portfolio, where, for measurement reasons, earnings are reported in different periods, and interdependencies with the gains or losses on financial investments item arise. Gains or losses on fair value option came to EUR 7 million (previous-year period: EUR 12 million) and on hedge accounting to EUR 56 million (previous-year period EUR 10 million).

Gains or losses on financial investments (including gains or losses on interests in companies valued at equity) included impairments of EUR 104 million on Greek government bonds held by Banque LBLux S.A., Luxembourg, and Deutsche Kreditbank AG, Berlin (DKB). Income therefore fell to EUR –157 million compared to EUR –124 million in the same period last year. In addition, changes in the value of the “Umbrella” guarantee agreement totalling EUR –75 million weighed on this item.

Administrative expenses of EUR –1,102 million were in line with forecasts and remained almost unchanged on the previous year (previous-year period: EUR –1,096 million). Other income of EUR 60 million, which comprises, among other items, the activities of the real estate subsidiaries and the gains from repurchasing the Bank’s own issues, was significantly higher than the same period in 2010 (previous-year period: EUR 30 million).

EUR –115 million was posted as expenses for bank levies as at 30 September 2011 (previous-year period: EUR –38 million). Of this amount, EUR –61 million was for BayernLB, EUR –51 million for MKB and EUR –4 million for DKB. These amounts represent the total amount expected for the full year 2011.

Restructuring expenses at the BayernLB Group came to EUR –10 million. The high positive figure for the previous-year period of EUR 124 million was due mainly to non-recurring income of EUR 166 million, largely attributable to recognition of actuarial gains resulting from restructuring-related pension plan changes.

Return on equity (RoE)<sup>1</sup> was 3.0 percent (previous-year period: 6.2 percent), while the cost/income ratio (CIR)<sup>2</sup> amounted to 59.3 percent. The previous year’s figure of 51.1 percent was impacted by the high gains on fair value measurement.

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*1 Earnings before tax excluding minority interests, bank levy expenses and gains or losses on restructuring/subscribed capital + hybrid capital instruments + capital reserve and retained earnings. Excludes the earnings and share in Group equity of BayernLabo which is a non-competitive business.*

*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 and expenses*

## Net assets and financial position

### Assets

EUR million	30 Sep 2011	31 Dec 2010	Change in percent
Cash reserves	2,658	2,609	1.9
Loans and advances to banks	54,785	61,688	-11.2
Loans and advances to customers	156,570	155,414	0.7
Risk provisions	-2,838	-2,979	-4.7
Portfolio hedge adjustment assets	1,225	798	53.6
Assets held for trading	46,743	40,924	14.2
Positive fair values from derivative financial instruments (hedge accounting)	4,534	4,062	11.6
Financial investments including interests in companies valued at equity	42,598	47,350	-10.0
Investment property	2,732	2,773	-1.5
Property, plant and equipment	668	693	-3.5
Intangible assets	216	208	3.7
Income tax assets	1,813	1,787	1.4
Non-current assets and disposal groups held for sale	156	163	-4.0
Other assets	1,191	865	37.6
<b>Total assets</b>	<b>313,050</b>	<b>316,354</b>	<b>-1.0</b>

### Liabilities

EUR million	30 Sep 2011	31 Dec 2010	Change in percent
Liabilities to banks	77,377	83,171	-7.0
Liabilities to customers	94,815	91,734	3.4
Securitised liabilities	75,055	79,468	-5.6
Liabilities held for trading	33,961	30,918	9.8
Negative market values from derivative financial instruments (hedge accounting)	2,381	2,498	-4.7
Provisions	4,090	4,002	2.2
Income tax liabilities	1,866	1,850	0.9
Liabilities from disposal groups	67	73	-8.2
Other liabilities	2,035	1,002	>100.0
Subordinated capital	7,177	7,727	-7.1
Equity	14,226	13,911	2.3
<b>Total liabilities and shareholders' equity</b>	<b>313,050</b>	<b>316,354</b>	<b>-1.0</b>

*Rounding differences may occur in the tables.*

As at 30 September 2011, total assets amounted to EUR 313.1 billion, a decrease of EUR 3.3 billion on the 2010 year-end figure. Interbank business was cut considerably, while assets and liabilities held for trading rose, in contrast, due to market conditions.

The targeted restructuring of the Bank's business is evident from a further decrease in foreign exposure while domestic activities rose. Overall, loans and advances to customers climbed 0.7 percent to EUR 156.6 billion. Loans and advances to foreign customers diminished by EUR 3.1 billion to EUR 42.9 billion, while loans and advances to domestic customers swelled a further EUR 4.2 billion to EUR 113.7 billion.

Customer deposits were also higher. Liabilities to customers grew EUR 3.1 billion to EUR 94.8 billion, while securitised liabilities slid EUR 4.4 billion to EUR 75.1 billion, in line with lower refinancing requirements.

Subordinated capital decreased by EUR 0.6 billion to EUR 7.2 billion, due to maturities. Equity rose slightly by EUR 0.3 billion to EUR 14.2 billion.

The following chart shows the changes in the IFRS carrying amounts of sovereign debt of the EMU countries most affected by the debt crisis.

EUR million	Nominal exposure 30 Sep 2011	IFRS carrying amount 30 Sep 2011	IFRS carrying amount 30 Jun 2011	IFRS carrying amount 31 Dec 2010
Greece	165	78	101	128
Italy	485	472	496	503
Ireland	0	0	16	20
Portugal	0	0	0	0
Spain	0	0	0	0
<b>Total</b>	<b>650</b>	<b>550</b>	<b>613</b>	<b>651</b>

The IFRS carrying amount of all the BayernLB Group's bond exposures to the EMU central governments particularly affected by the debt crisis totalled EUR 550 million. The only exception is Spain, where there is an additional gross credit risk of EUR 548 million (31 December 2010: EUR 662 million) to Spanish public authorities and state-owned companies. Writedowns for purely market-related reasons on Italian government securities had to be recognised in the revaluation reserve with no impact on earnings.

Maturity profile and and change in value of Greek sovereign debt:

Year due	Nominal exposure 30 Sep 2011	Impairments 30 Sep 2011	IFRS carrying amount 30 Sep 2011	IFRS carrying amount 31 Dec 2010
2013	50	30	26	46
2014	65	45	30	52
2017	50	29	22	30
<b>Total</b>	<b>165</b>	<b>104</b>	<b>78</b>	<b>128</b>

A major portion of the Greek government bonds were sold in mid-2010. Further impairments of EUR 25 million were required in the third quarter of 2011. In the first nine months of 2011, the Bank took writedowns of EUR 104 million on a nominal exposure of EUR 165 million to reflect the decrease in value.

### Banking supervisory capital and ratios

Risk positions in accordance with the Solvability Ordinance, consisting of credit and market risk positions as well as operational risks, fell a further 5.4 percent to EUR 117.1 billion as at 30 September 2011. Own funds decreased slightly to EUR 18.4 billion as at 30 September 2011 (EUR 19.2 billion as at 31 December 2010). Core capital eased to EUR 13.6 billion (down EUR –0.3 billion on 31 December 2010).

The capital ratios improved again as a result of the significant decline in risk positions. The core capital ratio was a solid 11.6 percent (11.2 percent as at 31 December 2010), while the own funds ratio was 15.7 percent (15.5 percent as at 31 December 2010).

### Core and non-core business of the BayernLB Group

Project Hercules defined core and non-core businesses and the latter are being actively wound down to free up liquidity and capital. Non-core activities have been pooled in the Restructuring Unit (RU) segment and also include selected loan portfolios managed by the Restructuring Unit, but retained by the business segments for reasons of efficiency. The earnings contribution of MKB is also incorporated into the non-core activities.

Earnings before taxes were completely generated from the Group's core business.

<b>1 Jan – 30 Sep 2011</b>	<b>Core business (EUR million)</b>	<b>Percent</b>	<b>Non-core business (EUR million)</b>
Total earnings	1,269	74.6	433
Risk provisions	–96	29.7	–227
Administrative expenses	–689	62.5	–413
Expenses for bank levies	–65	56.2	–51
<b>Earnings before taxes</b>	<b>419</b>	<b>&gt;100.0</b>	<b>–267</b>
Risk assets (end of reporting period)	70,050	74.6	23,913

## 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 business segments "Corporates, Mittelstand & Retail Customers"; "Markets"; "Real Estate & Savings Banks/Association" 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" (RU) and "Central Areas & Others".

In the first nine months of this year, the Corporates, Mittelstand & Retail Customers segment generated earnings before taxes of EUR 295 million (previous-year period: EUR 435 million). A 9 percent increase in net interest income to EUR 694 million and net commission income (EUR 123 million, up from EUR 103 million in the previous-year period), which can be attributed to its good business relationships with Corporates & Mittelstand customers and the credit card business, contributed in particular to this.

The segment's equity fell to 6.5 percent (from 9.5 percent in the previous-year period) due to the special factors referred to below: The key factor was the losses on financial investments of EUR –105 million, which is almost solely related to impairments on Greek government bonds held by subsidiaries Banque LBLux S.A. and Deutsche Kreditbank AG (DKB). In addition, risk provisions in the credit business of EUR –119 million, slightly higher than the previous-year period (EUR –83 million), had a dampening effect. Furthermore, expenses for bank levies and gains or losses on restructuring weighed on earnings before taxes to the tune of EUR –8 million. The cost-income ratio in the segment, including subsidiaries, was 45.5 percent (previous-year period: 43.7 percent).

Earnings before taxes for business with BayernLB's Mittelstand and large corporate customers considerably exceeded forecasts overall at EUR 246 million; however, they were down on last year's financially very good figure. Total income also remained stable in the third quarter at EUR 439 million. The 22 percent increase in credit volume with Mittelstand customers and the very successful acquisition of new customers in both the Mittelstand and large corporates business illustrates the positive performance in this segment. This good business performance is expected to continue in the fourth quarter.

In the first three quarters of this year, DKB generated earnings before taxes of EUR 86 million (previous-year period: EUR 88 million) – despite a EUR –29 million impairment on a Greek government bond. DKB's results predominantly benefited from its business model – a strict concentration on retail customers, corporate customers and infrastructure. In an environment which continued to be characterised by fierce competition, it expanded its customer base in the retail customer sector to 2.3 million customers and pushed ahead its growth in the deposit banking business. Overall customer deposits climbed by EUR 2.9 billion in the first three quarters of 2011.

Performance at Banque LBLux S.A. was pushed considerably into the red by impairments of EUR –75 million on Greek government bonds. The segment's earnings before taxes amounted to EUR –37 million (previous-year period: EUR 21 million).

The Real Estate & Savings Banks/Association segment closed the quarter with earnings before taxes of EUR 221 million (previous-year period: EUR 165 million). As a result of the good economic conditions in the reporting period, only EUR –2 million in net allocations to risk provisions in the credit business were required (previous-year period: EUR –52 million). In addition, the EUR 35 million rise in non-interest income boosted earnings compared to the previous-year period, thus more than offsetting the lack of the previous year's EUR 26 million gain on restructuring. Return on equity was 20.0 percent (previous-year period: 14.6 percent), the CIR was 49.3 percent (previous-year period: 53.2 percent).

Good new business figures in the Real Estate division made a major contribution to the segment's earnings. Earnings jumped 12 percent year-on-year in the first nine months of 2011.

The Savings Banks & Association division also posted good performance, topping the previous-year period earnings. The division reaped the benefits of good business with Markets products and trade in foreign notes and coins as well as precious metals in particular on behalf of the savings banks.

LBS Bayern, once again, significantly outperformed the very good new business figures from the first nine months of 2010. New business continued its record-breaking trend with 12 percent growth in the number and a 7 percent increase in the volume of new home loan savings contracts. Earnings before taxes were nevertheless down to EUR 41 million (previous-year period: EUR 55 million) as they no longer included gains on restructuring of EUR 14 million posted in the previous-year period.

The overall volume of BayernLabo commitments rose around 23 percent compared to the year-before period to EUR 1.7 billion in the first three quarters of the year. Subsidised housing commitments were below the previous year's level, but on the other hand, commitments in business with governments and municipalities surged 44 percent to EUR 1.4 billion.

Earnings before taxes in the Markets segment were especially marked by temporary valuation markdowns and amounted to a negative EUR –94 million (previous year EUR 181 million). Compared to the previous-year period, counterparty-specific fair value adjustments and measurement markdowns from interest-rate and currency management in particular had a negative impact on earnings. The figures also include a EUR –35 million expense for additions to the strategic liquidity reserves acquired at the beginning of financial year 2011. Earnings from financial institutions and institutional customers as well as business with customers from the Corporates, Mittelstand, Savings Banks and Real Estate divisions performed well. The segment generated customer-related income of EUR 196 million. Of this figure, EUR 96 million is allocated to other segments according to the customer.

Earnings before taxes of EUR –186 million in the "Eastern Europe" segment (previous-year period: EUR –226 million) were largely attributable to charges from the Foreign Currency Loan Repayment Act which came into effect in Hungary at the end of September 2011. The law enables retail customers with mortgage loans in the foreign currencies CHF, EUR and JPY to repay their loans early at exchange rates set by the government. These rates are much more favourable to the customer than current market rates. MKB so far believes that around 30 percent of its customers will take advantage of this right to early repayment and has established a provision of around

EUR 108 million for the expected currency-related losses from this measure. The very high bank levy (EUR –51 million), which is unrelated to earnings, also continued to have a dampening effect.

The Restructuring Unit (RU) segment posted earnings before taxes of EUR 89 million (previous-year period: EUR 246 million). In the current financial year, EUR 3.4 billion in capital was freed up from the risk assets defined as non-core business, thus exceeding forecasts and reducing total risk assets to EUR 11.7 billion. Total lendings, including commitments, dropped 31 percent in the first nine months of 2011 to EUR 12.3 billion. As a result of repayments, the volume of structured securities portfolios was cut by EUR 1.9 billion to EUR 12.3 billion over the course of the year. The nominal volume of the portfolio containing non-structured securities of individual borrowers (single-name investments) and credit derivatives of individual borrowers fell by 36 percent to EUR 5.0 billion. Overall the RU has decreased the volume of non-core assets by 55 percent to around EUR 30 billion since it was founded in 2009.

#### Segment reporting as at 30 September 2011

EUR million	Corporates, Mittelstand & Retail Customers	Real Estate & Savings Banks/ Association	Markets	Eastern Europe	Restructuring Unit	Central Areas & Other	Consolidation	Group
Net interest income	694	372	132	231	123	31	–138	1,444
Risk provisions in the credit business	–119	–2	3	–224	16	2	0	–323
Net commission income	123	32	–6	43	21	–25	0	189
Gains or losses on fair value measurement	107	7	–75	16	53	–9	11	110
Gains or losses on hedge accounting	6	1	47	0	13	–5	–6	56
Gains or losses on financial investments	–105	0	2	–4	–71	39	–6	–145
Income from interests in companies valued at equity	0	0	0	–1	–11	0	0	–12
Administrative expenses	–442	–218	–162	–194	–56	–31	0	–1,102
Expenses for bank levies	–4	0	0	–51	0	–61	0	–115
Other income and expenses	42	30	–35	–2	0	24	1	60
Gains or losses on restructuring	–8	–1	0	0	0	–2	0	–10
<b>Earnings before taxes</b>	<b>295</b>	<b>221</b>	<b>–94</b>	<b>–186</b>	<b>89</b>	<b>–36</b>	<b>–137</b>	<b>152</b>
Return on equity (ROE) (%)	6.5	20.0	–5.5	–22.4	3.6	–	–	3.0 <sup>1</sup>
Cost/income ratio (CIR) (%)	45.5	49.3	>100.0	67.5	26.6	–	–	59.3

<sup>1</sup> BayernLabo's earnings and share in Group equity are not included in the return on equity (expressed in percent) at Group level.

Segment reporting as at 30 September 2010 <sup>1</sup>

EUR million	Corporates, Mittelstand & Retail Customers	Real Estate & Savings Banks/ Association	Markets	Eastern Europe	Restructuring Unit	Central Areas & Other	Consolidation	Group
Net interest income	634	373	28	261	158	100	-136	1,418
Risk provisions in the credit business	-83	-52	15	-291	47	-13	0	-378
Net commission income	103	24	-24	57	25	2	0	186
Gains or losses on fair value measurement	172	-12	258	15	146	-40	-2	537
Gains or losses on hedge accounting	-6	2	19	0	-1	-4	0	10
Gains or losses on financial investments	-22	1	2	12	-99	-2	-18	-126
Income from interests in companies valued at equity	0	0	0	-3	1	0	4	2
Administrative expenses	-411	-216	-140	-202	-53	-75	0	-1,096
Expenses for bank levies	0	0	0	-38	0	0	0	-38
Other income and expenses	37	21	13	-33	0	-13	6	30
Gains or losses on restructuring	11	26	10	-4	22	60	0	124
<b>Earnings before taxes</b>	<b>435</b>	<b>165</b>	<b>181</b>	<b>-226</b>	<b>246</b>	<b>16</b>	<b>-148</b>	<b>669</b>
Return on equity (ROE) (%)	9.5	14.6	13.7	-37.3	8.2	-	-	6.2 <sup>2</sup>
Cost/income ratio (CIR) (%)	43.7	53.2	47.5	76.8	16.1	-	-	51.1

<sup>1</sup> Organisational changes with cross-segment impact have been adjusted in the figures to be compared.

<sup>2</sup> BayernLabo's earnings and share in Group equity are not included in the return on equity (expressed in percent) at Group level.

## Outlook

### Events after the end of the reporting period

Following BayernLB's respectable performance in the stress test carried out by the European Banking Authority (EBA) in summer 2011, the Bank also passed the EBA's new capital review in October 2011 with solid results. All government securities from countries in the European Economic Area in both the bank book and investment book were valued at their mark-to-market price as of 30 September 2011. In the test scenario, BayernLB achieved a core capital ratio of 10.3 percent, thereby exceeding the 9 percent minimum figure stipulated by the EBA.

### Outlook

The sovereign debt crisis is weighing on economic performance in the eurozone causing growth forecasts for 2012 to be drastically cut. BayernLB currently only expects economic output to rise 0.8 percent next year, down from 1.6 percent cited in August. Forecasts for the current year have also been revised downwards, following a sharp decline in major leading indicators in August and September. For 2011, the Bank still expects gross domestic product to grow by 1.6 percent, down from 2 percent in August.

In addition to this massive deterioration in the economic environment, it is not yet possible to reliably predict how high the expenses from the Hungarian "Foreign Currency Loan Repayment Act" will be. Hungarian borrowers have until 31 December 2011 to choose to repay their foreign currency loans to MKB at mandated exchange rates. They will then have until 29 February 2012 to repay the loans.

Regardless of these potential losses, the new BayernLB's restructuring into a purely customer bank is forging ahead. The long-term business approach in the business areas of corporate, retail and real estate customers as well as savings banks and the public sector is taking centre stage.

Due to the measures already taken to ensure liquidity, BayernLB has already met its funding needs until Q2 2012. Large bond issues – except in the Pfandbrief segment – are therefore not planned for the foreseeable future.

In the ongoing state aid proceedings, BayernLB is still in a constructive dialogue with the European Commission. Substantial progress has been made in the past few weeks. Now the next step is to reach agreement on the remaining open issues without endangering the core value of the Bank.

The BayernLB Group's performance for financial year 2011 is clouded with uncertainty, in particular as the impact of the Hungarian law passed at the end of September 2011 to relieve the pressure on debtors is not yet quantifiable, but also due to the latest developments in the sovereign debt crisis. Due to these unknown factors, the BayernLB Board of Management is refraining from making an earnings forecast for full year 2011. This also applies to BayernLB's separate financial statements under HGB (German GAAP).

# Administrative bodies of BayernLB

## Board of Administration

### **Georg Fahrenschon**

until 3 November 2011  
Chairman  
State Minister  
Bavarian State Ministry of Finance  
Munich

### **Dr. Markus Söder**

as of 3 November 2011  
Chairman  
State Minister  
Bavarian State Ministry of Finance  
Munich

### **Alexander Mettenheimer**

First Deputy Chairman  
Former banker  
Munich

### **Walter Strohmaier**

Second Deputy Chairman  
Chairman of the Board of Directors  
Sparkasse Niederbayern-Mitte  
Straubing

### **Dr. Michael Bauer**

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

### **Ralf Haase**

since 16 August 2011  
Chairman of the General Staff Council  
since 1 August 2011  
BayernLB  
Munich

### **Joachim Herrmann**

State Minister  
Bavarian State Ministry of the Interior  
Munich

### **Diethard Irrgang**

until 16 August 2011  
Chairman of the General Staff Council  
until 31 July 2011  
BayernLB  
Munich

### **Dr. Klaus von Lindeiner-Wildau**

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

### **Hans Schaidinger**

Lord Mayor  
Regensburg

### **Martin Zeil**

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

**Board of Management (including allocation of responsibilities from 1 May 2011)**

**Gerd Haeusler**

CEO  
Corporate Center  
(excluding Group Compliance)

**Stephan Winkelmeier (CFO)**

Financial Office & Operations  
Eastern Europe

**Dr. Edgar Zoller**

Deputy CEO  
since 1 May 2011  
Real Estate & Savings Banks/Association  
Bayerische Landesbodenkreditanstalt<sup>1</sup>  
Bayerische Landesbausparkasse<sup>1</sup>

**Nils Niermann**

Markets  
IT

**Stefan Ermisch**

until 30 April 2011  
Deputy CEO  
until 30 April 2011

**Jan-Christian Dreesen**

Corporates, Mittelstand &  
Retail Customers

**Marcus Kramer (CRO)**

Risk Office  
Restructuring Unit  
Group Compliance

<sup>1</sup> *Dependent institution of the Bank.*

# Segment definitions

## Corporates, Mittelstand & Retail Customers

Within the Corporates, Mittelstand & Retail Customers segment, the Corporates division serves large corporate customers and multinational corporations in Germany and the core regions of Europe and North America. The Mittelstand division serves companies throughout Germany with sales of EUR 50 million to EUR 1 billion. The segment also includes Deutsche Kreditbank AG (DKB) and Banque LBLux S.A.(LBLux), which are principally active in retail and private banking.

## Markets

The Markets segment offers capital market and Treasury products for the large corporates, Mittelstand, savings banks and real estate customer groups as well as banks, insurance companies and other institutional customers. The latter-named customer relationships are directly allocated to this segment. In addition to pooling all the trading and issuing activities, this segment also includes BayernLB's Asset Liability Management (ALM) and the consolidated subsidiary BayernInvest.

## Real Estate & Savings Banks/Association

The Real Estate & Savings Banks/Association segment comprises the Real Estate division and the Savings Banks/Association division. The segment also pools the development bank Bayerische Landesbodenkreditanstalt (BayernLabo), the Bayerische Landesbausparkasse (LBS Bayern) and the consolidated subsidiary Real I.S. AG.

## Eastern Europe

The Eastern Europe segment consists of the Hungarian subsidiary, the MKB sub-group.

## Restructuring Unit

The Restructuring Unit (RU) segment ringfences selected portfolios (non-core activities) from the operating activities of the business segments. In addition, it contains the portfolio of ABS instruments, including the related hedging instruments. The consolidated units Giro Balanced Funding Corporation, Giro Lion Funding Limited, and KGAL GmbH & Co. KG, are also allocated to this segment.

## Central Areas & Others

The Central Areas & Others segment comprises the earnings contributions from the central areas Corporate Center, Financial Office, IT & Operations, and Risk Office. The segment also includes transactions whose earnings contributions cannot be allocated to either a business area or a central area. The consolidated subsidiaries BayernLB Capital LLC I and GBW AG sub-group are also allocated to this segment.

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

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