

Pressrelease

30 March 2011

BayernLB significantly outperforms forecasts and reports earnings before taxes of EUR 885 million

- **High earnings contribution from business with large corporates and customer-related capital market activities**
- **Growth in the Mittelstand business clearly bearing fruit**
- **Customer deposits rise 5.0 percent to EUR 91.7 billion**
- **Savings bank business greatly intensified**
- **Restructuring portfolio cut by a good 40%**
- **Investor capital in profit participation certificates is fully replenished and back-interest paid**
- **Half of the share of losses borne by silent partner contributions in 2009 is compensated**
- **Offer made to investors to buy back the bond guaranteed by the Financial Markets Stabilisation Fund (SoFFin)**
- **Bank expects positive earnings for 2011**

Munich – The BayernLB Group finished financial year 2010 with very positive earnings, outperforming forecasts, despite large charges at the Group subsidiary MKB. Following two years of high losses, earnings before taxes amounted to EUR 885 million (previous year period: EUR -2,765 million). 80 percent of earnings in 2010 were generated from business activities that BayernLB's restructuring programme had defined as core business going forward. Earnings before taxes, in fact, arose completely from core activities. BayernLB achieved its positive net income despite the tough economic situation in Hungary. Both risk provisions for the credit business at MKB and the extremely high bank levy introduced in 2010 weighed heavily on Group earn-

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ings. BayernLB and its subsidiary DKB both benefited from improved economic conditions in their core markets and overall lower-than-expected risk provisions. The sovereign debt crisis in Europe only had a minimal impact on BayernLB.

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As the results in the separate financial statements under the German Commercial Code (HGB) were also very good, BayernLB will fully replenish the principle amount of its profit participation certificates and pay all interest due on them. In addition, half of the capital amount written down on silent partner contributions as a result of sharing in the Bank's losses in the financial year 2009 will be replenished - much sooner than planned. Yesterday, BayernLB made investors an offer to buy back the bond backed by the Financial Markets Stabilisation Fund (SoFFin) issued in 2009¹.

"The positive earnings in 2010 are clear proof of the new BayernLB's ability to perform. The Bank's business model is already bearing fruit. BayernLB's move to a universal bank with a long-term customer focus and a balanced risk profile is already well-advanced and we will complete the transformation swiftly and vigorously", commented Gerd Haeusler, CEO of BayernLB.

BayernLB continued to forge ahead with its fundamental reorganisation and restructuring plan (Project "Hercules") in 2010 and has now finished implementing most of the measures. Administrative expenses and headcount have fallen considerably in the past two years. The consistent focusing of the business model is also evident in total assets, which are currently EUR 316.4 billion, down more than EUR 100 billion on the beginning of 2009. In addition, BayernLB is making swift progress in the planned reduction of non-core activities bundled in the internal Restructuring Unit ("RU"). The RU portfolio was cut by EUR 19.3 billion to EUR 39.5 billion last year, which is twice as fast as planned, due in particular to active management by the Bank's portfolio managers, but also to maturities. Furthermore, BayernLB has made good progress on the restructuring of its Hungarian subsidiary MKB which was initiated in summer 2010 and is due to be largely completed this year.

¹ See the separate press release for details of the buy-back offer.

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Earnings²: Net interest income rises considerably

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In addition to positive effects of the economic recovery, BayernLB also primarily benefited from stable earnings in the operating customer business and higher interest income in 2010. Clear progress was made on restructuring BayernLB into a more customer-focused bank, as the much better results in all business segments over the year before clearly underline.

Net interest income, rose to EUR 1,942 million in 2010 (2009: EUR 1,720 million) after being highly affected in 2009 by the cost of ensuring liquidity was on hand.

In the reporting year, net allocations to risk provisions for the credit business were EUR -696 million (2009: EUR -1,052 million). MKB accounted for nearly two-thirds of risk provisions. BayernLB itself remained significantly below forecasts - partly boosted by the positive economic performance in its markets. Net allocations to credit risk provisions fell by 34 percent overall year-on-year at Group level.

As a result of the deliberate downsizing of business, net commission income declined slightly to EUR 265 million (2009: EUR 280 million). The decline was primarily due to lower commissions in the credit business. Commissions of EUR 47 million were paid in 2010 for the nominal EUR 5 billion bond issued in January 2009 which was guaranteed by the German Financial Market Stabilisation Fund (SoFFin).

Driven by the market upturn, 2010 was a good year for BayernLB; accordingly it reported a very good gain on fair value measurement of EUR 1,043 million (2009: EUR 886 million). However, it must be borne in mind here that from a financial perspective over half of any gains on fair value measurement are offset against negative positions in the net interest income and gains or losses on investments items and therefore reduced.

² The previous year's figures shown in the following have been adjusted for results of Hypo Group Alpe Adria (HGAA) and SaarLB.

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On the one hand, income from write-ups totalling EUR 360 million in the securities portfolios impacted by the financial market crisis caused the "Umbrella" hedging transaction to diminish in value by around EUR 300 million. This expense is reported in the gains or losses on investments item which is largely dominated by this factor. On the other hand, income from derivative financial products was posted in the gains or losses on fair value measurement item, weighing on net interest income. This effect was around EUR 260 million.

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The remaining net amount of less than EUR 500 million from the gains or losses on fair value measurement item consists of around EUR 200 million of earnings from customer-related trading and EUR 300 million mainly from valuation results of hedging derivatives and the effects on income of liquidity management measures.

Administrative expenses were below forecast at EUR 1,462 million (2009: EUR 1,422 million). The previous year's figure was improved to the tune of EUR 33 million by the release of a provision established in 2008 to cover employees' variable remuneration. Adjusted for this positive one-off factor, **staff costs** at the BayernLB Group fell 3.1 percent in 2010 to EUR 657 million. Expenses arising from staff reductions were reported under restructuring expenses. **Other administrative expenses** rose slightly to EUR 720 million (2009: EUR 685 million). In particular, expenses for legal and consulting fees rose which is partly a consequence of the Bank dealing with legal issues from the past.

Other income was EUR 1 million in the last financial year (2009: EUR 461 million). In the previous year, the bank benefited from positive one-off items amounting to EUR 245 million which arose from the dissolution of the Bavarian Reserve Fund and the share of losses borne by hybrid equity which was recognised in profit and loss. Hybrid capital instruments were replenished faster and to a greater extent than expected from 2010 net income, resulting in a counter-effect which weighed on income to the tune of EUR 83 million.

BayernLB Group posted gains on restructuring of EUR 124 million, compared with the previous year's loss of EUR -341 million. Restructuring expenses of EUR -46 million for staff cuts were more than offset by non-recurring income

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of EUR 170 million, which was predominantly due to restructuring-related changes to pension plans.

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Balance sheet: Loans and advances to domestic customers surge

BayernLB reduced its total assets by 6.6 percent to EUR 316.4 billion. The deconsolidation of SaarLB, which was included on the balance sheet with total assets of EUR 18.7 billion as at 31 December 2009, was the key driver of this reduction.

In accordance with BayernLB's new strategy, loans and advances to foreign customers fell -9.4 percent to EUR 46.0 billion. On the other hand, loans and advances to domestic customers climbed considerably by 8.3 percent to EUR 109.4 billion. Lending to Mittelstand companies has risen in line with strategy. Overall, loans and advances to customers increased EUR 3.6 billion to EUR 155.4 billion (adjusted for SaarLB). Lending to the savings banks also recorded positive gains, rising 12.3 percent to EUR 16.1 billion.

Liabilities to banks fell by a further 9.1 percent to EUR 83.2 billion (2009: EUR 91.5 billion). This decline was primarily related to the deconsolidation of SaarLB. However, BayernLB and its subsidiaries DKB, MKB and Banque LBLux also reduced their liabilities to banks, replacing part of the funds by higher customer deposits instead. **Liabilities to customers** rose 5.0 percent to EUR 91.7 billion (2009 adjusted for SaarLB: EUR 87.4 billion). Customer deposits at Group subsidiaries, in particular DKB, more than compensated for the decline in customer deposits at BayernLB relating to cutting back business and downsizing the Bank. The drop in refinancing requirements at the BayernLB Group is also evident in the slump in **securitized liabilities** to EUR 79.5 billion (2009: EUR 93.0 billion). Overall, funding requirements in financial year 2010 were below those of the previous years.

BayernLB can build on a **solid capital base** in its ongoing restructuring programme. Its core capital ratio as at the reporting date of 31 December 2010 was 11.2 percent. BayernLB is unperturbed and confident about the imminent new Europe-wide bank stress test and implementation of the Basel III capital requirements, in view of its high quality capital base.

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Segments: Customer-related core business up considerably

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The earnings contributions of the customer-oriented core segments Corporates & Markets, Mittelstand & Retail Customers and Real Estate, Public Sector & Savings Banks increased significantly on the previous year.

Corporates & Markets made a major contribution to consolidated net income with earnings before taxes of EUR 686 million (2009: EUR 428 million). These earnings were generated solely from core business. In addition to the rise in average credit margins, cross-selling strategies were a key driver of the Corporates Division's very good earnings. In the Markets Division, earnings were boosted by both the growth in the capital market business and in particular the successful placement of corporate bonds and Schuldschein note loans with a broad investor base.

In **Mittelstand & Retail Customers**, earnings before taxes surged significantly year-on-year, contributing EUR 302 million to consolidated net income (2009: EUR 181 million). Along with the Mittelstand Division at BayernLB, LBS Bayern and the subsidiaries DKB and Banque LBLux also made positive contributions. In its Mittelstand business, BayernLB posted double-digit growth rates and achieved considerable successes with cross selling as part of its corporate finance strategy. The Bank gained around 100 new customers overall. This far exceeded the growth targets which had been set.

Real Estate, Public Sector & Savings Banks closed 2010 with earnings before taxes of EUR 231 million (2009: EUR 139 million). The improvement on the previous year is due on the one hand to a decline in risk provisions and on the other hand to an increase in non-interest business resulting from a rise in new business and the expansion of cross-selling with products from the Markets Business Area. The Real Estate Division doubled its new business volume year-on-year to EUR 3.6 billion. In the Savings Banks Division, the "Verbundmodell Bayern" project on a new collaboration model with Bavarian savings banks was successfully completed in March 2010. The result was a new paradigm in savings bank business with a clear sales orientation, a sustainable focus on transparency and profitability and stronger sales management.

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The **Eastern Europe** segment posted a negative earnings contribution of EUR -380 million (2009: EUR -26 million), as a result of high write-downs in the credit business at MKB and the bank levy in Hungary.

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Outlook: BayernLB expects positive earnings for 2011

BayernLB's performance at the start of 2011 was in line with forecasts. Core business has exhibited satisfactory performance; however, the bank levy in Hungary will be recognised completely and that in Germany will be recognised pro rata through profit and loss in the first quarter of 2011. Overall, it will not be possible to repeat the very good results achieved in the first quarter of 2010. BayernLB expects positive earnings before taxes for financial year 2011, although they are expected to remain below the very good results of financial year 2010.

It is BayernLB's goal to complete the Bank's fundamental restructuring swiftly and to grow earnings sustainably in the next few years. Nevertheless, the Bank is well aware that the final stages in implementing the new strategy will require full concentration.

Together with its owners, BayernLB is holding constructive negotiations with the EU Commission according to a firmly agreed timetable. BayernLB is confident it will be able to reach an agreement with the Commission and complete the ongoing state aid proceedings before the summer break this year, so that it can obtain planning certainty on further restructuring measures at the Bank.

The new BayernLB makes a clear commitment to its role as corporate finance provider. In 2011, the focus will also be on business with corporate customers, commercial real estate financing, savings banks and retail customers in the Bank's defined core markets of Bavaria, Germany and selected international markets.

The complete annual report in German and English will be available for download on www.bayernlb.de from 29 April 2011.

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Income statement 2010

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	1 Jan - 31 Dec 2010 EUR million	1 Jan - 31 Dec 2009 EUR million	Change in %
Net interest income	1,942	2,561	-24.2
Risk provisions for the credit business	-696	-3,277	-78.8
Net commission income	265	434	-39.1
Gains or losses on fair value measurement	1,043	887	17.5
Gains or losses on hedge accounting	53	98	-46.2
Gains or losses on investments	-294	-1,435	-79.5
Income from interests in companies valued at equity	-38	-9	>100.0
Other income	1	461	-99.8
Staff costs	-657	-926	-29.0
Other administrative expenses including depreciation	-805	-1,199	-32.9
Expenses for bank levies	-51	0	
Restructuring	124	-361	
Earnings before taxes	885	-2,765	
Income taxes	-294	-328	-10.4
Earnings after taxes	590	-3,093	
Minority interests	44	474	-90.6
Consolidated net income	635	-2,619	

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Income statement 2010 (2009: Adjusted for earnings contributions of HGAA and SaarLB)

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	1 Jan - 31 Dec 2010 EUR million	1 Jan - 31 Dec 2009 EUR million	Change in %
Net interest income	1,942	1,720	12.9
Risk provisions for the credit business	-696	-1,052	-33.9
Net commission income	265	280	-5.6
Gains or losses on fair value measurement	1,043	886	17.7
Gains or losses on hedge accounting	53	55	-3.8
Gains or losses on investments	-294	53	
Income from interests in companies valued at equity	-38	3	
Other income	1	476	-99.8
Staff costs	-657	-645	1.9
Other administrative expenses including depreciation	-805	-778	3.5
Expenses for bank levies	-51	0	
Restructuring	124	-341	
Earnings before taxes	885	657	34.6
Income taxes	-294	-311	-5.4
Earnings after taxes	590	346	70.6
Minority interests	44	7	>100.0
Consolidated net income	635	353	79.9

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Quarterly comparison 2010

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	Q4 2010 EUR million	Q3 2010 EUR million	Q2 2010 * EUR million	Q1 2010 * EUR million
Net interest income	524	435	503	480
Risk provisions for the credit business	-318	14	-355	-37
Net commission income	79	65	71	50
Gains or losses on fair value measurement**	549	93	73	381
Gains or losses on investments***	-208	-87	-46	9
Other income	-16	-26	55	-12
Staff costs	-152	-157	-174	-174
Other administrative expenses incl. depreciation	-215	-187	-209	-194
Expenses for bank levies	-26	-25	0	0
Restructuring	0	-10	139	-5
Earnings before taxes	216	115	56	498

* Including SaarLB

** Including gains or losses on hedge accounting

*** Including income from interests in companies valued at equity

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Segment reporting as at 31 December 2010

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EUR million	Corporates & Markets	Mittelstand & Retail Customers	Real Estate, Public Sector & Savings	Eastern Europe	Restructuring Unit	Central Areas & Others	Consolidation	Group
Net interest income	415	723	315	333	168	29	-42	1,942
Risk provisions for the credit business	-13	-165	-61	-430	-22	-4	0	-696
Net commission income	102	-1	71	75	30	-11	-2	265
Gains or losses on fair value measure-	520	191	49	20	304	19	-61	1,043
Gains or losses on hedge accounting	10	21	1	-1	0	-1	23	53
Gains or losses on investments	-21	-14	0	17	-275	-2	0	-294
Income from interests in companies valued at equity	0	-10	0	-3	-25	0	0	-38
Other income	8	67	19	-63	0	-37	7	1
Administrative expenses	-351	-526	-178	-273	-79	-55	-1	-1,462
Expenses for bank levies	0	0	0	-51	0	0	0	-51
Restructuring	17	16	16	-5	27	54	0	124
Earnings before taxes	686	302	231	-380	128	-8	-76	885

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Balance sheet

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	31 Dec 2010 EUR million	31 Dec 2009 *EUR million	Change in percent
Loans and advances to banks	61,688	74,606	-17.3
Loans and advances to customers	155,414	158,962	-2.2
Liabilities to banks	83,171	91,484	-9.1
Liabilities to customers	91,734	92,197	-0.5
Securitised liabilities	79,468	92,968	-14.5
Equity	13,911	14,061	-1.1
Total assets	316,354	338,818	-6.6

* Not including HGAA; including SaarLB

Financial figures and headcount

	31 Dec 2010	31 Dec 2009 *	Change in percent/pp.
Risk positions (EUR billion)	123.9	135.8	-8.8
Own funds (EUR billion)	19.2	21.4	-10.3
Core capital (EUR billion)	13.9	14.8	-6.0
Own funds ratio (in percent)	15.5	15.7	-0.2 pp
Core capital ratio (in percent)	11.2	10.9	0.3 pp
Leverage ratio	22.7	24.1	-5.6
Total headcount	10,853	11,821	-8.2

* Not including HGAA; including SaarLB