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18 May 2011

BayernLB posts satisfactory earnings in the first quarter of 2011

- EUR 149 million in earnings before taxes
- Net commission income up, net interest income stable
- EUR 70 million charge due to bank levies in Hungary and Germany
- Total assets decline further to EUR 303 billion
- Full-year outlook unchanged - positive earnings expected

Munich – In the first quarter of 2011, BayernLB Group posted better-than-forecast and therefore satisfactory earnings before taxes of EUR 149 million. The earnings were generated solely from the Bank's core business: activities with corporate, retail and real estate customers, as well as the savings banks and the public sector. The Hungarian bank levy, which was recognised through profit or loss in January for the full year, weighed on earnings to the tune of EUR 50 million. In addition, BayernLB took a EUR 20 million pro rata charge for the German bank levy, applicable from 2011, in the first quarter. The unusually high earnings before taxes in the year before period of EUR 498 million were largely due to changes in valuation resulting from the performance of the capital markets, which was reflected in the very high results from gains or losses on fair value measurement. There were no comparable special factors in the first three months of 2011.

"BayernLB has achieved earnings for the first quarter of 2011 that exceeded internal forecasts, which we regard as highly satisfactory. It would be misleading to compare this quarter with the inflated earnings of Q1 2010. The steadily improving performance in our core business areas confirms that we are on track with our business model as a financier of German companies. We are pursuing our strategy of generating appropriate and sustainable earnings with a clear customer focus, a solid risk profile and tight cost manage-

Presseinfo

ment. We are pleased that this good performance is not only appreciated by our customers but is also increasingly well-received by a broader public", commented Gerd Haeusler, CEO of BayernLB.

Page 2 of 10
18 May 2011

Earnings

Adjusted for the contribution to the previous-year period's earnings of Landesbank Saar (SaarLB), which has since been deconsolidated, **net interest income** rose 6.4 percent to EUR 479 million. The main contribution here came from Group subsidiary DKB, whose strong retail funding led to a considerable improvement in net interest income.

Risk provisions for the credit business were below forecast at EUR -49 million (Q1 2010: EUR -37 million). It must be taken into account here that due to the value adjustment period for the preceding annual financial statements, risk provisions in the first quarter are usually below the pro rata amount for the full year. Hungarian subsidiary MKB accounted for around 40 percent of provision expenses.

As a result of a significant drop in commission expenses at DKB, **net commission income** climbed by a good 15 percent to EUR 58 million. Further relief will be provided in the course of the year from the partial buy-back of the SoFFin guaranteed bond issued by BayernLB initiated at the end of March.

Gains or losses on fair value measurement, including gains or losses on hedge accounting, of EUR 96 million is in line with forecasts. Customer-driven trading transactions accounted for EUR 45 million in the first three months of 2011, which was slightly below the pro rata figure for the previous-year period.

The unusually high figure in the first quarter of 2010 (EUR 381 million) was primarily market-driven and impacted by one-off items which were partly offset in the course of the year. In addition, changes in the valuation of cross

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currency swaps¹ totalling EUR -85 million had a dampening effect in Q1 2011. These financial instruments served to refinance foreign currency transactions, as it became considerably more difficult for foreign banks to directly acquire US dollars and British pounds as a consequence of the international financial crisis.

Page 3 of 10
18 May 2011

The negative **gains or losses on financial investments** of EUR -45 million (Q1 2010: EUR 10 million) reflect changes in the valuation of the guarantee agreement with the Free State of Bavaria, which serves to hedge losses and valuation changes in BayernLB's ABS portfolio.

Administrative expenses of EUR -363 million were in line with forecasts (Q1 2010: EUR -368 million). High priority is being given to pushing ahead with the "Hercules" restructuring project, which will run until 2013, and to tight cost management.

Key ratios

The BayernLB Group's equity ratio remains comparatively high. The **core capital ratio** climbed to 11.7 percent as at 31 March 2011 (31 December 2010: 11.2 percent).

The **cost-income ratio** in the first quarter of the current year amounted to 54.2 percent. The previous year's figure of 44.3 percent was favourably skewed by the high results from gains or losses on fair value measurement.

¹ Although currency risk is covered by the swaps, valuing them results in higher volatility, depending on the present demand for the currency and liquidity on the market. The valuation of cross currency swaps and the volatility associated with them should continue to be reduced as foreign-currency positions in the Restructuring Unit are wound down further and access to real foreign currency liabilities improves.

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Return on equity was 6.3 percent, less than year end result 2010 (6.7 percent).

Page 4 of 10
18 May 2011

Balance sheet

BayernLB further reduced its **total assets** to EUR 303.3 billion as at 31 March 2011, partly by cutting interbank transactions and financial investments. Total assets were therefore EUR 13.1 billion (4.1 percent) down on 31 December 2010. Year on year they declined by EUR 44.5 billion and thus almost 13 percent.

Despite further shrinking its balance sheet, BayernLB expanded its exposure to the German economy. Loans **to domestic customers** climbed 0.5 percent to EUR 110.0 billion. The combined volume of credit that BayernLB and DKB have provided to Mittelstand companies exceeded EUR 49 billion. This is a very pleasing performance in a climate where the credit needs of many German companies have declined due to their current high liquidity levels.

Presseinfo

Segment reporting²

Page 5 of 10
18 May 2011

The **Corporates, Mittelstand & Retail Customers** segment primarily includes business with major corporates, large Mittelstand companies and the activities of Deutsche Kreditbank (DKB). In Q1 2011, the segment generated earnings before taxes of EUR 141 million, beating last year's figure of EUR 134 million. The large corporates business far exceeded forecasts and generated its earnings almost exclusively from core business activities. Among other activities, the Corporates division acts as a lead manager for its customers in syndicated loans and plays a leading role in placing corporate bonds and Schuldschein note loans on the market in cooperation with the Markets Business Area. One example is a EUR 1.25 billion corporate bond issue for VW, in which BayernLB played a key role. The Mittelstand division continued its successful growth strategy and gained roughly another 40 new customers in the first three months of 2011. DKB, which now boasts 2.2 million retail customers, boosted its earnings before taxes in the first quarter considerably to EUR 40 million (Q1 2010: EUR 26 million).

The **Markets** segment provides capital market and Treasury products to underpin the cross-selling offering for BayernLB's core customers. Generating earnings of EUR 73 million, business with financial institutions and institutional customers, as well as customer-induced business with corporate, Mittelstand, savings bank and real state customers continued to beat forecasts significantly.

² The structure of the four business segments: Corporates & Markets; Mittelstand & Retail Customers; Real Estate, Public Sector & Savings Banks; and Eastern Europe in 2010 was altered in 2011 to reflect the stronger focus on customers. In the first quarter of 2011 the business segments were referred to as "Corporates & Retail Customers" (since 1 May 2011: Corporates, Mittelstand & Retail Customers), "Markets", "Real Estate & Savings Banks/Association" and "Eastern Europe". In addition to these, the two additional segments remain unchanged: Restructuring Unit; and Central Areas & Others.

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However, the segment posted negative earnings before taxes of EUR -98 million overall as at 31 March 2011 (Q1 2010: EUR +220 million) resulting in particular from changes in the valuation of the cross currency swaps mentioned above.

Page 6 of 10
18 May 2011

The **Real Estate & Savings Banks/Association** segment comprises real estate and savings bank activities, business with the public sector, the development bank BayernLabo and LBS Bayern. The segment's earnings before taxes amounted to EUR 113 million (Q1 2010: EUR 62 million). Despite increasingly tough competition, the real estate division posted much higher earnings before taxes than in the year before period. In the savings banks and association business, the focus was on intensifying cooperation with the savings banks. As the market leader in the home loan savings business in the Free State of Bavaria, LBS Bayern's earnings before taxes rose to EUR 17.1 million (Q1 2010: EUR 13.8 million).

The Hungarian subsidiary MKB is reported under the **Eastern Europe** segment and, as expected, its earnings before taxes of EUR -33 million (Q1 2010: EUR 0 million) were significantly down on the year before period. This was predominantly due to the high Hungarian bank levy, which was not yet included in the results for Q1 2010, but which was charged in the first quarter of 2011 at the full amount for the entire year. Overall, MKB's economic environment remains challenging. Nevertheless, BayernLB expects its subsidiary to break even for the full year.

A large part of BayernLB's non-core activities are pooled in the **Restructuring Unit (RU)** segment. Earnings before taxes in the first half of 2011 were EUR 45 million (Q1 2010: EUR 177 million). Active disposals and maturities enabled BayernLB to wind down the RU portfolio by around EUR 4.5 billion to EUR 35.0 billion at the end of the quarter. The RU has therefore reduced its portfolio's original gross exposure by around a half. The dollar's weakness against the euro favoured the greater-than-planned cut in gross exposure.

Presseinfo

Outlook for 2011

Page 7 of 10
18 May 2011

BayernLB continues to expect positive earnings for full year 2011; however, they are expected to remain below the very good results of financial year 2010.

Note:

The Group Financial Report for the first quarter of 2011 can be downloaded in German and English on www.bayernlb.de.

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Income statement

Page 8 of 10
18 May 2011

First quarter of 2011

EUR million	1 Jan-31 Mar 2011	1 Jan-31 Mar 2010
Net interest income	479	480
Risk provisions for the credit business	-49	-37
Net commission income	58	50
Gains or losses on fair value measurement*	96	381
Gains or losses on financial investments**	-37	9
Other income and expenses	37	-12
Administrative expenses	-363	-368
Expenses for bank levies	-70	0
Gains or losses on restructuring	-2	-5
Earnings before taxes	149	498

* Including gains or losses on hedge accounting

** Including income from interests in companies valued at equity

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Segment reporting
Reporting date 31 March 2011

Page 9 of 10
18 May 2011

EUR million	Corporates, Mittelstand & Retail Customers***	Real Estate & Savings Banks/Association	Markets	Eastern Europe	Restructuring Unit	Central Areas & Others	Consolidation	Group
Net interest income	220	121	47	78	33	24	-44	479
Risk provisions for the credit business	-43	2	9	-21	0	3	0	-49
Net commission income	30	13	-4	15	5	-2	0	58
Gains or losses on fair value measurement*	68	38	-90	10	70	12	-12	96
Gains or losses on financial investments**	2	3	-4	0	-44	0	8	-37
Administrative expenses	-146	-73	-51	-64	-16	-14	0	-363
Expenses for bank levies	-2	0	0	-50	0	-18	0	-70
Other income and expenses	12	9	-6	0	-1	23	0	37
Restructuring	-2	0	0	0	0	0	0	-2
Earnings before taxes	141	113	-98	-33	45	29	-48	149

* Including gains or losses on hedge accounting

** Including income from interests in companies valued at equity

*** Segment description applies as of 1 May 2011. In the first quarter of 2011, the segment was referred to as "Corporates & Retail Customers".

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Key figures

Page 10 of 10
18 May 2011

	31 Mar 2011	31 Dec 2010	Change in percent/ percentage points (pp)
Total assets (EUR billion)	303.3	316.4	-4.1
Credit volume (EUR billion)	223.2	231.2	-3.5
Risk positions (EUR billion)	117.1	123.9	-5.5
Core capital (EUR billion)	13.7	13.9	-1.4
Core capital ratio (in percent)	11.7	11.2	0.5 pp
Number of employees	10,714	10,853	-1.3