

Pressrelease

16 November 2011

First nine months of 2011: BayernLB posts earnings before taxes of EUR 152 million

- **Earnings generated completely from the new BayernLB's core business**
- **Higher net interest and net commission income reflects satisfactory customer business year to date**
- **Legal changes in Hungary and the sovereign debt crisis result in negative third quarter earnings before taxes of EUR -92 million**
- **Forecast for full year not possible due to increased uncertainty**

Munich – BayernLB has posted earnings before taxes of EUR 152 million for the first nine months of 2011. The earnings came from BayernLB's core business with corporate, real estate and retail customers, the savings banks and the public sector. The satisfactory operating performance in the first three quarters is reflected in the slight rise in net interest and net commission income on the previous year's figures. A comparison with the nine-month earnings of EUR 669 million from the year-before period is of only limited value: For example, this year BayernLB has to pay the German bank levy for the first time and take writedowns as a result of the sovereign debt crisis, while in 2010 one-off items and valuation writeups driven by the financial markets had a positive impact on the income statement.

In September, a confiscatory-like intervention in the contractual relationship between the Bank and its customers in Hungary overshadowed the new BayernLB's profitable core business in the third quarter. A law rushed through the parliament in Budapest allows Hungarian individuals to repay loans in foreign currencies by the end of February 2012 at exchange rates far from

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market rates. This will have a large negative impact on the banking sector, as the banks will have to bear the loss resulting from the difference to the market exchange rate. The Hungarian subsidiary MKB has established precautionary provisions of EUR 108 million which weighed heavily on BayernLB's reported third-quarter results of EUR -92 million. Had it not been for this politically motivated act, BayernLB would have posted positive results in the third quarter as well. The Hungarian Banking Association questions whether the act is consistent with national and EU-wide law and has filed a suit against it.

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Third quarter results were further dampened by the worsening sovereign debt crisis. BayernLB wrote down Greek government bonds held in the Group solely by the subsidiaries DKB and Banque LBLux to their market value as at 30 September 2011. This gave rise to an impairment charge of EUR 25 million at Group level, although the bonds had already been written down by EUR 79 million in the interim financial statements. The Greek government bonds were thus carried on the consolidated balance sheet at around 47 percent of their EUR 165 million nominal value.

Gerd Haeusler, CEO of BayernLB, commented on the Bank's performance in the first nine months of 2011: "The solid core business of the new BayernLB was regrettably overshadowed by losses in other areas. Net interest and commission income as well as lower risk provisions in the core business show once again that the business model of the revamped BayernLB is working. Only the government intervention in Hungary and the impact of the sovereign debt crisis prevented us from continuing our series of six positive quarters in a row. We are determined to press on with the restructuring of BayernLB."

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Income statement for the first nine months of 2011

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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 and at DKB which more than offset declining earnings contributions from the foreign branches and MKB.

Risk provisions in the credit business amounted to EUR -323 million (previous-year period: EUR -378 million). MKB accounted for about 70 percent of this. This amount includes the provisions for expected losses resulting from the repayment of foreign currency loans. In addition to this, MKB's risk provisioning requirements remained high due to the economic situation in Eastern and Southeastern Europe. Provisioning requirements at the BayernLB core bank remained low.

Net commission income at the Bank 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 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 writeups in the investment portfolios. Earnings from trading transactions on behalf of customers amounted to EUR 66 million (previous-year period: EUR 200 million). This includes fair value adjustments which had a negative impact on the third quarter and weighed on nine-month earnings to the tune of EUR -63 million. The main trigger for this was a 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 rating downgrades on some business partners.

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

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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.

Gains or losses on fair value measurement 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 amounted to EUR -145 million (previous-year period: EUR -126 million). This item included writedowns of EUR -104 million on the Greek government bonds held by DKB and Banque LBLux.

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).

The BayernLB Group posted expenses for bank levies of EUR -115 million (previous-year period: EUR -38 million) as at 30 September. 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 full year 2011.

Gains or losses on restructuring at the BayernLB Group came to EUR -10 million. The high positive figure for the previous-year period of EUR 124 million was due primarily to non-recurring income of EUR 166 million, largely arising from restructuring-related pension plan changes.

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Balance sheet and key figures as at 30 September 2011

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As at 30 September 2011, BayernLB had reduced its **total assets** to EUR 313.1 billion, a decrease of EUR 3.3 billion on the 2010 year-end figure.

The results of BayernLB's planned restructuring can be seen in the further decrease in foreign exposures and the simultaneous increase in domestic activities. **Loans and advances to customers** rose on balance by 0.7 percent to EUR 156.6 billion. This figure is the result of a EUR 3.1 billion fall in **loans and advances to foreign customers** to 42.9 billion and a EUR 4.2 billion rise in **loans and advances to domestic customers** to EUR 113.7 billion, resulting in part from the growing business with Mittelstand customers.

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.

BayernLB's **core capital ratio** stood at 11.6 percent as at 30 September.

Segment reporting

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). Net interest and net commission income surged, boosted in particular by DKB. The Mittelstand division successfully continued its growth strategy and beat its ambitious earnings targets for the first nine months. The credit volume rose by around 20 percent and more than 180 new customers were acquired. This segment's results were dampened by writedowns of EUR 104 million on the Greek government bonds held by DKB and Banque LBLux. However, DKB still generated earnings before taxes of EUR 86 million, almost unchanged on the same period last year (EUR 88 million), due to good customer business in its three main business pillars of retail cus-

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tomers, corporate customers and infrastructure. Banque LBLux posted a loss before taxes of EUR -37 million (previous-year period: EUR 21 million).

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Earnings before taxes in the **Real Estate & Savings Banks/Association** segment climbed EUR 56 million on the previous year's figure to EUR 221 million. Contributing to this was a significant reduction in risk provisioning requirements. BayernLB achieved good figures in new real estate business and increased income in the reporting period by 12 percent. The Savings Banks & Association division benefited from good business with capital market products and from BayernLB's position as one of the leading wholesalers of physical precious metals, particularly in trading on behalf of savings banks.

Earnings before taxes in the **Markets** segments were especially marked by temporary valuation markdowns and amounted to a negative EUR -94 million. Compared to the previous-year period, counterparty-specific fair value adjustments and measurement markdowns from interest 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 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.

The **Eastern Europe** segment comprises solely MKB and posted a large loss before taxes of EUR -186 million due to the new law on repayment of foreign currency loans in Hungary. The Hungarian bank levy also reduced earnings to the tune of EUR -51 million. The ongoing weak economic situation in Eastern and Southeastern Europe continued to have a dampening effect.

The **Restructuring Unit** segment contributed earnings before taxes of EUR 89 million (previous-year period: EUR 246 million) in the first nine months of the

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year. Since the beginning of the year, the nominal volume of the investment and credit portfolios has been cut by around EUR 10 billion to EUR 30 billion as at 30 September. The portfolios thus continue to be downsized much faster than planned.

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Outlook for full year 2011

Despite the gloomy economic outlook in its core markets, BayernLB expects operating business with customers to remain stable in the fourth quarter.

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 also impossible to reliably anticipate the expenses from the law unexpectedly passed in Hungary on repayment of foreign currency loans and potential offsetting measures. According to the law, customers with foreign currency loans have until 31 December 2011 to decide to convert their loans. Repayment must be effected by 29 February 2012. Due to these unknown factors, the BayernLB Board of Management is refraining from making an earnings forecast for full year 2011.

At the end of the year, BayernLB will have a solid capital base and comfortable liquidity on hand. In a capital review conducted in October on government bond exposure at major European banks, the supervisory authority EBA determined that BayernLB does not need any additional capital. BayernLB has already covered its funding needs into the second quarter of 2012.

BayernLB's Consolidated Financial Report as at 30 September 2011 can be downloaded as a PDF on www.bayernlb.de in German and English.

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Income statement

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	1 Jan-30 Sep 2011 EUR million	1 Jan-30 Sep 2010 EUR million	Change in percent/pp
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 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 restructur- ing	-10	124	-
Earnings before taxes	152	669	-77.3

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Quarterly comparison

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	Q3 2011 EUR million	Q2 2011 EUR million	Q1 2011 EUR million
Net interest income	468	497	479
Risk provisions in the credit business	-211	-63	-49
Net commission income	64	67	58
Gains or losses on fair value measurement	-41	91	60
Gains or losses on 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
Earnings before taxes	-92	95	149

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Balance sheet excerpt (IFRS)

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	31 Sep 2011 EUR million	31 Dec 2010 EUR million	Change in percent
Total assets	313,050	316,354	-1.0
Loans and advances to banks	54,785	61,688	-11.2
Loans and advances to customers	156,540	155,414	0.7
Assets held for trading	46,743	40,924	14.2
Liabilities to banks	77,377	83,171	-7.0
Liabilities to customers	94,815	91,734	3.4
Liabilities held for trading	33,961	30,918	9.8

Key figures

	30 Sep 2011	31 Dec 2010	Change in percent/pp
Core capital (EUR billion)	13.6	13.9	-2.3
Core capital ratio (in percent)	11.6	11.2	0.4 pp
Risk positions (EUR billion)	117.1	123.9	-5.4