



*Facts and figures*

[ BAYERNLB | GROUP FINANCIAL REPORT ]

FIRST QUARTER OF 2010

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**Note:**

This Group financial report as at 31 March 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.

# BayernLB Group – the first quarter of 2010 at a glance

## Income statement (year-before figures adjusted to delete the earnings contribution of Hypo Group Alpe Adria (HGAA))

EUR million	1 Jan – 31 Mar 2010	1 Jan – 31 Mar 2009
Net interest income	480	448
Risk provisions for the credit business	–37	–74
Net commission income	50	79
Gains or losses on fair value measurement	391	133
Gains or losses on investments	10	274
Administrative expenses	–368	–389
<b>Operating profit/loss</b>	<b>504</b>	<b>533</b>
Restructuring expenses	–5	–226
<b>Earnings before taxes</b>	<b>498</b>	<b>307</b>

## Balance sheet figures

EUR billion	31 Mar 2010	31 Dec 2009
Total assets	347.8	338.8
Credit volume	250.1	251.7
Equity and subordinated capital	22.3	22.8

## Key banking regulatory data

	31 Mar 2010	31 Dec 2009
Core capital (EUR billion)	14.7	14.8
Own funds (EUR billion)	20.1	21.4
Risk positions (EUR billion)	137.5	135.8
Core capital ratio	10.6 %	10.9 %
Total capital ratio	14.6 %	15.7 %

## Employees

	31 Mar 2010	31 Dec 2009
Number of employees	11,517	11,821

## 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

# Business performance in the first quarter of 2010

## Earnings

EUR million	1 Jan – 31 Mar 2010	1 Jan – 31 Mar 2009 (adjusted for HGAA)	1 Jan – 31 Mar 2009 (including HGAA)
Net interest income	480	448	574
Risk provisions for the credit business	–37	–74	–138
<b>Net interest income after risk provisions</b>	<b>444</b>	<b>374</b>	<b>436</b>
Net commission income	50	79	115
Gains or losses on fair value measurement	391	133	166
Gains or losses on hedge accounting	–10	8	35
Gains or losses on investments	10	274	268
Income from interests in companies valued at equity	–1	0	0
Administrative expenses	–368	–389	–553
Other income	–12	53	89
<b>Operating profit/loss</b>	<b>504</b>	<b>533</b>	<b>557</b>
Restructuring expenses	–5	–226	–226
<b>Earnings before taxes</b>	<b>498</b>	<b>307</b>	<b>331</b>

Calculations may result in the figures in the tables being rounded up or down to the next unit.

The first quarter of 2010 at BayernLB was marked by stable customer business and thus stable long-term sources of revenues, but also by a liquidity-fuelled recovery on the capital markets which boosted BayernLB too. In addition, the cost structure was further optimised by the systematic implementation of the Project Hercules restructuring programme.

Operating profit at the BayernLB Group amounted to a satisfactory EUR 504 million in Q1 2010 (Q1/2009: EUR 557 million). Earnings before taxes rose by 50.6 percent compared to the same period in the previous year to EUR 498 million (Q1/2009: 331 million), mainly due to a sharp fall in restructuring expenses.

In order to put the results on a comparable basis, the figures for the year before quarter (Q1 2009) have been adjusted to remove HGAA's impact. Although HGAA drove gross earnings higher in Q1 2009, its contribution to Group operating earnings amounted to just EUR 24 million. The following comments are based on the adjusted figures for the year before period.

Net interest income rose 7.1 percent in Q1 2010 to EUR 480 million. The BayernLB Group benefited from the lower cost of liquidity stemming from the recovery on the money and capital markets.

Risk provisions in the credit business fell by half in the first three months of 2010 compared to the year before period (–50.0 percent to EUR –37 million). Making a positive contribution to the performance of risk provisions in the credit business were net writebacks of provisions in the portfolios of the Restructuring Unit and the Corporates & Markets segment. Overall, there were no significant developments in credit risk provisioning in Q1 2010.

Net commission income decreased to EUR 50 million as a result of the streamlining of business under the restructuring plan, the withdrawal from non-core activities, and the smaller scope of activities in the Markets division (Q1/2009: EUR 79 million). As in the year-before period, this item also includes guarantee fees of EUR 12 million to the German Financial Markets Stabilisation Fund (SoFFin).

Gains or losses on fair value measurement amounted to EUR 391 million in Q1 2010 compared to EUR 133 million in the year before period. The liquidity-driven recovery on capital markets and significant narrowing of credit spreads in corporate credit led to valuation writeups and gains on sales particularly in the portfolios of the Corporates & Markets business area and the Restructuring Unit. Customer-related trading business at BayernLB contributed EUR 112 million to the results. The rest came to a large degree from valuation writeups and gains on sales in asset liability management (ALM) and in the ABS securities portfolios of the Restructuring Unit and from other effects from applying IAS 39. At this time however, it cannot be assumed that this performance can be sustained.

Gains or losses on investments includes price increases and gains on sales from the ABS portfolio that are offset by the terms of the "Umbrella" hedging transaction with the Free State of Bavaria. Gains or losses on investments amounted to EUR 10 million (Q1/2009: EUR 274 million).

Administrative expenses fell a further 5.4 percent to EUR –368 million. Staff costs included in this figure dropped by 9.4 percent to EUR –174 million. The cost savings were achieved by the systematic implementation of Project Hercules throughout the BayernLB Group. Both staff costs and overhead expenses in the first three months of 2010 were below forecasts. The number of employees decreased by 304 compared to year-end 2009 and amounted to 11,517 on 31 March 2010.

Weighing on other income (EUR –12 million vs. EUR 53 million in Q1/2009) were expenses for replenishing the principal of hybrid capital instruments in future.

Thanks to the high results from gains and losses on fair value measurement and other factors, the cost-income ratio (CIR) was a very good 41 percent. This was 15.4 percentage points below the figure for the year before period.

Most of the restructuring expenses related to Project Hercules, which concerns the withdrawal from non-core activities, were booked in FY 2009. In the first quarter of 2010, they amounted to EUR –5 million (Q1/2009: EUR –226 million).

Return on Equity (RoE) was 16.5 percent, slightly below Q1 2009 (19.7 percent).

## Banking supervisory capital

The equity base of the BayernLB Group remains solid. As at 31 March 2010, the core capital ratio was 10.6 percent and the own funds ratio was 14.6 percent. Non-core business was further wound down in the quarter. Accordingly, risk positions remained nearly unchanged at EUR 116.6 billion, despite the stronger US dollar. Compared to year-end 2009, equity decreased by EUR 1.3 billion to EUR 20.1 billion mainly due to maturing subordinate capital. Core capital slipped slightly by EUR 0.1 billion to EUR 14.7 billion as a result of maturing silent partner contributions.

## Net assets and financial position

### Assets

EUR million	31 Mar 2010	31 Dec 2009
Cash reserves	2,663	3,512
Loans and advances to banks	74,687	74,606
Loans and advances to customers	159,395	158,962
Risk provisions	-2,841	-2,820
Portfolio hedge adjustment assets	843	674
Assets held for trading	44,006	37,787
Positive fair values from derivative financial instruments (hedge accounting)	4,466	4,037
Investments including interests in companies valued at equity	55,311	54,111
Investment property	2,758	2,761
Property, plant and equipment	840	836
Intangible assets	266	266
Tax assets	3,106	3,168
Other assets	2,278	916
<b>Total assets</b>	<b>347,779</b>	<b>338,818</b>

### Liabilities

EUR million	31 Mar 2010	31 Dec 2009
Liabilities to banks	88,445	91,484
Liabilities to customers	98,392	92,197
Securitised liabilities	90,406	92,968
Liabilities held for trading	35,224	29,304
Negative fair values from derivative financial instruments (hedge accounting)	2,328	2,380
Provisions	3,281	3,286
Tax liabilities	3,333	3,368
Other liabilities	4,031	1,053
Subordinated capital	7,979	8,717
Equity	14,360	14,061
<b>Total liabilities</b>	<b>347,779</b>	<b>338,818</b>

Calculations may result in the figures in the tables being rounded up or down to the next unit.

Total assets of the BayernLB Group rose just slightly by 2.6 percent to EUR 347.8 billion. The increase was due in part to the stronger US dollar, but also to higher market prices for trading assets and liabilities resulting from the closing of open interest rate derivatives and the unwinding of credit derivative positions – in each case by taking the opposite side of the trade.

Exposure to the sovereign debt of EMU countries that are currently experiencing financial difficulties totalled EUR 1.1 bn as at 31 March 2010 and was broken down as follows: Greece: EUR 0.3 billion; Ireland: EUR 0.1 billion; Italy: EUR 0.6 billion; Portugal: < EUR 0.1 billion; Spain: < EUR 0.1 billion. The exposure fell by EUR 0.6 billion compared to 31 December 2009.

### Segment reporting 1 Jan–31 Mar 2010

Segment reporting reflects the business structure of the BayernLB Group. As at 1 July 2009, external segment reporting was reorganised as part of the restructuring and streamlining to reflect the new business strategy and new internal segments. The segment report is based on the monthly management reports to the Board of Management.

The four business segments contain BayernLB's operating business areas, its two dependent institutions, and the consolidated subsidiaries. They are: Corporates & Markets; Real Estate/Public Sector & Savings Banks (including BayernLabo); Mittelstand & Retail Customers (which includes LBS Bayern and also the subsidiaries DKB, Banque LBLux and SaarLB); and Eastern Europe (which after the deconsolidation of HGAA now consists of MKB).

The Restructuring Unit segment contains the portfolios of the business areas that have been designated as non-core as part of the restructuring project and also BayernLB's Credit Investment Portfolio. The Central Areas & Others segment shows the earnings contributions which are not attributable to any of the other segments.

EUR million	Corporates & Markets	Real Estate/Public Sector & Savings Banks	Mittelstand & Retail Customers	Eastern Europe	Restructuring Unit	Central Areas and Others	Consolidation	Group
Net interest income	109	74	195	89	48	16	-52	480
Risk provisions in the credit business	6	-4	-30	-46	41	-3	0	-37
Net commission income	22	15	-16	21	9	-1	0	50
Gains or losses on fair value measurement	239	8	25	-1	122	-35	32	391
Gains or losses on hedge accounting	-9	0	0	0	0	-1	0	-10
Gains or losses on investments	1	0	16	9	-26	0	9	10
Income from interests in companies valued at equity	0	0	0	0	0	0	-1	-1
Administrative expenses	-77	-50	-140	-70	-17	-14	0	-368
Other income	21	3	13	-3	0	-50	4	-12
<b>Operating profit/loss</b>	<b>312</b>	<b>47</b>	<b>63</b>	<b>0</b>	<b>177</b>	<b>-88</b>	<b>-7</b>	<b>504</b>
Restructuring expenses	0	-1	-3	0	0	-2	0	-5
Earnings before taxes	312	46	60	0	177	-90	-7	498
Return on equity (RoE) (%)	28.8%	16.7%	5.9%	0.5%	19.0%	-	-	16.5% <sup>1</sup>
Cost income ratio (CIR) (%)	20.2%	49.4%	64.8%	65.3%	9.6%	-	-	41.0%

<sup>1</sup> Group return on equity (in %) does not include the earnings and equity of BayernLabo.

Operating earnings in the three business segments Corporates & Markets; Real Estate/Public Sector & Savings Banks; and Mittelstand & Retail Customers all rose compared to the year before period. After the deconsolidation of HGAA, the Eastern Europe segment now comprises the Hungarian sub-group MKB, which broke even in Q1 2010.

Results in the Corporates & Markets segment as well as the Restructuring Unit were boosted by the very high results from the gains or losses from fair value measurement item in Q1 2010. After getting off to a successful start in 2010, Corporates did a good job of gaining new business despite fierce competition among banks for target customers. Virtually all earnings growth came from core customers. As part of the focus on increasing the profitability of business relationships, BayernLB participated in issuing corporate bonds for several well-known companies. For example, in January BayernLB as Joint Lead Manager successfully placed a EUR 2.5 billion bond issued by BMW Finance N.V. with a guarantee by BMW AG. Operating earnings in the Mittelstand & Retail Customers segment also rose. BayernLB's plan to actively expand business with German middle-market companies is proceeding on schedule. In Q1 2010, BayernLB gained numerous new customers from this segment in both Bavaria and the rest of Germany. DKB benefitted once again

from strong growth in customer deposits together with a higher-than-expected increase in new retail customers. Good earnings were also posted by DKB again in the business with Mittelstand customers. Performance in the business segment Real Estate/Public Sector & Savings Banks was stable. Cooperation with the Bavarian Savings Banks was further intensified in the reporting period at all levels. MKB was able to break even despite operating in a tough economic environment and with no change in its high risk provisions in the credit business. Internal risk processes at MKB are currently being strengthened and upgraded to deal with the challenging situation facing the markets in Eastern Europe.

### Outlook

The first quarter of 2010 was satisfactory for the BayernLB Group, aided by the recovery on capital markets and better economic conditions. The new strategy and focus on the customer business is bearing fruit. There has been a sustained decrease in expense items as a result of the systematic implementation of the transformation programme. However, it cannot be assumed that the highly favourable environment on German and international money and capital markets will remain unchanged for the rest of the year. Both general and specific risks on the capital markets have risen sharply recently. Given this, it is not possible at this time to forecast how events will unfold. Moreover, credit risk costs are expected to sharply increase over the course of the year in response to seasonal and economic factors. BayernLB thus reaffirms the cautious outlook of its forecast in the 2009 Annual Report in which the Bank expects earnings to be slightly positive at the end of the year.

# Administrative bodies of BayernLB

## Board of Administration

### **Georg Fahrenschon**

Chairman  
State Minister  
Bavarian State Ministry of Finance  
Munich

### **Gerd Haeusler**

until 31 Mar 2010  
First Deputy Chairman  
Director  
RHJ International  
Zurich

### **Siegmond Schiminski**

Second Deputy Chairman  
Chairman of the Board of Directors of  
Sparkasse Bayreuth  
Bayreuth

### **Dr. Michael Bauer**

since 15 Jan 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

### **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

### **Klaus Weigert**

until 14 Jan 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 (with allocation of responsibilities 1 Jan–31 Mar 2010)

### **Stefan Ermisch**

Deputy Chief Executive Officer  
Interim Chief Executive Officer  
Corporate Center Center Area<sup>1</sup>  
Group Risk Control Division  
Financial Office Central Area  
IT & Operations Central Area

### **Stefan W. Ropers**

Corporates & Markets Business Area

### **Dr. Ralph Schmidt**

until 31 Mar 2010  
Risk Office Central Area<sup>2</sup>  
Restructuring Unit Central Area

### **Dr. Edgar Zoller**

Real Estate, Public Sector  
& Savings Banks Business Area  
(central bank to the savings banks)  
Bayerische Landesbodenkreditanstalt<sup>3</sup>  
Corporate Center Central Area<sup>1</sup>

### **Jan Christian Dreesen**

Mittelstand & Retail Customers Business Area  
Bayerische Landesbodenkreditanstalt<sup>3</sup>

<sup>1</sup> The Legal Services and Group Compliance Divisions are assigned to Dr. Edgar Zoller; the data protection officer reports directly to the Board of Management but is assigned to the Legal Services Division.

<sup>2</sup> Excluding Group Risk Control Division

<sup>3</sup> Institutions of the Bank

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