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BAYERNLB

GROUP FINANCIAL REPORT

30 SEPTEMBER 2012

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Note:

This Group financial report as at 30 September 2012 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,
Dear Customers,

Despite the difficult economic environment, BayernLB's earnings in the first nine months of financial year 2012 were stable and its operating income rose year-on-year. Earnings before taxes at the end of the first nine months were EUR 271 million, compared to EUR 152 million in the year-before period. The third quarter of 2012 was positive again, as were the previous two quarters, with earnings of EUR 97 million before tax. The satisfactory results for the first nine months were generated solely from the Bank's core activities.

Bayerische Landesbank's customer-related business was pleasing once again. Despite the discontinuation of new business with customers without any connection to Germany, total revenues in business with large and medium-sized (Mittelstand) corporate customers remained stable. At Deutsche Kreditbank, Berlin (DKB), which operates the retail business within the BayernLB Group, the number of customers served via the internet rose to 2.5 million. In the commercial real estate sector, BayernLB expanded its new business in Germany. Business activities with the Bavarian savings banks performed well, particularly with regard to capital market products and trading in foreign currency and precious metals.

This pleasing performance in the core and customer-related business highlights the fact that the new BayernLB is on the right path as a leaner, but highly capable corporate and real estate financier and as a reliable partner for the savings banks. This enabled the Bank to deal with some of the negative impact of legacy assets and one-time items.

The losses at MKB, which is not part of the Bank's core business and which as at 30 September reported negative pre-tax earnings of EUR –131 million, weighed heaviest on the results. Aside from the disproportionately high bank levy imposed in Hungary, the country's economy continues to perform poorly, further impacting on earnings. This had a bearing on the risk provisions which, although somewhat lower than in the year-before period, were still high. In addition, business volume slumped considerably as a result of the law passed in autumn 2011 allowing conversion of mortgages denominated in foreign currencies. In the wake of these events, BayernLB completed a capital increase of EUR 230 million at MKB by the end of October without any overall change in BayernLB's total exposure to MKB. BayernLB is working intensively with the new management at MKB on restructuring the Hungarian subsidiary and has begun to reap the fruits of its labours in the form of lower costs and independent funding. The economic and political situation in Hungary renders it impossible to rule out further charges for the BayernLB Group in relation to MKB as time goes on.

Furthermore, one-off charges and accounting-related valuation effects, which BayernLB already took account of in the first half of 2012, took their toll on earnings. Among the one-off charges was an addition to pension provisions following a ruling by the German Federal Employment Court on BayernLB's pension scheme. Mark-to-market valuations on cross-currency swaps, own credit spreads and the strategic liquidity reserve established as a precautionary measure further weighed on earnings.

BayernLB continues to press ahead with its restructuring, which is already far advanced, and with systematically winding down non-core activities. The Restructuring Unit established back in mid-2009 has reduced the volume of lending and securities portfolios by a further EUR 7 billion to EUR 20 billion since the beginning of 2012. The Restructuring Unit started operations with a volume of around EUR 67 billion. Consolidated total assets decreased to just over EUR 300 billion as at the reporting date of 30 September 2012.

BayernLB is swiftly fulfilling its commitments made to the EU Commission as part of the state aid proceedings. LBS Bayern will be handed over to the Bavarian savings banks at the end of the year as planned. BayernLB began the process to sell its holding in residential construction company GBW AG in mid-October. By the application deadline on 9 November, numerous prestigious companies from Germany and abroad had registered their interest in an acquisition. BayernLB's Board of Management expects indicative bids before Christmas 2012. The transaction is scheduled to be completed by spring 2013. To ensure this measure and all the other conditions and commitments made to the EU Commission are implemented, they will be monitored in the next few years by an independent trustee appointed by the EU Commission.

BayernLB's capital base remains solid. The core tier 1 ratio as defined by the European Banking Authority (EBA) improved to 10.9 percent (+1.1 percentage points) as at the end of the third quarter. In order to further optimise its capital structure, BayernLB launched a repurchase offer in October for the tier 1 US-dollar bond issued in 2007 which does not count towards hard core capital under the Basel III rules. The high level of interest on the part of investors will have a positive impact on BayernLB's net income for the year under IFRS.

After the Board of Management pushed forward the shift from the "old" Landesbank to a customer-oriented corporate bank in recent years, the Bank must now focus more closely on efficiency. As a first step, a number of back office operations which had previously been spread among several members of the Board were combined by the Board of Management in mid-September into a single area of responsibility serving the whole Bank. As part of this organisational reshuffle, Nils Niermann, previously responsible for capital markets business and Group IT, assumed the role of Chief Operating Officer (COO), newly created as of 1 November 2012.

Conditions in the financial sector remain challenging. In particular, risks still exist from the still smouldering economic crisis in parts of the eurozone. BayernLB expects consolidated earnings before taxes under IFRS to be positive for full year 2012, unless there are major disruptions on the financial markets or the economy falls into an unexpectedly severe slump.

The Board of Management and employees of BayernLB, to whom our special thanks are due for their tireless dedication, are working hard on achieving the target structure of the new BayernLB as a sustainably profitable customer-focused bank. We thank our customers for the trust they have placed in us.

Sincerely,
The Board of Management

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 as at 30 September 2012 at a glance

Income statement (IFRS)

EUR million	1 Jan – 30 Sep 2012	1 Jan – 30 Sep 2011	Change in percent
Net interest income	1,351	1,444	–6.4
Risk provisions in the credit business	–294	–323	–9.2
Net commission income	197	189	4.3
Gains or losses on fair value measurement	280	110	>100.0
Gains or losses on financial investments	–43	–145	–70.2
Administrative expenses	–1,191	–1,102	8.1
Expenses for bank levies	–53	–115	–53.9
Gains or losses on restructuring	–29	–10	>100.0
Earnings before taxes	**271**	**152**	78.9

Balance sheet (IFRS)

EUR million	30 Sep 2012	31 Dec 2011	Change in percent
Total assets	300,891	309,144	–2.7
Credit volume	212,409	220,729	–3.8
Equity and subordinated capital	21,582	21,175	1.9

Banking supervisory ratios under the German Banking Act (KWG)

	30 Sep 2012	31 Dec 2011	Change in percent/pp
Core capital (EUR billion)	13.5	13.5	0.3
Own funds (EUR billion)	18.1	18.4	–1.6
Risk positions under the Solvency Ordinance (EUR billion)	107.4	118.4	–9.3
Core capital ratio	12.6 %	11.4 %	1.2 pp[1]
Overall ratio	16.9 %	15.6 %	1.3 pp[1]

Employees

	30 Sep 2012	31 Dec 2011	Change in percent
Number of employees	10,686	10,893	–1.9

Current ratings

	Long-term	Short-term	Pfandbriefs[2]
Fitch Ratings	A+	F1+	AAA
Moody's Investors Service	Baa1	Prime-2	Aaa

1 Percentage points
2 Applies to public-sector Pfandbriefs and mortgage Pfandbriefs

Quarterly comparison

The following overview compares performance in the third quarter with that of the first and second quarters of 2012.

EUR million	Q3 2012	Q2 2012	Q1 2012
Net interest income	494	430	428
Risk provisions in the credit business	–90	–151	–53
Net interest income after risk provisions	**404**	**279**	**375**
Net commission income	57	76	64
Gains or losses on fair value measurement	32	242	6
Gains or losses on hedge accounting	–23	55	5
Gains or losses on financial investments	–23	–24	4
Income from interests in companies measured at equity	–12	–13	–1
Administrative expenses	–341	–496	–354
Expenses for bank levies	0	1	–54
Other income and expenses	19	12	12
Gains or losses on restructuring	–15	–12	–3
Earnings before taxes	**97**	**120**	**54**

Rounding differences may occur in the tables.

Business performance as at 30 September 2012

Financial performance

EUR million	1 Jan – 30 Sep 2012	1 Jan – 30 Sep 2011	Change in percent
Net interest income	1,351	1,444	–6.4
Risk provisions in the credit business	–294	–323	–9.2
Net interest income after risk provisions	**1,058**	**1,121**	**–5.7**
Net commission income	197	189	4.3
Gains or losses on fair value measurement	280	110	>100.0
Gains or losses on hedge accounting	37	56	–34.0
Gains or losses on financial investments	–43	–145	–70.2
Income from interests in companies measured at equity	–26	–12	>100.0
Administrative expenses	–1,191	–1,102	8.1
Expenses for bank levies	–53	–115	–53.9
Other income and expenses	43	60	–28.7
Gains or losses on restructuring	–29	–10	>100.0
Earnings before taxes	**271**	**152**	**78.9**

Rounding differences may occur in the tables.

The ongoing sovereign debt crisis in the euro area is casting a growing shadow on the German economy. The country's economic growth slowed further in the summer and may even come to a standstill in the last quarter. Private consumer spending buoyed the economy thanks to rising employment and higher wages. Exports also remained on an upward trend throughout the period. Decisions taken by the heads of state and government and the European Central Bank to stabilise the currency union succeeded in easing the situation on financial markets. Interest rates in Germany remained extremely low due to the highly expansive monetary policy and a high level of risk aversion on the part of investors.

In this climate, the BayernLB Group was able to post positive results once again in the third quarter of 2012. Due in particular to the solid, satisfactory customer business, earnings before taxes in the Group rose to EUR 271 million as at 30 September 2012, far exceeding the first nine months of 2011 (9m 2011: EUR 152 million).

Net interest income was in line with forecasts at EUR 1,351 million (9m 2011: EUR 1,444 million). The decline could mainly be attributed to lower earnings at MKB, which is undergoing a restructuring process, due to the much lower credit volume there and the performance of the Hungarian forint. Other factors weighing on net interest income were offset by gains on fair value measurement.

Risk provisions in the credit business remained at a moderate level and on the reporting date they stood at EUR –294 million (9m 2011: EUR –323 million). While BayernLB on the whole released provisions in the third quarter, risk provisions for MKB climbed in this period by EUR –83 million to EUR –152 million, primarily triggered by the difficult economic climate in Hungary.

Net commission income was up slightly year-on-year to EUR 197 million (9m 2011: EUR 189 million). As the bond guaranteed by the Financial Market Stabilisation Fund (SoFFin) originally for EUR 5 billion matured in January 2012, the related fees have no longer applied since then.

The gains or losses on fair value measurement item (including gains or losses on hedge accounting) saw a year-on-year surge to EUR 317 million (9m 2011: EUR 166 million). However, it must be taken into account that the high reported earnings were impacted by income which, due to IFRS reporting methodology, was offset by charges in net interest income and gains or losses on financial investments. Adjusted for these components, the gains or losses on fair value measurement would be largely neutral. In the first nine months, charges for measurement of cross currency swaps and own credit spreads weighed on earnings at EUR –163 million and EUR –76 million respectively. Fair value adjustments of EUR 91 million and customer margins of EUR 131 million, on the other hand, made a positive contribution to the results.

Gains or losses on financial investments (including income from interests in companies measured at equity) of EUR –69 million (9m 2011: EUR –157 million) included a EUR –106 million decrease in the value of the Umbrella guarantee agreement concluded with the Free State of Bavaria (9m 2011: EUR –75 million). The aim of the Umbrella is to offset losses and valuation changes in the ABS portfolio, whereby for measurement reasons, earnings are reported in different periods and reporting correlations with the gains or losses on fair value measurement item arise. The previous year period also included impairments on Greek government bonds of EUR –104 million.

Administrative expenses rose 8.1 percent to EUR –1,191 million (9m 2011: EUR –1,102 million). While overhead expenses fell to EUR –546 million in line with forecasts (9m 2011: EUR –579 million), staff costs increased to EUR –645 million (9m 2011: EUR –523 million). The increase, however, was triggered by a one-off item in the second quarter. Under a ruling by the German Federal Employment Court (FEC), employees who meet certain criteria are to be awarded pension benefits modelled on the pension system for civil servants. As a result, BayernLB was forced to add EUR 133 million to pension provisions. Adjusted for this one-off item, staff costs were below that of the year before period.

Expenses for bank levies amounted to EUR –53 million (9m 2011: EUR –115 million); of this, EUR –47 million was levied on MKB, EUR –4 million on DKB and EUR –3 million on BayernLB. These figures account in full for the amounts due in financial year 2012.

Return on equity (RoE)[1] was 3.9 percent (9m 2011: 3.0 percent), the cost/income ratio (CIR)[2] was 62.4 percent (9m 2011: 59.3 percent). Both figures were negatively impacted by the one-off costs related to the FEC verdict.

1 *ROE = Earnings before taxes excluding non-controlling interests, bank levy expenses and gains or losses on restructuring/subscribed capital + hybrid capital instruments + capital surplus and retained earnings. Excludes the share of earnings and equity from 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 2012	31 Dec 2011	Change in percent
Cash reserves	2,182	2,645	–17.5
Loans and advances to banks	47,900	49,555	–3.3
Loans and advances to customers	151,665	157,589	–3.8
Risk provisions	–2,918	–2,922	–0.1
Portfolio hedge adjustment assets	1,814	1,393	30.2
Assets held for trading	42,848	48,607	–11.8
Positive fair values from derivative financial instruments (hedge accounting)	4,578	4,548	0.7
Financial investments including interests in companies measured at equity	39,319	42,009	–6.4
Investment property	2,053	2,061	–0.4
Property, plant and equipment	558	611	–8.6
Intangible assets	175	147	18.8
Tax assets	685	888	–22.9
Non-current assets and disposal groups held for sale	9,049	1,255	>100.0
Other assets	983	756	30.0
Total assets	**300,891**	**309,144**	**–2.7**

Liabilities

EUR million	30 Sep 2012	31 Dec 2011	Change in percent
Liabilities to banks	71,401	75,715	–5.7
Liabilities to customers	85,807	92,682	–7.4
Securitised liabilities	65,392	74,075	–11.7
Liabilities held for trading	35,621	35,717	–0.3
Negative fair values from derivative financial instruments (hedge accounting)	3,770	3,306	14.0
Provisions	4,012	4,064	–1.3
Tax liabilities	987	1,150	–14.1
Liabilities from disposal groups	11,096	536	>100.0
Other liabilities	1,224	724	69.1
Subordinated capital	7,004	6,964	0.6
Equity	14,578	14,211	2.6
Total liabilities	**300,891**	**309,144**	**–2.7**

Rounding differences may occur in the tables.

Total assets as at 30 September 2012 were down EUR 8.3 billion to EUR 300.9 billion at the end of 2011.

The planned sale of LBS Bayern at the end of 2012 to the Association of Bavarian Savings Banks led to a reclassification of LBS Bayern's assets to "non-current assets and disposal groups held for sale" and its liabilities to "liabilities from disposal groups". Customer receivables and liabilities fell accordingly.

When the previous year's figures are adjusted for the above-mentioned reclassification of LBS Bayern, the Bank's strategic reorientation as a customer-serving bank with a focus on German and selected international companies becomes very evident. This is illustrated by the EUR 2.1 billion increase in loans and advances to German customers to EUR 112.4 billion and the EUR 2.7 billion fall in loans and advances to foreign borrowers to EUR 39.3 billion.

The following table provides an overview of the changes in gross credit risk to the EMU countries especially affected by the debt crisis.

EUR million	Gross credit risk 30 Sep 2012	Gross credit risk 31 Dec 2011
Greece	138	218
Italy	3,030	3,399
Ireland	384	657
Portugal	450	582
Spain	4,279	5,792
Total	**8,281**	**10,648**

Of the EMU countries mentioned above, the only remaining risk to a central government is Italy, in the amount of EUR 475 million.

The EUR 5.8 billion decline in assets held for trading to EUR 42.8 billion and the EUR 2.7 billion fall in financial investments to EUR 39.3 billion are primarily due to a reduction in the bond and debenture portfolio.

BayernLB's liquidity remains comfortable and refinancing for 2012 was completed early. Securitised liabilities fell EUR 8.7 billion to EUR 65.4 billion in line with the reduced refinancing requirements as transactions matured. Liabilities to customers decreased EUR 6.9 billion to EUR 85.8 billion. After taking into account the above-mentioned adjustments of the year-before figures for LBS Bayern, liabilities to customers actually rose EUR 2.9 billion or 3.6 percent.

While subordinated capital remained almost unchanged at EUR 7.0 billion, equity increased slightly by EUR 0.4 billion to EUR 14.6 billion.

Banking supervisory capital and ratios

Risk positions as calculated under the German Solvency Ordinance fell 9.3 percent to EUR 107.4 billion as at 30 September 2012. Own funds also saw a slight drop to EUR 18.1 billion as at 30 September 2012 (EUR 18.4 billion as at 31 December 2011). Core capital under the Solvency Ordinance was unchanged at EUR 13.5 billion.

As a result of the sharp drop in risk positions, capital ratios improved further. The core capital ratio is a solid 12.6 percent (11.4 percent as at 31 December 2011), while the own funds ratio is 16.9 percent (15.6 percent as at 31 December 2011).

Core and non-core business of the BayernLB Group

As part of focussing the business model, BayernLB defined business as either core or non-core. Non-core activities are being systematically scaled back to free up liquidity and capital while keeping losses to a minimum. Non-core activities are pooled within the Restructuring Unit segment. They comprise the Eastern Europe segment and a few selected loan portfolios in the business segments as well as selected subsidiaries. On the basis of the European Commission's ruling in the state aid proceedings, received by the Bank at the end of July, additional portfolios were identified which are to be transferred to non-core business by the end of 2012. This will slightly increase the portion of non-core business once more.

The Group's core business was well in the black in the first nine months of 2012. Losses in the non-core business and from the Eastern Europe segment weighed on earnings before taxes.

1 Jan – 30 Sep 2012	Core business (EUR million)	Percent	Non-core business (EUR million)
Total revenues	1,373	75.9	436
Risk provisions	–133	45.1	–161
Administrative expenses	–906	76.1	–285
Expenses for bank levies	–6	12.1	–47
Earnings before taxes	**328**	**120.8**	**–57**
Risk assets (reporting date)	68,766	78.2	19,195

Segments

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 LBS Bayern and consolidated subsidiaries. In addition, details are reported on the two additional segments: "Restructuring Unit" (RU), and "Central Areas & Others".

The contributions of the individual segments to earnings before taxes of EUR 271 million (9m 2011: EUR 152 million) were as follows:

EUR million	1 Jan – 30 Sep 2012	1 Jan – 30 Sep 2011
Corporates, Mittelstand & Retail Customers	471	295
Real Estate & Savings Banks/Association	168	221
Markets	–250	–94
Eastern Europe	–131	–186
Restructuring Unit	50	89
Central Areas and Other/Consolidation	–36	–173

Earnings before taxes in the Corporates, Mittelstand & Retail Customers segment surged 59 percent in the reporting period. Net interest income was below the previous year's figure, due to IFRS treatment of interest rate hedging measures. However, offsetting entries in fair value measurement, proceeds from the sale of DKB Immobilien AG and the impairments for Greece in the year-before period pushed total revenues strongly higher. The good earnings performance offset by far the additional charges from the one-off increase in pension provisions in administrative expenses.

In the first nine months of 2012, Corporates and Mittelstand produced earnings before taxes of EUR 211 million (9m 2011: EUR 246 million). Total revenues remained stable. Lower earnings as a result of the partial pullback from business abroad were offset by intensifying business in the newly-defined core markets. This confirms the new strategy of further strengthening the Bank's position as a corporate financier with a focus on Bavaria and the rest of Germany. In addition to a slight increase in risk provisions, the decline in earnings before taxes resulted primarily from additional charges related to higher pension provisions.

Earnings before taxes at DKB rose in the first nine months to EUR 233 million (9m 2011: EUR 86 million), mainly attributable to good revenues and lower risk provisions. As well as being the result of buoyant customer business, the considerable increase in revenues was also primarily due to the proceeds from the sale of DKB Immobilien AG, measurement effects in the fair value gains or losses item and impairments taken on Greek government bonds in the previous year. Customer deposits are an integral element of refinancing. These grew 16 percent to approximately EUR 39 billion in the first nine months of the year. In addition to expanding its position as "your bank on the web" with 2.5 million retail customers, it also achieved higher inflows of customer funds in business with corporates and municipalities.

Banque LBLux S.A., Luxembourg, posted earnings before taxes of EUR 26 million (9m 2011: EUR –37 million), thereby making a solid contribution to the segment's results.

Earnings before taxes in the "Real Estate & Savings Banks/Association" segment in the first nine months was 24 percent below the year-before period, despite stable total revenues. In addition to a slight rise in risk provisioning, it was mainly the one-off increase in pension provisions which weighed on earnings.

Customer business in real estate performed well in the reporting period. Net interest and commission income were buoyed slightly by satisfactory new business performance – particularly in Germany – despite a selective pullback from foreign business without a connection to Germany. Although risk provisions rose minimally, they remain low due to the good quality of the portfolio. The decline in earnings before taxes to EUR 80 million (9m 2011: EUR 103 million) is thus largely attributable to an increase in administrative expenses due to the hike in pension provisions.

The successful collaboration with the savings banks and public sector, which was further intensified, boosted total revenues considerably in "Savings Banks/Association" compared to the same period in 2011. The division's earnings were lifted by business in capital market products and strong demand for foreign notes, coins and precious metals. However, this was counterbalanced by higher administrative expenses caused by the increased pension provisions, so that earnings before taxes amounted to EUR 15 million and were therefore on a par with the first nine months of 2011 (9m 2011: EUR 16 million).

Low interest rates and the decreasing volume of commitments weighed on earnings at BayernLabo in the first nine months. In addition, there was a rise in administrative expenses due to higher pension provisions. Earnings before taxes fell to EUR 34 million (9m 2011: EUR 50 million).

LBS Bayern continued to post good growth in new business with home loan savings volumes of EUR 6.6 billion. Contract numbers were up by 13 percent, while home loan savings volumes were 3 percent higher than the year-before period. Despite low interest rates, total revenues climbed slightly. Higher pension provisions resulted in an increase in administrative expenses and thus lower earnings before taxes of EUR 30 million (9m 2011: EUR 41 million).

Earnings before taxes of EUR –250 million in the Markets segment during the reporting period were sharply lower than the year-before period (9m 2011: EUR –94 million) due primarily to valuation effects. Changes in the market values of cross-currency swaps, own issues (own credit spread) and securities held in the strategic liquidity reserve were largely responsible for this. Also weighing on the Markets segment was an increase in administrative expenses caused by higher pension provisions. In contrast, earnings from financial institutions and institutional customers and business with customers from the Corporates, Mittelstand, Savings Banks and Real Estate businesses were buoyant.

In the "Eastern Europe" segment, the ongoing weak economic environment in south-eastern Europe made it difficult to acquire new business with risk profiles that comply with strategy and commission business. It also continued to be influenced by government intervention in FX loans in 2011. This weighed considerably on revenues. Although risk provisions were lower than in the year-before period, they nonetheless remained high. Earnings before taxes rose as a result; however the segment is still running a high deficit. Although the economic outlook for Hungary is very modest, and competition continues to be very fierce in the country's domestic market, MKB continued to press ahead with its new strategy. The emphasis here is on rapidly implementing the new strategy in the core business, cutting administrative expenses and steadily winding down non-core portfolios.

In the “Restructuring Unit” segment, the credit volume and nominal volume of the investment portfolios were successfully reduced further. In the current financial year they have been cut by another EUR 7.0 billion to EUR 19.9 billion. Since the end of 2011, risk assets have therefore fallen by EUR 3.0 billion to EUR 8.5 billion. Despite these active winding down measures, the segment generated significantly positive earnings before taxes of EUR 50 million (9m 2011: EUR 89 million).

The Central Areas and Others/Consolidation segment comprises the central areas and business transactions executed in the overall interests of the Bank or Group and therefore not allocated to the individual business area segments. Earnings before taxes in the 2012 reporting period were EUR –36 million (9m 2011: EUR –173 million).

Segment reporting as at 30 September 2012

EUR million	Corporates, Mittelstand & Retail Customers	Real Estate & Savings Banks/Association	Markets	Eastern Europe	Restructuring Unit	Central Areas & Other	Consolidation	Group
Net interest income	665	379	71	167	74	224	–229	1,351
Risk provisions in the credit business	–116	–11	–14	–152	1	–2	0	–294
Net commission income	118	22	21	36	11	–10	0	197
Gains or losses on fair value measurement	244	22	–114	48	112	8	–41	280
Gains or losses on hedge accounting	–8	–1	55	0	3	0	–10	37
Gains or losses on financial investments	41	4	3	1	–92	0	0	–43
Income from interests in companies measured at equity	0	0	0	–1	0	0	–25	–26
Administrative expenses	–471	–267	–203	–162	–56	–33	2	–1,191
Expenses for bank levies	–4	0	0	–47	0	–3	0	–53
Other income and expenses	16	21	–69	–9	–2	70	16	43
Gains or losses on restructuring	–15	0	0	–12	0	–2	0	–29
Earnings before taxes	**471**	**168**	**–250**	**–131**	**50**	**251**	**–287**	**271**
Return on equity (RoE) (%)	10.6	15.8	–16.8	–13.4	3.1	–	–	3.9[1]
Cost/income ratio (CIR) (%)	45.5	60.4	>–100	66.9	28.7	–	–	62.4

1 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 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 measured 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
Earnings before taxes	**295**	**221**	**–94**	**–186**	**89**	**–36**	**–137**	**152**
Return on equity (RoE) (%)	6.5	20.0	–5.5	–22.4	3.6	–	–	3.0[1]
Cost/income ratio (CIR) (%)	45.5	49.3	>100.0	67.5	26.6	–	–	59.3

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

Outlook

For 2013 there are cautious indications of an economic upturn in the eurozone. For one thing, the drag on the economy from government budget cuts will let up somewhat; for another, the depreciation of the euro has noticeably improved competitiveness in terms of prices. Moreover, the ECB's bond purchasing programme should also improve the financing conditions for companies in the crisis countries. However, in addition to continuing efforts in budgetary consolidation and structural reforms in the peripheral countries, another precondition is progress in pushing forward the institutional development of the monetary union. This is the only way to strengthen trust in a stable euro. In 2013, the eurozone is expected to grow by 0.5 percent and Germany by 1 percent.

The successful conclusion of the EU state aid proceedings and the planning certainty it affords BayernLB leave the way open for the Bank to continue along its chosen path of becoming a corporate and real estate financier and dependable partner to the savings banks with a strong regional focus on Bavaria and Germany. After driving forward the changeover from the “old” Landesbank to a new customer bank in the past two years, BayernLB is now turning its focus more closely on the internal changes that are needed. The main changes involve leaner business and production processes that accord with the target structure of the new BayernLB under the agreement with the EU Commission.

In preparation for the EU Commission ruling handed down in summer 2012, BayernLB had already implemented many of the expected obligations. Compliance with the requirements and commitments of the state aid ruling is in part ensured by ongoing monitoring and checking by the monitoring trustee who is independent of BayernLB.

One of the conditions imposed by the EU is that BayernLB must dispose of numerous shareholdings by the end of the restructuring phase. BayernLB recently began the process to sell all of its stake of approximately 92 percent in GBW AG in a non-discriminatory and transparent tender process by the end of 2013. Good progress has also been made on the sale of LBS Bayern to the Association of Bavarian Savings Banks. The deal is on schedule to be completed by the end of 2012.

BayernLB expects consolidated earnings before taxes to be positive for full year 2012, unless there are major disruptions on the financial markets or the economy falls into an unexpectedly severe slump.

Administrative bodies of BayernLB

Board of Administration

Dr Markus Söder
Chairman
State Minister
Bavarian State Ministry of Finance
Munich

Alexander Mettenheimer
First Deputy Chairman
Former financier
Munich

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

Professor Dr Georg Crezelius
until 31 July 2012
Professor
University of Bamberg
Bamberg

Dr Dr Axel Diekmann
Shareholder
Verlagsgruppe Passau GmbH
Passau

Ralf Haase
Chairman of the General Staff Council
BayernLB
Munich

Joachim Herrmann
State Minister
Bavarian State Ministry of the Interior
Munich

Dr Jakob Kreidl
since 1 August 2012
President of the Bavarian Districts Council
Chief District Administrator
Miesbach

Wolfgang Lazik
Deputy Secretary
Bavarian State Ministry of Finance
Munich

Dr Klaus von Lindeiner-Wildau
Member of the Executive Board (retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Professor Dr Christian Rödl
since 1 August 2012
Managing Partner
Rödl & Partner
Nuremberg

Hans Schaidinger
until 31 July 2012
Lord Mayor
Regensburg

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

Board of Management (including allocation of tasks from 1 November 2012)

Gerd Haeusler
Chief Executive Officer
Corporate Center Central Area
Markets Business Area

Dr Edgar Zoller
Deputy Chief Executive Officer
Real Estate & Savings Banks/
Association Business Area
Bayerische Landesbodenkreditanstalt[1]
Bayerische Landesbausparkasse[1]

Jan-Christian Dreesen
Corporates, Mittelstand &
Retail Customers Business Area

Marcus Kramer
Risk Office Central Area
Restructuring Unit Central Area
Group Compliance

Stephan Winkelmeier
Financial Office Central Area
Eastern Europe Segment

Nils Niermann
Operating Office Central Area

1 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. The Mittelstand division serves companies throughout Germany with sales of EUR 50 million to EUR 1 billion. The segment also includes Deutsche Kreditbank Aktiengesellschaft, Berlin, (DKB) and Banque LBLux S.A., Luxembourg, (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 also directly allocated to this segment. In addition to bundling 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 incorporates the development bank Bayerische Landesbodenkreditanstalt (BayernLabo), 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 loan portfolios (non-core activities) from the operating activities of the business segments. In addition, it contains the portfolio of non-structured and structured (ABS) instruments, including the related hedging instruments. The consolidated units Giro Lion Funding Limited and KGAL GmbH & Co. KG (measured at equity) are also allocated to this segment.

Central Areas & Others

The “Central Areas & Others” segment incorporates the earnings contributions from the central areas Corporate Center, Financial Office, IT & Operations, and Risk Office. The segment also includes transactions which cannot be allocated to either a business area or a central area. The consolidated subsidiaries BayernLB Capital LLC I, and the 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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