Facts and figures

[**BAYERNLB** | 2009 ANNUAL REPORT AND ACCOUNTS]

CONSOLIDATED FINANCIAL STATEMENTS

The BayernLB Group at a glance

Income statement (IFRS)

EUR million	1 Jan – 31 Dec 2009	1 Jan – 31 Dec 2008	Change in %
Net interest income	2,561	2,670	–4.1
Risk provisions for the credit business	–3,277	–1,656	97.9
Net interest income after risk provisions	**–715**	**1,014**	**–**
Net commission income	434	584	–25.6
Gains or losses on fair value measurement	887	–2,076	–
Gains or losses on hedge accounting	98	–136	–
Gains or losses on investments	–1,435	–1,952	–26.5
Income from interests in companies valued at equity	–9	9	–
Administrative expenses	–2,125	–2,620	–18.9
Other income	461	161	> 100
Operating profit/loss	**–2,404**	**–5,017**	**–52.1**
Restructuring expenses	–361	–87	> 100
Earnings from ordinary activities/ Earnings before taxes	**–2,765**	**–5,104**	**–45.8**

Balance sheet (IFRS)

EUR million	31 Dec 2009	31 Dec 2008	Change in %
Total assets	338,818	421,455	–19.6
Business volume	403,259	499,263	–19.2
Credit volume	251,699	314,609	–20.0
Total deposits	183,681	233,787	–21.4
Securitised liabilities	92,968	117,479	–20.9
Subordinated capital	8,717	11,821	–26.3
Equity	14,061	11,087	26.8

Banking supervisory ratios under the German Banking Act (KWG)

EUR billion	31 Dec 2009	31 Dec 2008[1]	Change in %
Core capital	14.8	18.1	–18.4
Own funds	21.4	26.4	–18.9
Risk positions under the Solvency Ordinance	135.8	197.7	–31.3
Core capital ratio	10.9 %	9.2 %	1.7 pp[2]
Own funds ratio (at Group level)	15.7 %	13.5 %	2.2 pp[2]

Employees

	31 Dec 2009	31 Dec 2008	Change in %
Number of employees	11,821	20,285	–41.7

Rating (as at 10 March 2010)

	Long-term	Short-term	Pfandbriefs[3]
Fitch Ratings	A+	F1+	AAA
Moody's Investors Service	A1	Prime-1	Aaa

1 Taking into account the EUR 7 billion capital increase in the first quarter of 2009
2 Percentage points
3 Applies to public-sector Pfandbriefs and mortgage bonds

Profile

Regional strength and international expertise

BayernLB is the leading Bavarian commercial bank for large and Mittelstand customers in Germany and Europe and also for retail customers. It is a member of the Sparkassen-Finanzgruppe in Bavaria and is a high-performance regional bank with a European focus and international expertise. BayernLB Holding AG holds 100 percent of BayernLB's nominal capital. As a result of the capitalisation which took place in the reporting year, the Free State of Bavaria's share in BayernLB Holding AG is 94 percent and the Association of Bavarian Savings Banks' share is 6 percent as at the balance sheet date.

Clear business strategy and close customer relationships raise the Bank's profile on the market

BayernLB pursues a forward-looking strategy under which it offers a streamlined and customer-oriented range of products and services in corporate and retail banking, in commercial real estate and in its role as central bank to the Bavarian savings banks. The Bank gears its corporates business primarily towards large but also to Mittelstand corporate customers. This strategy, combined with an efficient retail business conducted in cooperation with the savings banks and subsidiaries, provides a solid basis for BayernLB to succeed against its competitors in the long term. BayernLB, in association with the Bavarian savings banks, stands for high customer proximity and orientation, solidity and a strong sense of responsibility towards customers, business partners, its owners and employees.

By concentrating on proven core competencies and particular customer groups, focusing on Germany, Europe and selected international financial markets, and by continually adapting its organisational structures to accord with customer and market needs, BayernLB is well equipped to meet the future demands of the banking business. Its clear business strategy is a solid foundation for its future operations.

BayernLB’s customers and business areas

The BayernLB Group and its clearly-defined business areas are centred on four customer segments: large corporates, financial institutions and the German public sector; customers in the commercial real estate business; Mittelstand companies; and retail customers.

Team spirit.

Annual Report

It was another challenging year for BayernLB. The financial crisis and its consequences continued to dominate events. But thanks to our employees, we can look to the future with courage and confidence. Together they constitute a formidable team which worked with great dedication on restructuring BayernLB last year.

Ten members of the BayernLB team will accompany you through this year's Annual Report. Representing their colleagues, they will tell you about their work, their education, their responsibilities and their attitudes – thus providing you a very personal insight into our company. Together they stand for commitment and expertise – and for our strong determination to continue being successful and competitive next year.

[CONTENTS]

5 Board of Management and Report by the Board of Administration

[SECTION 1]

SEC. 1

Board of Management and Report by the Board of Administration

Stefan Ermisch,
Deputy Chief Executive Officer

BayernLB started 2009 on a stable footing and with an ambitious programme. We learned important lessons from the financial crisis and are working on a new forward-looking strategy for the Bank. The delicate task of fundamentally transforming BayernLB while providing our customers with even greater service was conducted successfully last year. BayernLB significantly boosted its operating earnings by concentrating on its strengths once again. We focused on the Mittelstand segment in Bavaria and Germany and on large corporate customers in the sectors where we have particular expertise, while further enhancing the partnership with the Bavarian savings banks, real estate customers and the public sector. At the same time, we increasingly turned our attention to the growth markets of the future. The focus of our business model was therefore redirected onto our customers. We also pressed ahead with our goal of creating a competitive BayernLB by reducing risks, streamlining structures and spinning off business activities that are not a good fit with the new modified business model.

Although BayernLB's customer business could point to a successful year, the Bank posted an operating loss of EUR 2.4 billion, and the Group a loss of EUR 2.6 billion. High levels of risk provisions – particularly in Eastern and South Eastern Europe – and costs arising from the disposal of Hypo Group Alpe Adria (HGAA) were to blame. Taking the extensive negative impact from the disposal of HGAA out of the equation, however, BayernLB posted above-target operating earnings of just under EUR 900 million. The recovery in the capital markets was another reason for the good operating performance.

BayernLB has a core capital ratio of 10.9 percent and is therefore comfortably capitalised in relation to its peers. One key factor in achieving this has been the strong commitment of our staff. I would like to offer them my warm thanks for their drive and determination in these turbulent times.

HGAA's deconsolidation has weighed heavily on BayernLB's income statement. Going forward, however, it was undoubtedly the right decision and needed to be taken. It played a crucial role in stabilising the Bank financially and will ensure the Bank's fitness to meet future challenges. It has also been an important milestone in our endeavour to concentrate on clearly defined core markets, allowing us to move towards our goal of significantly reducing assets. HGAA's disposal should boost BayernLB's profits in the years to come. Finally, by selling HGAA, we are cooperating with the EU Commission in the ongoing state aid review process which we expect will conclude in the first half of 2010.

BayernLB's customer business performed better than we had originally expected at the start of 2009. All business units within the core bank beat their earnings targets.

The partnership with the Bavarian and German Mittelstand was considerably strengthened over the course of year, while the sales network expanded by 50 percent. BayernLB also increased lending volumes in this segment by 7 percent, providing the domestic economy, particularly the Mittelstand, with a key source of much-needed financing in the economically tough times. In addition to expanding business with existing customers, the Bank won several high-profile companies as new customers. BayernLB also increased its activities in the public infrastructure segment by providing more financing to schools and hospitals.

The Corporates & Markets Business Area further cemented business relationships and reduced risks. The customer business performed particularly well. Sophisticated financing solutions which preserve capital are the top demand of large corporate customers won over by our range of products and services. We have been just as successful in positioning ourselves in the project and export financing segment and have been able to tap the potential that comes from our close relationships with our customers and knowing what they want and expect. Our successes in this segment have won acclaim across the sector, as can be seen from the numerous awards won by BayernLB. The Real Estate Division is also focused on the partnership with the Bavarian savings banks and Mittelstand customers.

BayernLB will continue to expand its close partnership with the Bavarian savings banks. Both sides are working together to improve their collaboration in the new model for Bavaria being fleshed out with the savings banks. Key focuses are on customised products and services and a sales-based remuneration model.

Notable growth was also posted in the bond business. BayernLB and its sales partners placed EUR 3.9 billion of its own bonds to retail customers during 2009: four times the average of the previous year, proving that the Bank is a trusted name on the capital market. We also placed the first international benchmark bond outside the Pfandbrief and government-backed segments since the state guarantee was removed in 2005. Oversubscribed two-and-a-half times, the books for the more than EUR 1 billion bond were quickly closed, demonstrating BayernLB's ability to refinance itself. We were also in a position to return in full the unused portion of the German Financial Market Stabilisation Fund (SoFFin) guarantee.

BayernLB's efforts to restructure itself are well on track. Key parts of the Hercules transformation project have already been implemented, and we have made significant progress in reducing the volume of risk assets in the Restructuring Unit. Total assets have been reduced by 19.6 percent to EUR 333.8 billion, and we have cut administrative expenses considerably. Significantly, our ambitious cost-saving targets were achieved without the need for redundancies. In the coming months, we will continue to plough ahead with BayernLB's realignment.

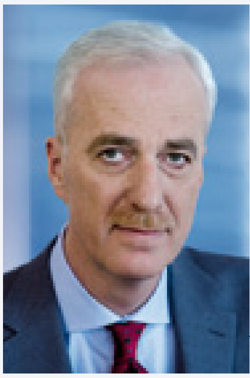
Despite evidence of one or two green shoots within BayernLB's economic milieu, the financial and economic crises are still raging. Depending on the state of the economy, corporate loan impairments are a significant possibility in 2010 and these could negatively impact the Bank. The economic stimuli provided by the expansionary policy of central banks and governments will begin to fade from the middle of the year. Fresh downturns cannot therefore be ruled out. Nevertheless, there are new opportunities on offer during this modest economic recovery. These must be seized, while keeping things in perspective and not falling into bad old habits. As a service provider and partner, the goal of BayernLB is to help companies achieve solid growth on firm foundations and therefore fulfil its mission of serving the needs of the domestic economy.

In 2009, BayernLB had to come to terms with and address the aftermath of past strategic decisions. It was a year in which we cast off dead weight and wound down a significant proportion of our risk positions in an economically difficult climate. We will use the resources freed up to develop our core markets in our core business areas and will expand our loyal customer base by promoting our strengths and expertise. BayernLB now has a new structure: one that is more streamlined, risk averse, stable and forward looking. We have set ourselves a clear goal for the new BayernLB. With the groundwork laid for a solid start, our aim is to turn over a new leaf and move back into the black on the back of a favourable economic environment in 2010. We are aware that BayernLB will still be under the spotlight of a critical public this year. We will work at full steam to steer BayernLB from the stormy waters of the past to a serener, economically successful future. Our mission is to continue improving our competitiveness and our standing in the eyes of our customers and the public and to rebuild their faith in our capabilities. By being solid and dependable, we will achieve these aims.

Best regards,

Stefan Ermisch
Deputy Chief Executive Officer

[BOARD OF MANAGEMENT]



Stefan Ermisch, *Deputy Chief Executive Officer*
15 December 2009 to 14 April 2010, Interim Chairman of the Board of Management

Corporate Center Corporate Development & BoM Support | Corporate Communications | Human Resources | Auditing | Economics & Research
Risk Office Group Risk Control
Financial Office, IT & Operations Group Treasury & Investor Relations | Group Accounting & Tax | Group Controlling | Operations & Services | Group IT Business Solutions & CIO Office | Group IT Operations

Stefan W. Ropers, *Member of the Board of Management*

Corporates & Markets Corporate Credit | Relationship Management | Structured Credit | Treasury Products | Capital Markets | Strategic Client & Portfolio Management

Dr. Edgar Zoller, *Member of the Board of Management*

Real Estate/Public Sector & Savings Banks (Savings bank central bank function) Savings Banks | Real Estate | German Public Sector Department | Bayerische Landesbodenkreditanstalt
Corporate Center Legal Services | Group Compliance

Dr. Ralph Schmidt, *Member of the Board of Management*
until 30 March 2010

Risk Office RO Credit Analysis
Restructuring Unit Restructuring Unit

Jan-Christian Dreesen, *Member of the Board of Management*

Mittelstand & Retail Customers Mittelstand | Bayerische Landesbausparkasse

Report by the Board of Administration

Over the course of the past year, the Board of Administration advised the Board of Management in the management of the business and regularly monitored its activities. The Board of Management provided the Board of Administration with regular, up-to-date and comprehensive verbal and written reports on the Bank's business policy and general issues related to corporate planning, particularly financial, investment and staff planning. The Board of Management provided the Board of Administration with regular, comprehensive and up-to-date information on the Bank's performance, especially regarding income, expenses, risks, liquidity and capital status, legal and business relations with associated companies and material events and business transactions, particularly in the case of associated companies. The Chairman of the Board of Management immediately informed the Chairman and Deputy Chairman of the Board of Administration about any events that were key to assessing the Bank's situation and performance. For the purposes of good corporate management, the Board of Administration and the Board of Management always held open discussions to promote the interests of the Bank. The regulatory requirements governing Board of Management reporting of irregularities identified by Internal Audit were met.

The Board of Management also provided the Board of Administration with regular updates on the Bank's risk situation and risk management. The Board of Administration monitored loan portfolio performance through a risk and portfolio reporting system that is constantly refined to take account of changes in parts of the risk monitoring and evaluation process.

The Board of Administration also received regular reports on the international financial crisis, the ensuing loss of confidence and liquidity on global financial markets and the resulting impact on the Bank.

During its 13 meetings in 2009, the Board of Administration passed the resolutions required by law and the Statutes. Some meetings were attended by representatives from the Federal Financial Supervisory Authority and/or the Deutsche Bundesbank.

Comprehensive restructuring continues while Hypo Group Alpe Adria is disposed of

At the start of 2009, the Board of Management set out in Project Hercules the key points of the restructuring and resizing programme of the Bank, which the Board of Administration discussed at great depth in its March meeting. In its meeting on 24 April 2009, the Board of Administration approved the business model – which focuses on the four areas of corporates, real estate, Mittelstand (mid-market) and retail customers/DKB – including the business plan, paving the way for its submission to the EU Commission. The top priority of the Board of Management and Board of Administration is to systematically implement the focused business model and make BayernLB viable for the capital market in the medium term.

The end of 2009 was dominated in particular by Hypo Group Alpe Adria (HGAA). In several ordinary and extraordinary meetings, the Board of Administration was continually and extensively briefed on events as they unfolded. After an in-depth analysis and discussion, the Board of Management and Board of Administration came to the conclusion that there was no justification on economic grounds for BayernLB participating in a capital increase at HGAA. The decision by the Board of Management and Board of Administration to dispose of HGAA to the Republic of Austria has shielded the Bank from any additional potential risks.

Changes to the Bank's retirement benefit programme and remuneration system

In light of BayernLB's difficult financial situation, the Board of Management came to the decision in March 2009 that the Bank could no longer afford the financial costs of having a retirement benefit programme modelled on the pension system for civil servants. This was supported by the Board of Administration and formally adopted by resolution in July 2009. The retirement benefit programme was duly closed. The vested retirement benefits modelled on the pension system for civil servants that were acquired up to 31 December 2009 were cancelled by a lump sum payment which has been transferred to a reinsured, insolvency-protected account. For the persons affected, BayernLB's retirement benefit programme will be converted into a standard defined contribution scheme.

The remuneration system for BayernLB staff outside collective wage agreements was also overhauled. This was due to MaRisk requirements, the rigorous focus on sustainability, transparency and avoiding unreasonable risks in accordance with the German Financial Market Stabilisation Fund Ordinance and the EU's ruling on state aid, and a stronger market orientation. The Board of Administration approved the principles of the new system in its meeting in November 2009. The new remuneration system came into force on 1 January 2010. New regulatory requirements, particularly in respect of variable remuneration components, will be incorporated promptly.

Committee structure reform

In parallel with the restructuring process, the Landesbank law, which forms the legal basis of BayernLB's business operations, was reviewed and revised to bring it in line with the new circumstances. For example, the executive bodies of the Bank were strengthened in particular through changes in the composition of the Board of Administration and General Meeting. Four people from outside the Bank were appointed to the Board, with effect on 1 August 2009: Prof. Dr. Georg Crezelius, who holds the chair for tax law at the University of Bamberg; Dr. Dr. Axel Diekmann, shareholder of the publishing group "Verlagsgruppe Passau GmbH"; Gerd Haeusler, Director of RHJ International and Dr. Klaus von Lindeiner-Wildau, former member of the Wacker Chemie GmbH executive board. The current composition of the Board of Administration can be viewed on page 219 of the Annual Report. The committee structure was discussed extensively and in detail by the Board of Administration and, at a meeting in November 2009, the decision was taken to establish an Audit Committee and a Risk Committee drawn from the members of the Board of Administration.

Corporate governance

BayernLB's Corporate Governance Principles summarise the corporate management and control regulations that either the Bank itself has framed or which are binding in law.

In its meeting on 20 January 2010, the Board of Administration discussed BayernLB's compliance with its Corporate Governance Principles in 2009. The Board of Administration and the Board of Management both agreed there was no evidence that these principles were being contravened. The General Meeting also passed a resolution to the same effect.

Board members

Extensive changes to the composition of the Board of Administration were made in 2009.

The changes in the Landesbank law had an impact on the composition of the Board of Administration. Dr. Siegfried Naser, Hansjörg Christmann and Alois Hagl left when their terms of office came to an end on 31 July 2009. The mandate of Karl-Ludwig Kamprath, who was likewise appointed by the Association of Bavarian Savings Banks, another shareholder, ended on 30 April 2009. He was succeeded by Siegmund Schiminski, with effect from 1 May 2009. Dr. Bernd Weiss held a seat from 9 January to 31 July 2009. The Board of Administration would like to warmly thank the departing board members for their invaluable and fruitful services to the Bank.

Diethard Irrgang, the Chairman of the General Staff Council, was appointed to the Board of Administration with effect from 16 January 2009. On 1 August 2009, Dr. Georg Crezelius, Dr. Dr. Axel Diekmann, Dr. Klaus von Lindeiner-Wildau and Gerd Haeusler were appointed from outside the Bank to their respective posts on the Board. Gerd Haeusler was appointed First Deputy Chairman and Siegmund Schiminski Second Deputy Chairman, effective in both cases on 7 September 2009.

Major changes were also made to the Board of Management as part of implementing the new strategy and in an attempt to reinvigorate the board. Dr. Rudolf Hanisch stepped down from the Board of Management with effect from 30 April 2009 and was succeeded by Dr. Edgar Zoller on 1 May 2009, who was put in charge of Legal Services, the Compliance Center, Money Laundering and Financial Crime Prevention Department, the Real Estate/Public Sector & Savings Banks and the Landesbodenkreditanstalt. The post of Deputy Chief Executive Officer was allocated to Stefan Ermisch, with effect from 1 July 2009. Theo Harnischmacher stepped down and retired with effect from 30 June 2009. Jan-Christian Dreesen was appointed to the Board of Management and put in charge of the Mittelstand & Retail Customers Business Area and Bayerische Landesbausparkasse with effect from 1 September 2009. Dr. Michael Kemmer resigned as Chairman of the Board of Management with effect from 14 December 2009 and stepped down from the Board. The Board of Administration appointed the Deputy Chief Executive Officer Stefan Ermisch as the interim Chairman.

2009 annual accounts audited and approved

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft conducted the audit of the Bank's annual accounts, consolidated accounts, management report and group management report. KPMG Aktiengesellschaft Wirtschaftsprüfungsgesellschaft conducted the audit of the annual accounts and management reports of BayernLabo and LBS Bayern, the legally dependent institutions of the Bank. BayernLB's Board of Administration duly verified the independence of the auditors before recommending their approval by the General Meeting.

Unqualified opinions were granted upon completion of the audit in all cases. The auditors' reports were discussed in great depth by the Board of Administration in its meeting on 30 April 2010 and by the Audit Committee drawn from the Board's members, in its meeting on 26 April 2010. These meetings were attended by the auditors, who explained the principal findings of the audit and were available to answer questions. Following its own final examination of the audit and on the recommendation of the Audit Committee, the Board of Administration approved the findings of the external audit.

In its meeting on 30 April 2010, the Board of Administration adopted the Bank's annual accounts submitted by the Board of Management and gave its approval to the management report, consolidated accounts and group management report.

The Board of Administration also proposed to the General Meeting that the Board of Management be discharged. The General Meeting gave its approval to these proposals in its meeting today.

Thank you to the Board of Management and staff

The Board of Administration would like to thank the members of the Board of Management and all of BayernLB's staff for their work over the past eventful and turbulent year and for their commitment under extremely challenging conditions.

It would also like to wish them every success in tackling the key tasks for 2010, particularly the challenges in further restructuring the Group and establishing the new business model. The Board of Administration is confident that BayernLB will consolidate and expand its strong position in a fiercely competitive and tough market environment.

Munich, 30 April 2010
The Board of Administration

Georg Fahrenschon
Chairman

Petra Schnick (44), *Senior Customer Relationship Manager, Mittelstand* | Responsibilities International business, international corporates business, Mittelstand | Qualifications Bank apprenticeship and studies at the Bank Academy | Interests Experiencing life, culture, sports and travel

[SECTION 2]

SEC. 2

BayernLB – focusing on customers

Mittelstand & Retail Customers

Our Mittelstand (mid-market) customers are a key pillar of BayernLB's focused business model. To better serve this important group, our customer support and key customer-oriented products and services have all been combined into one business area. BayernLB serves large Mittelstand companies directly and provides products and services to the Bavarian savings banks for their own Mittelstand customers.

Extensive experience

BayernLB has enjoyed close and trusted business relationships with Mittelstand companies for many years. Mittelstand firms both in and outside Bavaria regard the Bank as a sound business partner – either as direct customers or as customers of its major cooperation partners, the savings banks. In this combination, the Bank is honouring its statutory obligation within Bavaria to "... ensure that the economy, particularly the Mittelstand ... is provided with financing and credit."

The gamut of products and services on offer is constantly expanded and adapted to current requirements.

These include working capital and investment loans, money and forex transactions and financing and services for conducting international business. BayernLB also provides guidance on subsidised loans. This offering is complemented by advisory services in the corporate finance segment and hedging instruments for energy and commodities. A very good performance was posted despite the difficult economic conditions. With credit volumes touching nearly EUR 15 billion, growth of more than 7 percent was achieved over the financial year.

Fostering the future

Much of this growth came from the subsidised loan business. BayernLB offers its own customers and those of the Bavarian savings banks a full range of low-cost financing from the public sector, as well as comprehensive advisory services. A broad-based service package with the motto "fostering the future" should help the Sparkassen-Finanzgruppe (financial group of savings banks) cement its market leadership in Bavaria.

The signing of a EUR 100 million global loan agreement between LfA Förderbank Bayern and BayernLB ensures that no shortfall in funds for loans will develop and strengthens cooperation within Mittelstand financing.

Guidance in growth markets

The German Centres provide German companies in promising markets of the future with practical support for establishing their own business operations in those countries, as well as a platform for exchanging experiences and gaining access to networks. BayernLB operates German Centres in Shanghai and Delhi-Gurgaon to provide support to Mittelstand firms breaking into new markets.

Stealing a march through sustainability

Environmental technologies are key to a sustainable society and therefore one of the future markets of the 21st century. BayernLB provides companies that are well-positioned in this market with customised solutions and sector know-how. Support is also given in this area to the Bavarian state government's cluster campaign for promoting the region as a centre of finance and research. Companies were able to learn about current developments in the field of environmental technology and have an in-depth exchange of views with other specialists when a cluster day was held.

Across-the-board approach

BayernLB takes a holistic, across-the-board approach when advising its Mittelstand customers. This includes a customised product offering and recommendations for improving the financing structure of the company.

Outlook

Companies need assured access to capital to achieve sustained economic growth. By combining all Mittelstand-related activities under one roof, BayernLB has laid the groundwork for strengthening the Mittelstand business.

The Bank will continue to help its customers meet the corporate challenges of the future through its strong market expertise and comprehensive advisory services.

Refinements will be made to the organisational structure of the division to achieve these aims. One key element will be combining customer support at local level with a focus on target sectors. The goal is to make the customer aware from the very first meeting that their advisor is a specialist with up-to-date knowledge of the characteristics of the sector and its trends. Strong emphasis here will be placed on further expanding the "future markets" segment. The Bank's office in Nuremberg will be strengthened and an office opened in Düsseldorf.

Wolfgang Kugler (36), *Team Leader, Sustainability Management & Markets of the Future*

Responsibilities Sustainability, climate protection, markets of the future and environmental management | Chairman of the Association for Environmental Management in Banks, Savings Banks and Insurance Companies (VfU), Chairman of the German government's "Financial forum: Climate change" as part of its high-tech strategy

Qualifications Degree in economics | Interests Sports, fly-fishing

The Mittelstand area at BayernLB conducts business on a very personal level. For me, knowing the customer's business and the right banking products are a matter of course. The key is a focus on service, commitment and reliability – and not letting the customer down when it gets tough.

Karina Hallay (30), *Customer Relationship Manager, Mittelstand* | Responsibilities Bavarian Mittelstand companies in the manufacturing, engineering and technology sectors | Qualifications Bank apprenticeship and business administration studies at the Bank Academy | Interests Travel, hiking, skiing, sauna, "unwinding"

LBS – Bayerische Landesbausparkasse

After an exceptional 2008, in which unusually high sales growth was achieved on the back of one-off political effects, LBS generated new business of just under EUR 7 billion, on par with the high levels of 2005 – 2007. Buoyant demand for credit, competitive products and efficient cost structures kept operating earnings stable.

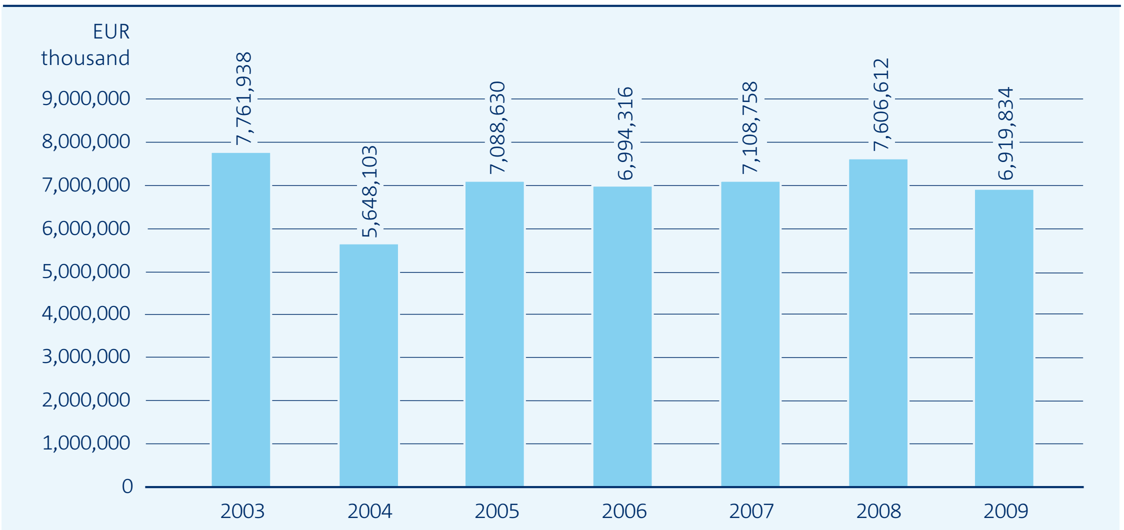
New business back at high levels

New business at LBS Bayern was unaffected by the financial crisis. Interest in home loan savings and owning property actually rose. In 2009, LBS achieved home loan savings volumes of EUR 6.92 billion after concluding 203,484 contracts. The respective year-on-year falls of 9 percent and 27.3 percent were a consequence of the introduction of legislation on 1 January 2009 permanently restricting how state-subsidised home loan savings can be used. Prior to this date, there was a large influx of customers eager to lock in the benefits of the old rules under which restrictions on savings are lifted after a period of seven years. The home loan savings volumes of these contracts that were brought forward were comparatively low on average as in many cases they were not being allocated for planned financing projects. The variation between the year-on-year figures for contract numbers and savings volumes is a consequence of new business returning to normal. Average home loan savings volumes rose by 25 percent to around EUR 34,000. Most contracts were once again being concluded to raise financing. Sales volumes reached the high levels of 2005 – 2007, where around EUR 7 billion was annually posted. LBS also gained market share, aided by the Bavarian savings banks' marketing teams and its own sales force.

Lending business posts strong growth

Property has become an investor favourite during the crisis. The real estate brokerage business of the savings banks (Sparkassen-Immo) helped arrange 9,969 residential property transactions with a total value of EUR 1.34 billion: a year-on-year increase of

New business
Stable 7bn level



■ Home loan savings volumes (gross new business, year-on-year)

14.0 percent and 14.8 percent respectively. LBS's financing business posted similar growth. Home loan savings payouts rose 8.1 percent to EUR 726.8 million, while pre-maturity loan payouts jumped 28.4 percent to EUR 480.3 million.

Demand was lifted by the financial crisis and its impact. Fears of inflation were sparked by the government's multi-billion stimulus package and spiralling national debt, increasing property's attractiveness as a hedge against inflation and a stable investment. Further support was given by the relatively modest rise in prices, historically low interest rates and improved government support through residential Riester pensions.

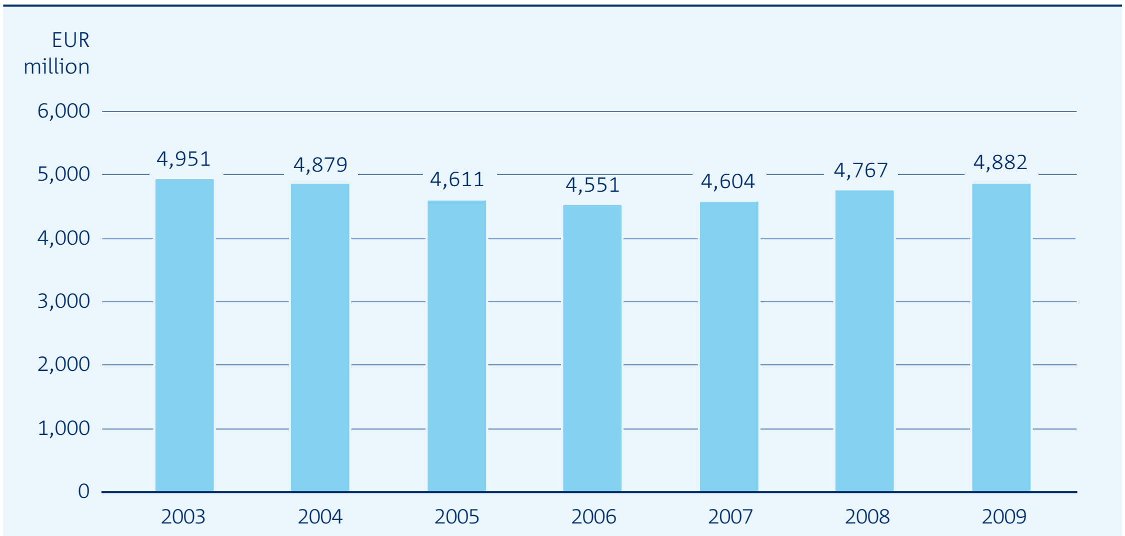
Increased need for property renovation

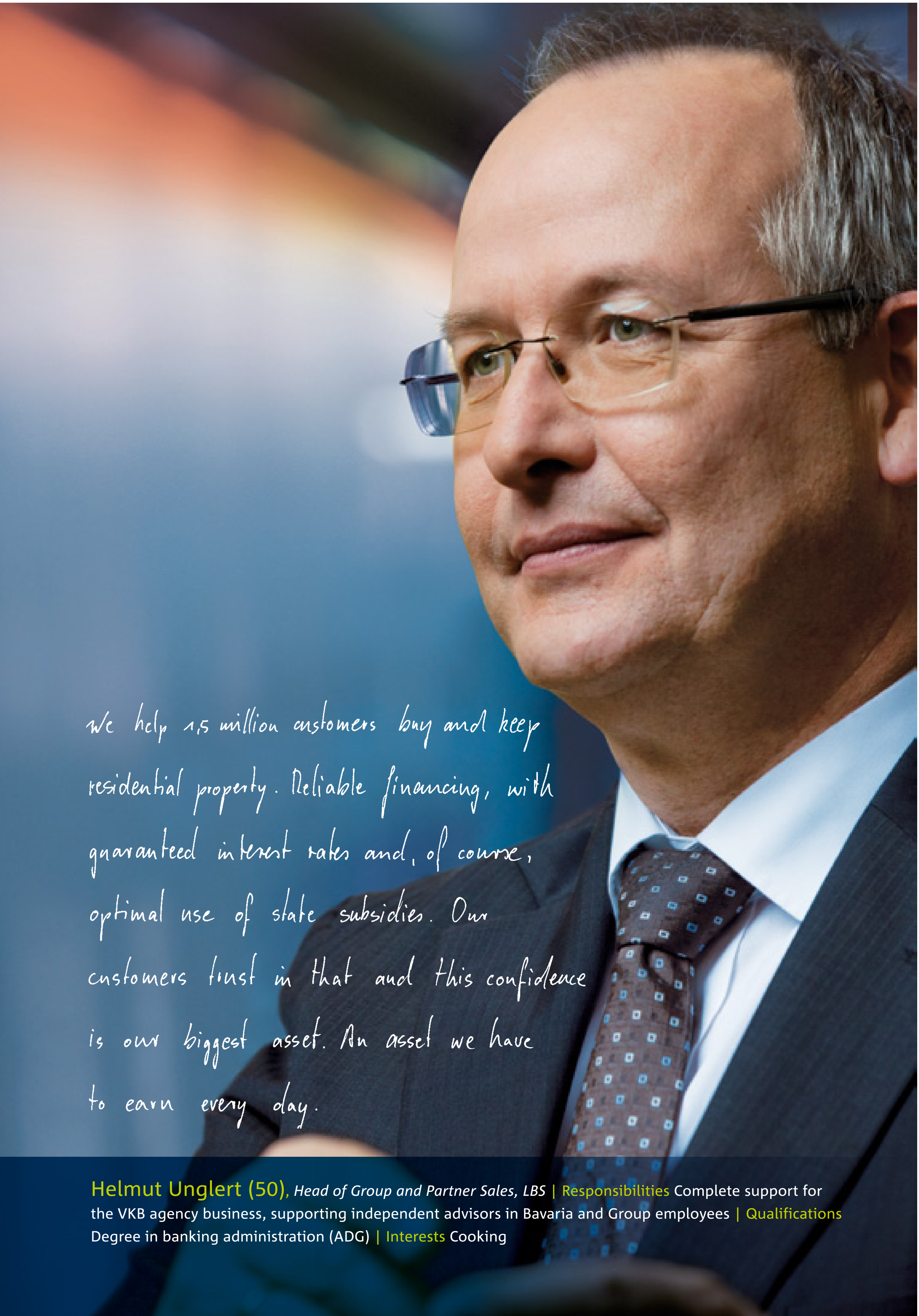
Little lift has been given to new property construction. The structure of the residential construction sector has radically changed. According to a study by the German Institute for Economic Research (DIW), 42 percent of investment went into new construction in 2000. In 2008, that figure had fallen to just 22 percent. Three quarters of all residential construction was carried out on existing buildings. More than 80 percent of purchase transactions arranged by Sparkassen-Immo were for existing property.

Demand for modernisation of existing buildings is high. Around 2 million detached and semi-detached homes in Bavaria are older than 30 years. An extensive programme to improve the housing stock and bring it up to modern energy standards, which experts estimate would generally cost EUR 50,000 per unit, could generate investment of up to EUR 100 billion in Bavaria alone.

Based on the growth and structure of LBS's lending business, the indications are that the required investment was on the increase in 2009. More than 60 percent of financing was for modernisation and renovation work. Financing rose by 71.8 percent to EUR 716.7 million. Average loan size increased by more than 40 percent to EUR 30,200. Modernisation projects were therefore significantly more

Loan portfolios
Turnaround continues





We help 1,5 million customers buy and keep residential property. Reliable financing, with guaranteed interest rates and, of course, optimal use of state subsidies. Our customers trust in that and this confidence is our biggest asset. An asset we have to earn every day.

Helmut Unglert (50), *Head of Group and Partner Sales, LBS* | Responsibilities Complete support for the VKB agency business, supporting independent advisors in Bavaria and Group employees | Qualifications Degree in banking administration (ADG) | Interests Cooking extensive – an indication of the increasing willingness to carry out large-scale improvements to homes by renovating them from top to bottom, making them more energy efficient or adapting them to the needs of the elderly.

Stable operating result

Interest income rose slightly despite low capital market yields. Interest expenses on home loan savings deposits increased. Net interest income fell slightly to just under EUR 198 million. Administrative expenses were cut to EUR 99 million, mainly as a result of lower staff costs. As in previous years, net commission income was negative as the upturn in new business resulted in the payment of high levels of commissions to the sales staff. Operating profit before risk provisions rose year-on-year to EUR 75 million (2008: EUR 73.8 million). LBS posted steady profits despite persistently low interest rates.

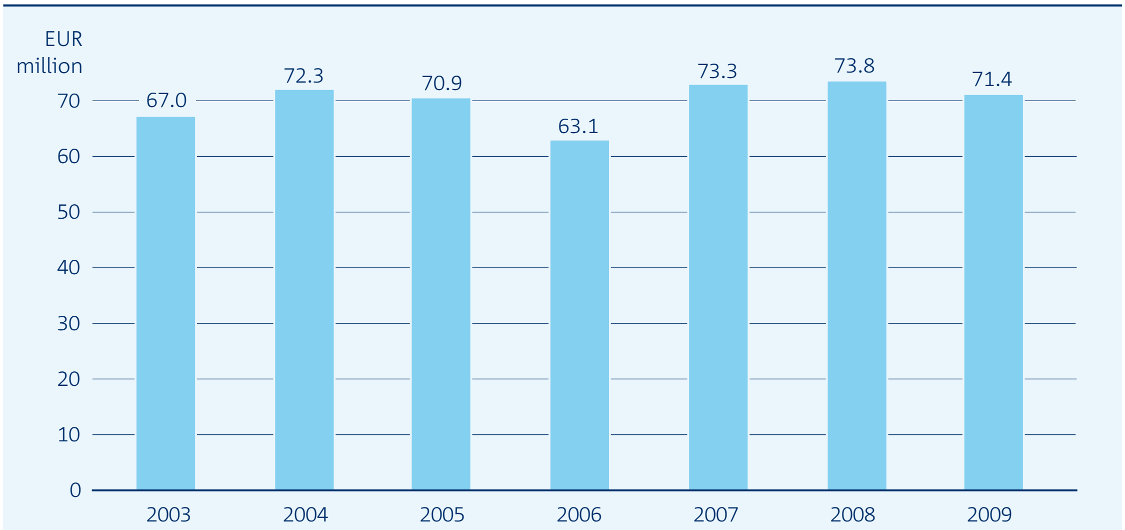
Successful start for LBS Riester home loan savings contracts

The first year for residential Riester pensions met expectations in full. Around 20.5 percent of new business – amounting to EUR 1.42 billion across 35,103 contracts – was generated from Riester home loan savings contracts subsidised under Germany's home ownership pensions legislation. As at 31 December 2009, there were around 45,000 Riester contracts. LBS has a market share of over 50 percent and is the runaway market leader for Riester home loan savings.

Positive signals for government help

Home ownership pensions have been well received by the market and have proven to be an effective tool by the government for raising home ownership. Germany's new government wants to continue to promote this area. The

Operating profit
Above EUR 70 million again



■ Medium-term comparison of operating profit before risk provisions coalition agreement signed by the government states that: “Home ownership is provision for retirement and strengthens people’s attachment to the area in which they live. We want to increase the proportion of people in Germany who own their own home.” The exact details of how this aim is to be implemented have not yet been announced.

Good outlook for business

Property ownership will continue to play a key role in retirement savings. Property prices and interest rates are both low. Home ownership pensions will become more and more established. Home loan savings remain as popular as ever. According to the investment barometer of the German Savings Bank Association (DSGV), the proportion of Germans considering taking out a home loan savings contract in the near future tripled year on year. In an environment as favourable as this, LBS will continue to consolidate its market leadership in 2010. The EUR 7 billion figure for new business is again being targeted. LBS wants to tap market potential as fully as possible and can count on its successful partnership with the Bavarian savings banks and the quality of its sales force, which is being systematically expanded. In 2009, 38 additional LBS consultants were hired. Over the next three years, this number will be significantly increased. In partnership with the Bavarian savings banks, LBS expects business in 2010 to continue to be as brisk as before.

Further information can be found in LBS’s own detailed annual report or online at www.lbs-bayern.de.

Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB)

DKB, which is headquartered in Berlin, has been a fully-owned strategic subsidiary of the BayernLB Group since 1995. In retail banking, it operates as an online bank and has more than 1.8 million customers. In the Infrastructure and Corporate Customer segments, the Bank specialises in dealing with target groups within selected sectors, such as residential real estate and agriculture. DKB serves these customers in 17 branches at 15 locations across Germany.

Due to the ongoing recession, financial crisis and restructuring of the BayernLB Group now underway, DKB made changes to its business model, lending policies and risk management processes during the previous financial year. As a result of this strategic realignment, a new non-core business segment was established. DKB continued to maintain liquidity throughout the year using customer deposits, the development bank business, Pfandbrief issues and interbank trading. In addition to issuing public Pfandbriefs, DKB successfully placed its first mortgage Pfandbrief in July. Overall, DKB benefited in the reporting year from the interest-rate situation and its strategy, posting a satisfactory performance under persistently difficult conditions.

Retail customers

In retail banking, DKB once again focused strongly on reaping the benefits of being an internet bank. In online banking, it now boasts more than 1.8 million customers and a 65 percent growth in deposits to around EUR 8.2 billion. This was partly the result of consistently high referral rates, the further expansion of the co-branding business and the start of a partnership with Lufthansa Miles & More in August 2009, under which DKB became the official financial services provider for the frequent-flyer programme. DKB also stepped up its customer acquisition activities by targeting German citizens resident abroad. But aside from winning new business, the main focus in 2009 was on existing customers. The goal of these activities is to establish DKB as "your bank on the web". As part of this strategy, a stronger focus is being placed on DKB's existing customers in the construction financing business. In the credit card business, DKB credit cards were gradually replaced starting from the end of the year to improve security. Fitted with EMV chips and 3-D Secure codes, the replacement cards will reduce the risk of fraud and payment failure resulting from card misuse.

Infrastructure

In 2009, DKB established itself in the Infrastructure segment as a specialist for the targeted customer groups. One focus was on expanding links between customer groups, for example, healthcare and housing in sheltered accommodation. In the energy and utilities customer group, the focus was on intensifying acquisition of new public utility customers located in the former West Germany. DKB has also jointly financed projects for returning privatised assets to municipal control and began taking over customer relationships with Mittelstand energy and utility companies from BayernLB. Its goal here is to become a centre of competence in this field.

Corporate customers

In the Corporate Customers segment, DKB largely focused on customer groups with stable cash flows and making granular, well-collateralised loan exposures. In the Agriculture and Food sub-segment, price trends for agricultural products during 2009 in particular made it a tough environment for companies to operate in. DKB helped numerous agricultural firms affected by providing funding from Landwirtschaftliche Rentenbank's newly created liquidity aid programme. In the Environmental Technology customer group, feed-in fees and suppliers' pricing policy had a positive impact even in the weak economic environment. Demand for financing for wind energy and solar power systems rose steadily throughout the year. With its extensive know-how of the sector, DKB was also available to the Bavarian savings banks as an additional centre of competence for renewable energy within the BayernLB Group.

Non-core business

The portfolios within this segment include the financing of commercial real estate and property developers, the A-Depot portfolio and non-strategic shareholdings. In accordance with BayernLB's Group-wide winding down strategy, these portfolios are being downsized.

Outlook

DKB will continue to systematically focus on its business model, taking account of the difficult general conditions expected in 2010. In the retail banking business, which it expects will post further steady growth, it will press ahead with its goal to establish itself as "your bank on the web" – not just for domestic customers but also for interested German-speakers abroad. In the Infrastructure and Corporate Customer segments, DKB will, besides increasing deposit volumes, place an even greater focus on creating links between the various customer groups along the value chain. This should generate additional sales and growth opportunities, as well as new business. As increasing priority is placed on growing deposit volumes – particularly in retail banking – DKB's strategic importance within the BayernLB Group will continue to grow.

Landesbank Saar, Saarbrücken (SaarLB)

SaarLB is the largest bank in the German state of Saarland. SaarLB's core areas of expertise are in doing business with Mittelstand (mid-market) corporate customers, financing commercial real estate and serving high net worth customers. In addition to these business activities, it finances projects associated with the emerging renewable energy market. SaarLB and the Saarland savings banks hold a 60 percent share of all loans issued by regional banks to non-banks. As a Franco-German Mittelstand bank, SaarLB focuses on customers in its home market of Saarland, the neighbouring state of Rhineland-Palatinate and Eastern France, particularly the adjacent Alsace-Lorraine region. SaarLB serves its French target customers through its branch in Metz and sales offices in Strasbourg and Paris. As a result of its close integration into BayernLB's restructuring programme, it steadily increased its strategic focus on the regional Mittelstand business in 2009. Its exposure to international corporations and banks was systematically reduced. Costs were also substantially cut. Despite the difficult economic conditions, SaarLB posted a satisfactory performance in its core business overall.

BayernLB current holds a 75.1 percent stake in SaarLB. Other shareholders include Saarland's Sparkassen-Finanzgruppe (financial group of savings banks), which holds a 14.9 percent share through Sparkassenverband Saar (Saarland's association of savings banks), and the German State of Saarland, which has a 10.0 percent share. As part of its restructuring programme, BayernLB will initially transfer a 25.2 percent share to the Saarland. The transaction should be concluded in the first half of 2010 and will result in the handover of managerial control of SaarLB to the state of Saarland and the Sparkassenverband Saar. BayernLB plans to further reduce its equity stake in SaarLB by transferring additional shares to the state of Saarland. However, it will continue to be a key cooperation and sales partner for SaarLB, for example, by providing products and services to support Mittelstand customers.

LB(Swiss) Privatbank AG, Zurich

Landesbank Hessen-Thüringen acquired BayernLB's 50 percent stake in LB(Swiss) in December 2009 and has since been the sole shareholder in the company. BayernLB had held its stake since 1990. However, for BayernLB customers and the Bavarian savings banks, LB(Swiss) will remain the strategic association partner within Switzerland for the international private banking & wealth management segment.

Banque LBLux S.A., Luxembourg (LBLux)

BayernLB and Landesbank Hessen-Thüringen (Helaba) took the decision to restructure their shareholdings in their Luxembourg and Swiss subsidiaries. BayernLB has been the sole shareholder in LBLux since December 2009. Banque LBLux will retain its tried-and-tested business model.

Business activities are focused on corporate banking within the Benelux region, as well as on international private banking and wealth management. In the lending business, LBLux is the only Luxembourg-based German bank whose corporate banking activities are focused on the Benelux region, a position it has held for 19 years. In private banking, its prime focus is on international advisory services and asset management. Both business divisions are supported by the Treasury department. LBLux also operates as a service provider for entities of the BayernLB Group and Group companies based in Luxembourg and functions as a custodian bank for BayernInvest Luxembourg S.A. It pursues a conservative risk policy.

As part of the 2009 "Hercules" restructuring project implemented within the Group, LBLux's business model was further optimised. The core business divisions of Corporate Banking in the Benelux region and international Private Banking & Wealth Management focused even more heavily on the direct customer business, while credit trading and other market price trading were discontinued.

Corporates & Markets

Openness in business partnerships, top quality, swift implementation, integrated specialist expertise combined with a new relationship management model, new products, new advisory techniques and competitive value for money are key qualities for a Bank that focuses on what is important: devoting time to the needs of customers and providing them with high quality solutions.

Business area strategy

The Corporates & Markets Business Area's strategy is based on being a strong, customer-orientated banking partner for large companies, financial institutions and institutional customers. The principal focus is on Corporates & Markets' integrated advisory approach, as well as on dovetailing and expanding core competencies and customer products in the areas of relationship management, corporate credit, structured credit, capital markets and treasury products. Sector expertise and regional focus are strongly emphasised. The business model accords German and international partner banks and institutional customers a central role both as business partners and as investors. Corporates & Markets provides them with all-round support in matters relating to lending and deposit-taking. Savings banks, real estate and Mittelstand (mid-market) customers are served with a full range of capital market products. The Strategic Client & Portfolio Management unit is responsible for management-relevant functions, with a special focus on customer, portfolio and resource management and strategy development.

Key issues in 2009 included successfully strengthening business relationships with customers, swiftly implementing the new organisational structures and reducing risks.

Dedication and a disciplined approach to implementing BayernLB's new strategy meant that targets were easily exceeded, thus highlighting one of the Bank's strengths: its staff.

Corporates Division

The Corporates Division maintains long-standing customer relationships with large German companies active around the globe. In Europe and North America, the focus is on companies in the construction, chemicals, technology, oil, gas and utilities sectors.

Relationship Management

Key to the customer-bank partnership was a restructuring of the banking relationship with companies to markedly strengthen the focus on relationships. As expected, maintaining liquidity and being willing and able to play an active role in major transactions became even more important. Companies with turnover above EUR 1 billion are particularly interested in complex financing solutions that preserve capital. Confidence in the reliability, specialist expertise and performance of the Bank generated a large number of lead mandates from long-standing customer relationships, both in relation to credit and capital market products.

Corporate Credit

The Corporate Credit Division was founded in July 2009. It focuses on advising, designing and providing customised financing to optimise the capital and financing structure of large companies. The offering covers customer-specific credit products, structuring national/international transactions, agency mandates and the coordination, negotiation and placing of syndicated loans on the syndicated market. Electronic and internet-compatible processing of guarantees, agency products and innovative solutions due to the requirements of the new German Accounting Law Modernisation Act (BilMoG), such as guaranteeing the balances of long-term employees' working hours accounts, was further expanded. Corporate Credit aided leading industrial companies in meeting their large-volume financing needs by acting, for example, as a mandated lead arranger (MLA), book runner and underwriter in takeover financing for customers of the Bank, structuring subsidised loans or as a mandated lead arranger of syndicated loans. BayernLB played a key role in the founding of a municipal energy utility by providing loans and financing-commitments. Its positioning in the syndication market and positive partnership with the Bavarian savings banks ensured it had a large investor base for these transactions which were of particular importance in the consolidation of the energy sector.

Structured Credit

The portfolio of the Division, which was founded in July 2009, focuses on customer-specific structured finance products for leasing, export finance and project finance. Project Finance works internationally for customers of the Bank in the infrastructure and energy sectors in Munich, London, Paris and New York. Its primary function is to implement lead mandates in complex financing structures. Export Finance creates internationally flexible solutions for all sectors, from trade finance solutions right through to multi-source financing. In partnership with leasing companies, transactions are structured for customers. Refinancing is also provided for German leasing companies and public sector customers and corporates are supplied with rolling stock financing and structures for purchasing receivables.

Project Finance International Deal Awards 2009

EUROMONEY
ProjectFinance

Deals of the Year

European Transport Deal of the Year:
EUR 981 million - R1- Expressway
European PPP Deal of the Year:
GBP 1.1 billion - M25 - Motorway
Middle East Oil & Gas Deal of the Year:
USD 4.1 billion - Dolphin - Gas Pipeline
Middle East IWPP Deal of the Year:
USD 1.7 billion - Al Dur -
Water and Power Plant

pfi AWARDS 2009

Portfolio Deal of the Year:
GBP 340 million Boreas -
Wind Farm Portfolio
Infrastructure Deal of the Year:
EUR 981 million - R1 - Expressway
PPP Deal of the Year:
GBP 1.1 billion - M25 - Motorway
Gas Deal of the Year:
EUR 3.9 billion - Nord Stream - Gas Pipeline
Middle Eastern Oil & Gas Deal of the Year:
USD 4.1 billion - Dolphin - Gas Pipeline
Gulf Power Deals of the Year:
USD 1.1 billion - Shuweihat - Power and Water
Desalination Plant
Americas Power Deal of the Year:
USD 1.0 billion - Astoria II - Conventional Power

Alexander von Dobschütz (40), *Division Manager, Structured Credit* | Responsibilities Head of the structured finance division in the Corporates & Markets Business Area | Qualifications Bank apprenticeship at the Deutsche Bank Berlin AG, degree in business engineering from the TU Berlin, MBA from Cass Business School | Interests Family with two children, diving, skiing, sailing, opera & wine

Renewable energy

Renewable energy is one of the most promising growth markets worldwide. Competition in the field of renewable energy is not only influenced by the rapid advances in technology but also the race to get better financing solutions. BayernLB has successfully arranged financing for projects in this sector since 1996. It therefore has extensive and diverse experience in assessing financial value and in implementing projects and corporate concepts. For example, it acted as a mandated lead arranger (MLA) in the GBP 340 million financing of a portfolio of on and off-shore wind farms by UK energy supplier Centrica plc, the EUR 70 million ECA-backed export financing for the construction of the Soma wind farm in Turkey for the exporter Nordex Energy GmbH and the bilateral project financing for the construction of the 7 MW Heliergía solar energy plant in Spain on behalf of Bavarian Mittelstand customers.

Markets Division

Markets is internationally responsible for the range of capital market and treasury products for customer groups of the Bank and of the Group subsidiaries. The wide variety of money market, forex and capital market services offered includes funding and treasury strategies for customers and financial risk management, interest rate products, structured equity products and other structured investment products. As part of the strategic realignment, relationship management for financial institutions and institutional customers was moved to the Markets Division in July 2009.

Treasury Products

In addition to trading on behalf of customers and sales, consulting is a key component of the offering. Using quantitative analysis methods, the Bank supports its customers in all aspects of risk management in the areas of liquidity, currencies, interest rates and commodities.

Corporates and institutional customers

Customer demand was driven by liquidity and transparency, resulting in the stockpiling of longer-term liquidity on the capital market to maintain liquidity. The CP market was dominated by heavy corporate investment. The FX hedging segment posted in relation to exporters a more modest performance due to uncertainty about the volumes to be hedged and the excess of hedging prior to the crisis. Pronounced narrowing in lending spreads increased the attractiveness of the money market; pre-crisis levels were not reached. Notable successes were achieved, including interest-rate hedging for high-volume customer transactions. Sharp price fluctuations increased the need for hedging solutions for customers in energy and commodities trading, where BayernLB is one of the leading institutions in Germany. The new products “steel” and “financial gas trading for the TTF” (Title Transfer Facility) market area were successfully introduced.

Mittelstand

A key issue for Mittelstand customers was managing interest-rate and commodities risks. Historically low interest rates for existing or planned borrowing were locked in through interest-rate swaps and caps. Uncertainty and high volatility on commodity markets led to increased demand for hedging options and strategies. Working jointly with the savings banks, risk management was expanded for Mittelstand customers of the savings banks.

Savings banks

The partnership with the savings banks was further expanded across all asset classes and this was reflected, for example, in the large proportion of granular corporate Schuldschein note loan mandates that were placed. Product focuses were bonds, both on the primary and secondary markets. Turnover from issues with simple interest-rate structures – by BayernLB and others – was significantly increased. A positive performance was also posted in the securities lending business and the receipt of long-term time deposits.

BayernLB issued more than 200 individual issues with a volume of around EUR 4 billion for the savings bank investment business. High growth in this segment improved the competitive position of the savings banks thanks to BayernLB's clear focus on an intelligent, simple and transparent range of products. The Bank's market share in this segment grew by over 50 percent (Source: 2009 statistics from the Association of German Pfandbrief Banks).

Capital Markets

The Capital Markets Division includes customer-orientated market activities in the primary and secondary market business. The Division posted a pleasing performance and generated a key earnings contribution, particularly through its intermediary function between issuers (borrowers) and investors.

Corporates

Although Schuldschein note loans dominated developments in the first half of the year, the narrowing of spread premiums in the second half increased investor and issuer caution significantly, benefiting bond issues. Europe enjoyed its strongest-ever corporate bond year in 2009, with issue volumes of around EUR 300 billion. BayernLB successfully placed a number of issues to a broad investor base, carrying out, for example, lead mandates for Bayer, Fraport, MAN and Wacker Chemie and bond mandates for Daimler, Lanxess, Sixt, ThyssenKrupp and VW.

Financial Institutions

In brisk issuing activity on the market, BayernLB showed its strengths in providing support to large and medium-sized investors. Through the diversification of the order books, it made an important contribution to a positive performance of bonds on the secondary market. In the state-guaranteed bond market segment, lead mandates were carried out for Aareal Bank, Commerzbank, HSH Nordbank, IKB Deutsche Industriebank and others. National and international mandates were carried out in the covered bond segment for, among others, BNP Paribas, DKB, Eurohypo, WL-Bank and in the unsecured segment largely for German entities.

Structured Solutions

In structured investment products for private customers, customer preferences shifted markedly towards less structured, transparent products with shorter maturities and options for early repayment. Sales through the savings banks were increased in respect of callable and certain floating-rate bonds. In retirement

The major lesson of the financial crisis: It is essential to conduct integrated analysis and optimise strategic management of a company's financial risk factors!

What does this require?

- Entrepreneurial thinking
- Balanced asset-liability management
- Prudent risk selection

→ Asset growth, strengthening the structure of the capital base

Points to consider: In view of the events of the past few years, we expect financial markets to be subject to even stricter regulation in future, which in turn will significantly increase the internal and external requirements on financial risk management.

Thomas Buchstaller (27), *Senior Financial Risk Manager* | Responsibilities Asset liability management, interest-rate risk management, funds transfer pricing, support of Sales units | Qualifications Bank apprenticeship, business administration studies, additional qualification in trading financial products | Interests Mountain biking, hiking/climbing, squash, tennis, football, skiing, motorcycling, travel provision products, institutional customers are focused on integrating derivative structures as well as flow products

BayernInvest Kapitalanlagegesellschaft

Despite the conditions on the capital market, a positive performance was posted as in recent years. Assets under management increased by at least 25 percent year-on-year. As at 31 December, BayernInvest was managing just under EUR 30 billion in 354 asset management and Master KAG (master capital investment company) mandates. Within the BayernLB Group, BayernInvest was managing the investments of a range of entities including savings banks, companies, insurers and utility companies. Among its core competencies are the asset management of European bonds and equities, as well as the range of services in the Master KAG field. In 2009, BayernInvest was awarded a very good rating (1st quartile) by Greenwich Associates for its active management, coming a long way ahead of its competitors, while its range of services in the Master KAG segment was given an above-average rating by Telos.

Outlook

Key to the future performance of the Corporates' Division will be the change in the risk situation, the needs of exporters and changes in the field of competition and its consequences. Continued high demand is expected for structured financing and for export financing in particular. Investment is occurring in the renewable energy segment, and this will be of major importance to the Bank's customers. The trend towards investment in infrastructure through privatisation will continue. Products in the balance sheet management segment, such as leasing structures and purchases of receivables, will also play an important role. In the Markets segment, increasing importance will be attached to fixed-income business with corporates and financial institutions as well as structured interest-rate and equity products, while expertise along the value chain will improve. Due to the continued high volatility on currency markets, systematic management of currency risk will be made a top priority.

Real Estate

A small increase in transaction volumes from mid 2009 was evidence of a gradual recovery in the real estate markets. The Real Estate Division posted a positive risk-adjusted performance for the year. Business activities were targeted at customers who focused on sustainability and investing in economically strong regions. The proportion of refinancing through Pfandbriefs increased from 40 percent to around 50 percent, an indication of the quality of the loan portfolio.

General

The Real Estate Division coordinates the core bank's commercial real estate business. Sustainability is increasingly an issue, from building design right through to providing subsidised loans. In Bavaria, BayernLB serves Mittlestand (mid-market) customers in close cooperation with the savings banks. BayernLB offers its customers a comprehensive range of products to hedge interest rate and currency risks.

Its focus is on long-term commercial real estate financing and services for the German market and for German customers abroad. This includes property developer financing, portfolio financing, consulting services on mergers & acquisitions (M&A) and project management.

Real I.S. AG (Real I.S.) and Bayerische Landesbank Immobilien-Beteiligungs-Gesellschaft mbH & Co. KG (BayernImmo) also offer, on top of the services provided within the Group, customised financing and service solutions. The range of products is further complemented by LB Immobilienbewertungsgesellschaft mbH (LBImmoWert), which operates as a centre of competence for real estate valuations and research.

Business activities within Germany

Housing companies and portfolio financing

The housing company and portfolio financing sub-division focuses on structured financing, corporate loans and pool financing in the subsidised loans area and on analysis in financial risk management. Customers were successfully advised when they wanted to change strategy in response to market conditions, e. g. switching from sale to hold. Future business activities will continue to be targeted at sustainability-focused customers and the related professional asset management for residential and commercial real estate investments in Germany.

Commercial real estate

Although rents fell overall, the highest rents have remained relatively stable, particularly in the retail space segment. Rental income fell sharply, particularly for offices, in all major centres. In new projects therefore project developers are concentrating on high pre-leasing rates, good quality and increasingly on sustainability. Demand was high for hotel and care institution financing. Given the current condition of the real estate market, the focus is on serving the needs of highly experienced market players with a track record to match.

Residential real estate financing

Financing focused on residential property developers active in the greater Munich area, Bavaria and major metropolitan areas. Sales of new residential real estate to institutional investors were buoyant during 2009. The Munich market attracted the attention of large investors in particular. BayernLB is the number one property developer financer in this location.

Savings bank and syndicated business

The Bank works with the Bavarian savings banks to offer Mittelstand (mid-market) real estate customers consulting services and various forms of support and assistance in relation to financing issues and real estate services, particularly in the areas of residential, retail and managed real estate. As a result, the number of new transactions was much higher than the year before. A key focus of syndicated business activities with banks was on restructuring existing loans to minimise risks and optimise returns.

Business activities outside Germany

Fund and cross-border financing

Fund and cross-border financing is principally targeted at supporting Mittelstand customers with cross-border activities and on internationally active customers with a focus on Germany. The regional focus is on neighbouring countries within the European Union (EU) and Switzerland. As with the domestic activities, this segment made a steady contribution to earnings of the Real Estate Division.

Foreign branches

In the Paris, London and Milan foreign entities, current exposures were restructured and portfolios selectively reduced. France and the United Kingdom continue to be target markets.

Real estate services

In the consulting and participations business, commission-based services were successfully expanded. BayernImmo contributed equity to a shopping centre project in Munich, a larger office project in Stuttgart and care home project in the Munich region. The M&A business successfully executed sales mandates by investors and family offices and acquired new mandates from the office, residential and retail real estate sectors.

Real estate subsidiaries

LBImmoWert

LBImmoWert is a subsidiary of BayernLB and Landesbank Hessen-Thüringen. It is the centre of competence for real estate valuations and research and has firmly established itself through its nationwide network of branches. Despite falling transaction activity in the real estate markets, LBImmoWert posted a positive result for 2009. A high priority was placed on portfolio valuations. Business within the savings banks association also steadily expanded.

2009 was an eventful year dominated by many changes. For one thing, the Real Estate division has been completely restructured. Our business activities today focus on customers with investments in portfolios of existing real eastate or development projects in all asset classes. In addition, we offer expert advice and individual support for all real estate services. Our market environment continues to be very difficult but despite all the challenges, my work gives me great pleasure. Especially now I can tell that all our employees are working for the same goal and giving their best. And this impression is backed up repeatedly by our customers.

Georg Jewgrafow (55), *Division Manager, Real Estate* | Responsibilities Managing the division, commercial real estate in Germany and abroad, residential construction business, syndication, credit management and real estate services | Membership on supervisory boards including REAL I.S. AG, BayernImmo, member of various commissions in the VÖB and vdp | Qualifications Business administration studies

Real I.S.

Real I.S., a 100 percent-owned subsidiary, is the asset management company for commercial real estate within the Group. Its focus is on designing capital investment products for private and institutional investors, as well as special solutions for private and major customers and also savings banks. Real I.S. has won several awards, including the Cash Financial Advisors Award for the Real I.S. Australian 5 and the Scope Investment Award in the "closed-end funds global real estate" category.

Outlook

The markets are expected to stabilise slightly in 2010. The Real Estate Division therefore expects prices to bottom out, giving capital-rich investors the opportunity to make selective purchases. On the financing side, competition is forecast to increase. Over the course of 2010, the Division will generate substantially more new business.

Public Sector

The Public Sector Division manages BayernLB's legal and statutory functions as a municipal bank and the principal bank for the Free State of Bavaria. Besides financing and payments, it looks after the banking needs of public entities of the Free State of Bavaria and infrastructure companies. It also runs the Municipals Centre of Competence (MCoC), a joint entity with the Bavarian savings banks and the Association of Bavarian Savings Banks.

Customers

Since the business model was realigned, the focus of activities has been on customers within Germany. A comprehensive range of services are provided to the federal government, states and municipalities, as well as public bodies and institutions such as development banks, utilities, churches, foundations and social insurance schemes. Through the MCoC, the Bank develops innovative products and services for the municipals business and assists the savings banks in looking after the needs of the municipalities. Within the German Savings Bank Association's cross-regional projects "savings banks financial concepts for municipalities and institutions" and "municipal debt diagnosis", expertise is provided by the Bank's relationship managers and product specialists. Loan origination for Bavarian municipalities is organised by BayernLabo.

Market activities

Since the Pfandbrief markets settled down during the course of the year, the Bank has returned to the market with attractive conditions. As public sector demand for credit rose significantly at the same time, lending volumes from new business and restructuring municipal loans rose to EUR 1 billion. To use the cover funds within the Association of Savings Banks efficiently, the Bank purchased municipal loans receivable of more than EUR 62 million from the Bavarian savings banks in the Pfandbrief pool.

BayernLB consolidated its position as an arranger of capital market instruments for public issuers. Working closely with the Markets Division, several lead mandates for bonds and Schuldschein note loans were acquired.

It also structured a customised currency hedge for a Bavarian university in respect of an international research project, allowing the customer to create a reliable financial plan.

BayernLabo

Bayerische Landesbodenkreditanstalt (BayernLabo), which helps implement government housing policy, posted a solid and reliable performance in its role as a development bank despite the difficult economic environment. Based on the AAA rating, it was able to secure refinancing in line with demand of EUR 1.37 billion on comparatively favourable terms. Its publicity campaign, which was launched in 2005, was extended, and a growing number of parties were made aware of the subsidised loans programmes.

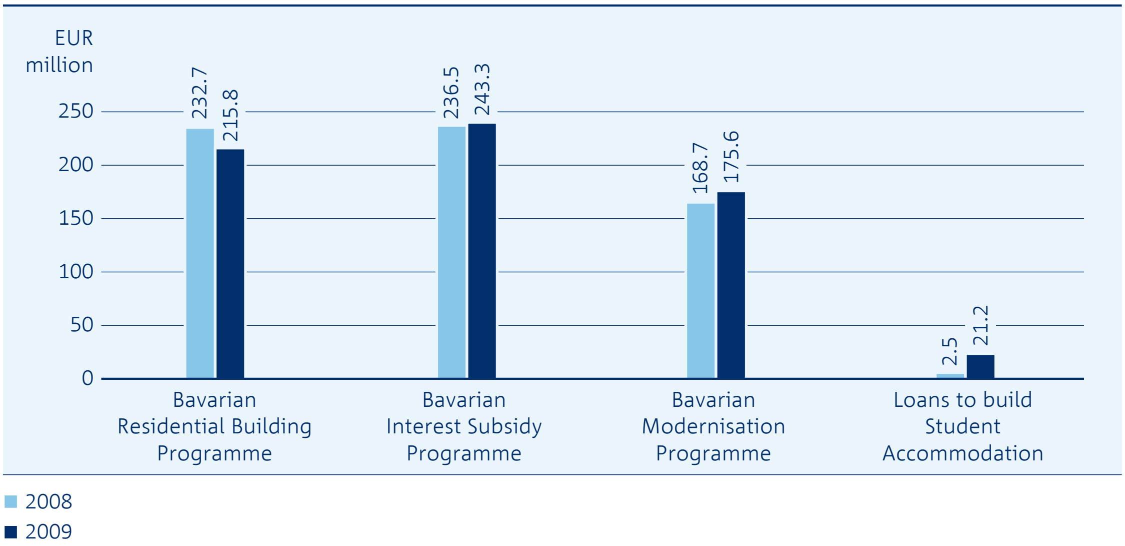
Providing incentives through subsidised housing

In carrying out its functions as a development bank, BayernLabo is supported by the following partners: the principal planning authorities at the Bavarian State Ministry of the Interior and Bavaria's government districts, urban districts and district administration offices, which are the authorising bodies; Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation) and Landwirtschaftliche Rentenbank (development bank for agriculture), which are the main refinancing institutions; and the residential housing associations. The volume of subsidised housing loans approved was EUR 655.9 million, on par with last year's high levels. This amount financed 11,067 owner-occupied or rented homes or apartments for people on qualifying incomes. A further 1,760 places in student residencies and care homes for the elderly also resulted from the subsidies.

Financing municipal authorities in Bavaria

BayernLabo performs BayernLB's legal mandate to serve municipal bodies in Bavaria. Loans to municipalities , including those under the "Investkredit Kommunal Bayern"

Subsidised housing
Approved loan volumes



programme, amounted to EUR 711.9 million, a significant year-on-year increase. The “Investkredit Kommunal Bayern” programme offers municipal regional authorities, their enterprises and special-purpose associations long-term loans at preferential rates for social infrastructure, and site, town or village development. Demand for borrowing, after an initially modest start, totalled EUR 44.4 million. LfA Förderbank Bayern covers the commercial infrastructure segment through “Infrakredit Kommunal”.

Forward-looking subsidisation of residential construction

In 2009, BayernLabo provided EUR 10 million in loans and subsidies for the pilot project “e% Energieeffizienter Wohnungsbau” (e% energy-saving residential construction) for the first time through the Bayerische Wohnungsbauprogramm (Bavarian residential construction programme), which meant that energy-saving measures for new and existing housing could also be tested. Subsidies were provided for 186 homes over the year. Based on the information obtained, future energy saving and efficiency options in all areas of construction have been identified for implementation.

Successful publicity campaign

BayernLabo provided details of the Free State of Bavaria’s home ownership promotion campaign to nearly 900 real estate consultants at banks, savings banks and other financial service providers. Thanks to subsidised loan products, many households were able to qualify for real estate financing from a “third-party bank” for the first time. More than 3,000 presentations and advisory meetings were held on the programme of subsidies for constructing and purchasing new and existing privately owned or owner-occupied homes. These took place at the 12th and 13th “Eigentum&Wohnen” residential real estate trade fair in 2009 in Munich, the “EigenHeim ´09” residential real estate trade fair in Nuremberg and the 7th Franken real estate trade fair in Bamberg. BayernLabo also attended numerous municipal forums to give information on the residential real estate financial aid that is available to municipal representatives, who will then relay the information on to others.

Outlook

Bavaria’s subsidised housing programme will play an even more crucial role due to the economic situation. Thanks to the subsidies, many have been and will be able to realise their dream of owning their own home. Banks, home loan savings banks and other financial services providers are therefore well-advised when they take part in BayernLabo’s subsidised housing programme on behalf of their customers.

As BayernLB's development bank and organ of state housing policy, BayernLabo has subsidised around 830,000 flats and care home places since 1980 and thus helped provide an estimated 1.75 million Bavarian citizens with a suitable home. We have also proven ourselves to be a strong partner of the Free State of Bavaria and its municipalities in state and municipal credit business, even in the financial crisis.

Our "AAA" rating stands for "augmenting public welfare", "adhering to instructions" and "advancing the regional principle" in terms of our Bavarian activities – a motto we have followed for the past 125 years with great success.

Gerhard Flaig (61), *Spokesperson for the Management at BayernLabo* | Responsibilities Support for state housing construction projects by providing low-cost development loans | Qualifications Lawyer and business administration graduate | Interests Travel and good food – both together if possible

Savings banks

BayernLB's collaboration with the Bavarian savings banks is a key and integral part of the business model as the savings banks are not only important customers but also important sales partners of the entire BayernLB Group.

Strong partner for the savings banks

BayernLB provides customised solutions for the savings banks' own business, as well as their Mittelstand (mid-market), municipal, commercial real estate and retail customer businesses. The strategic goal is a successful collaboration with the savings banks as an equal partner.

An additional focus is on BayernLB Group's profitability in the savings bank segment. The aim here is to increase the value generated for BayernLB from its business with the savings banks and, in particular, to make this value more transparent as a whole across all the business areas involved.

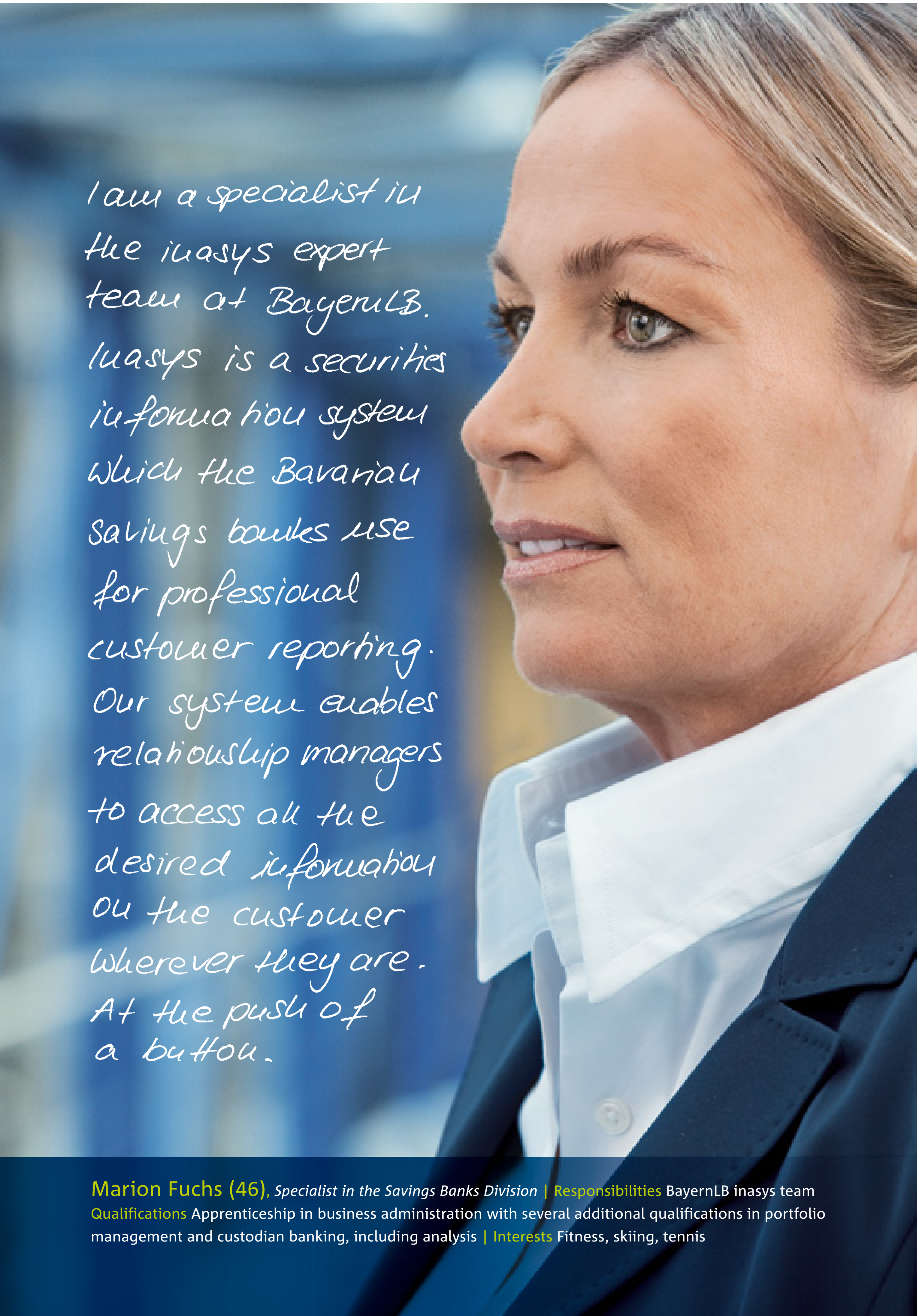
To strengthen the business relationships on both sides and increase profitability further, a joint project was launched in 2009 involving the Association of Bavarian Savings Banks, a savings bank from each administrative district and BayernLB. Part of this joint project is aimed at ensuring that the products and services needed by the savings banks are high quality, tailored to their requirements and competitive. Another of its goals is to base the range of services and remuneration for joint business much more closely on the intensity of the cooperation with each savings bank.

BayernLB's Savings Banks Business Area, in its role as a link in sales between the savings banks and BayernLB, manages the cooperation between the product units and the savings bank customers within the Group. The aim is to focus all banking products and services on the savings bank core customers. A key role is being played here by the newly created regional directors, who are the main contacts for the savings banks and manage the business relationship with the respective savings bank, and the new Board of Management support concept. The new strategy also sets out the cooperation with savings banks outside Bavaria.

Savings bank business

In 2009, the savings banks once again provided BayernLB with a major source of refinancing through deposits and capital instruments. Overnight and time deposits from Bavarian savings banks totalled around EUR 10 billion on average. In addition, the savings banks held an average of around EUR 5.6 billion of securities issued by BayernLB in their own custody accounts. Good levels of liquidity at the savings banks also reduced their need for refinancing loans. As part of the pooling model, eight Bavarian savings banks transferred Pfandbrief cover assets such as municipal loans to BayernLB to generate additional returns.

In October 2009, 40 savings banks took part in a credit basket transaction with a volume of EUR 202.6 million spread over 133 individual Mittelstand risk exposures – the largest ever to take place in Germany. The transaction was arranged jointly by seven Landesbanks and has a five-year maturity. This allowed the savings banks to diversify their individual and sector concentration risk exposures in the corporate credit portfolio without affecting the underlying customer relationships. Borrowers focusing on real estate business were also included for the first time. BayernLB and Landesbank Hessen-Thüringen (Helaba) are once again acting as administrators responsible for managing and processing the savings bank credit basket.



Marion Fuchs (46), *Specialist in the Savings Banks Division* | Responsibilities BayernLB inasys team
Qualifications Apprenticeship in business administration with several additional qualifications in portfolio management and custodian banking, including analysis | Interests Fitness, skiing, tennis

Support to customers of the Sparkassen-Finanzgruppe

The Corporate Finance Desk (CF Desk) advises Bavarian savings banks and their corporate customers. Customers were able to meet the economic challenges of 2009 thanks in part to the ongoing support provided by its consulting services, particularly in relation to optimising internal processes. Companies are now more focused on forward-looking issues such as corporate succession planning. The CF Desk offers a wide range of tools for dealing with these issues; starting with finding amicable succession solutions by holding discussions among family or shareholder members, right through to support in selling the firm if an external succession is chosen.

One key area of BayernLB's international business in 2009 was supporting savings banks by carrying out foreign processing and settlement operations on their behalf. The Bank took some of the pressure off Bavarian savings banks, for example, by processing documentary business directly and hedging interest-rate, currency and commodities risks between BayernLB and the customers of the savings banks. The savings banks could therefore offer their customers a full range of products without the need for them to maintain their own in-house settlement capability. For the Sparkassen-Finanzgruppe, BayernLB is a centre of expertise and processing centre for subsidised loans. The 7.4 percent increase in volumes from EUR 9,656 million to EUR 10,375 million is a reflection of the success of its collaboration in this segment.

Retail customer business – customised solutions for savings banks

BayernLB investment products were a popular alternative for savings banks in and outside of Bavaria and their customers, particularly guaranteed and partly-protected equity and index products, step-up interest-rate bonds with a range of maturities and stepped interest-rate coupons. Step-up interest-rate bonds were the top structured product, with a new issue volume of EUR 3.5 billion.

At the request of the savings banks, specially customised step-up interest-rate bonds with a total volume of EUR 356 million were introduced to give retail customers of the saving banks attractive rates.

Private placements were carried out at a regional level to make these attractive offers available to other groups besides customers of large savings banks. BayernLB was in charge of coordinating and managing product design and provided support in marketing the products for the entities involved, generally smaller savings banks. BayernLB also provided access to "inasys", a top-quality securities investment advisory tool. Numerous refinements were made to the "inasys" system in 2009. Training plans were also expanded.

Due to the financial crisis, there was a lot of interest in physical gold investments from savings bank customers. As a result, order numbers in BayernLB's precious metal business remained high.

Outlook

In 2010, the challenge will be to further strengthen the partnership with the savings banks and ensure the measures introduced remain permanently in place after the project is concluded. As the savings banks' central bank but even more as their business partner, BayernLB's strategy will be heavily focused on providing active and profitable support to them in their role as regional providers of banking products.

BayernLB's foreign activities in Central and South Eastern Europe

Overview

In 2009, BayernLB was principally represented in Central and South Eastern Europe through its subsidiaries Hypo Group Alpe Adria (HGAA), Klagenfurt and MKB, Budapest.

Austrian banks have a particularly large exposure to Central and Eastern European countries, which were especially hard hit by the financial crisis and experienced a massive downturn in their economies in 2009. Through the acquisition of BayernLB's 67.08 percent holding in HGAA by the Republic of Austria in December 2009, the Bank, the Republic of Austria and the other former shareholders succeeded in stabilising a bank which is systemically important for Austria and South Eastern Europe.

BayernLB has been represented in Hungary by MKB since 1994 and through the latter's subsidiaries MKB Unionbank in Bulgaria and MKB Romexterra in Romania since 2006. These countries were also badly hit by the global financial crisis. High levels of foreign debt coupled with a sharp depreciation in the value of the forint produced major headaches for Hungary. Soaring risk aversion among investors led many to unwind portfolios in high-risk markets, putting the currency under extreme downward pressure. Hungary's banking sector is especially dependent on foreign capital. Bulgaria, which has been a member of the EU since 2007, also experienced a major economic downturn in 2009. Romania's economy posted strong growth from 2004 to 2008, but has been badly buffeted by the international financial crisis. However, the country has benefited from joining the EU in 2007 as both the EU and International Monetary Fund (IMF) have supported it with extensive lines of credit.

Hypo Group Alpe Adria, Klagenfurt (HGAA)

With more than 380 banking and leasing locations, HGAA is active in the greater Alpine-Adriatic region (including Austria, Bosnia and Herzegovina, Croatia, Italy, Serbia and Slovenia). The international financial crisis and global economic downturn had a major impact on many countries within this region. As part of a restructuring project, HGAA's business model was comprehensively reviewed. The goal was to adapt the business model to the changed market conditions and focus on core markets and activities. Another aim was to increase efficiency by introducing measures to cut costs. Due to the sharp rise in risk provisions in the first half of 2009, another review of HGAA's credit portfolio was carried out in the second half of the year by an auditing firm. The outcome showed that there was a need for much higher risk provisions. HGAA therefore once again needed another substantial capital injection. Based on the findings of this portfolio analysis, the Bank had to make a strategic decision whether it was in BayernLB's economic interests to participate once again in a large-scale capital increase. After weighing up the data presented, the economic environment and related future outlook for HGAA, the Bank came to the conclusion that there was no justification on economic grounds to participate in a capital increase at HGAA and thus retain an equity stake in HGAA as it would be too great a risk for the rest of the BayernLB Group. Looking to the future, BayernLB will need instead to focus on the remainder of the BayernLB Group. The Bank therefore decided to deconsolidate its holding in HGAA as soon as possible to shield its future growth from the negative impact of its holding in the HGAA Group and to make earnings forecasting more effective and reliable. In December 2009, the

Republic of Austria acquired BayernLB's share in HGAA after intense negotiations. Since 30 December, HGAA has no longer been part of the BayernLB Group.

MKB Bank Zrt., Budapest (MKB)

MKB Group is one of the leading Hungarian financial groups and has a strong market presence as a universal bank in all market segments it operates in. MKB Group bases its strategy on its relationship as a principal bank to its customers and aims to add value within the customer relationship. MKB was able to meet the challenges posed by the recession by focusing on its core strengths and internal consolidation thereby generating positive results at both the Bank and Group level. However, its performance was hit by a significant increase in risk provisions as a result of the deep recession in Hungary and South Eastern Europe. Through improved risk management, active portfolio management, cost savings and additional measures aimed at tackling the crisis, MKB laid the foundations for overcoming the challenges posed by the recession and seizing the opportunities offered by the slow-paced recovery. BayernLB is helping MKB emerge from the crisis strengthened.

Corporate finance and capital markets

In the corporate finance segment, MKB has been one of the leading banks in the Hungarian market since 1995. At the end of 2009, it had more than 12,200 customers in this segment and a large share of the market (loans: 13.6 percent; deposits: 11.3 percent).

The last financial year saw a selective expansion of activity in the corporate customers business, in accordance with the agreed business and sector risk strategies. Because of its promising future, MKB will be focusing more intensely on the renewable energy segment. In the corporate customers segment, MKB increased term deposits as planned and was therefore able to compensate for the fall in sight deposits caused by the crisis. MKB conducts a multifarious range of activities on the Hungarian money and capital markets on behalf of its customers. These include in particular trading in government bonds, launches of own issues, and asset, fund and custody account management.

Private customers

MKB's private customer business model, which is targeted towards the high net worth customer segment, is based on personalised consultation and a customised value creation and support approach tailored to the needs of the customer groups. At the end of 2009, the Bank had 321,500 retail customers and a market share of 6.3 percent in the credit business and 7.9 percent in real estate loans. In deposits, it has 5.6 percent of the market and in investment funds, 4.5 percent. In the private banking segment, MKB is extremely well positioned in the Hungarian market. It increased the number of customers in the high net worth segment to 1,312, a 29 percent year-on-year increase. At the end of 2009, MKB Bank had a nationwide network of 86 branches. Its range of services has been supplemented by e-banking, which also includes securities trading.

As a Portfolio Manager in the Financial Institutions segment, I am involved in reducing non-core activities. Hitting our asset reduction targets is a challenging task, which can only be accomplished with the help of excellent know-how and great passion. We have a major responsibility – and this is what drives us.

Elaine Murphy (43), *Department Manager Restructuring Unit/Financial Institutions* | Responsibilities Restructuring Unit/Financial Institutions & Public Sector | Qualifications BA European Business Administration, traineeship at BayernLB | Interests Fly-fishing, reading

Key subsidiaries

MKB Euroleasing Group offers a full range of high quality services for passenger cars, from vehicle financing right through to fleet management and continued to be one of the top five local motor vehicle financing providers (market share of more than 15 percent) in 2009. It is the largest Hungarian car insurance broker and the number two in the Hungarian market for fleet management. Last year, it also penetrated markets in Bulgaria (fleet management) and Romania (car insurance sales). The life and non-life insurers jointly founded in 2007 by MKB, BayernLB and Versicherungskammer Bayern have performed in line with expectations. The MKB pension fund (one of the top players with a market share of 10.5 percent) and health fund (the second largest of its kind in terms of member numbers and assets managed) increased the amount of assets under their management. MKB is the majority shareholder in MKB Unionbank in Bulgaria and MKB Romexterra in Romania. Due to the marked deterioration in the economic situation in the Central and Eastern European region, the key focus of activities in 2009 was on implementing efficiency improvements, cost-cutting measures and strengthening portfolio management in these companies.

[SECTION 3]

SEC. 3

BayernLB Group management report

Overview

Recovery after a deep slump

Germany's economy was hit harder by the global recession than many other highly developed economies. Real gross domestic product contracted by 5 percent in real terms in 2009, the biggest fall since the Federal Republic was founded. Much of this was due to the heavy focus on exports by German industry which was caught up in the collapse of world trade during winter 2008/spring 2009. Exports of goods and services plunged by EUR 197 billion or a good 17 percent on 2008. However, because imports also fell, the negative impact on growth from foreign trade in numerical terms was "only" 3.0 percentage points. Companies responded to the sharp contraction in foreign business by slashing investment. Expenditure on equipment alone was cut by EUR 43 billion or one fifth year-on-year. Businesses also ran down their inventories as demand eased, and this alone sliced 0.9 percent off the gross domestic product. However, consumer spending had a stabilising effect and was mainly underpinned by the robust labour market, though additional support came from consumer prices, which remained virtually unchanged on average over the course of the year, and government stimulus measures (the car scrappage scheme). The year 2009 also saw the largest ever fall in economic output during a recession coupled with the smallest ever rise in unemployment. Averaged out over the year, there were just 155,000 more people registered as unemployed than in 2008, while the number employed fell by only 14,000. This "employment miracle" was made possible by structural improvements in the labour market (Agenda 2010) and years of wage restraint, considerable flexibility on working hours in industry and the massive use of short-time working at better conditions.

Without the very extensive range of measures adopted by governments and central banks to prop up demand and stabilise financial markets, a veritable "economic crisis" could probably not have been averted in 2009. However, thanks to this intervention, it has been limited to a deep recession. In the second half of 2009, a moderate recovery set in thanks to massive government aid in virtually every region of the world. Germany's gross domestic product ended 2009 1.2 percent higher than at the low point at the start of the year. Confidence also gradually returned to financial markets over the course of the year, while risk premiums, which in some cases had been extremely high at the start, returned to normal. However, the support measures implemented by economic policymakers pose considerable risks. Central banks cannot provide lenders with large amounts of funds over a long period of time, while keeping interest rates at virtually zero, and not expect to see an erosion in the value of money. Neither can governments pile on debt at the rate they did in 2009 and not expect to see confidence in the solidity of public finances shaken. In 2009, the year after it had balanced its books, Germany had a total public deficit of EUR 79 billion or 3.3 percent of gross domestic product. It has therefore one of the lowest deficits measured against economic output not just out of all the eurozone members but also compared with other industrialised nations.

On capital markets, 10-year German government bond yields remained at a relatively low level of 3.25 percent on average during 2009, supported by a sharp fall in money market rates and bouts of high risk aversion by many investors. Recession and financial crisis were the overriding themes for investors, not the burgeoning budget deficits. Many companies turned to the capital market as bank loans were harder to come by. On the stock market, heavily depressed valuations gave way to a rapid recovery in early 2009. Despite the considerable rise in values, price earnings ratios were just at their long-term average by year-end by and large. Market participants have therefore priced the emerging signs of recovery in corporate earnings into equity prices. The US dollar depreciated against the euro almost throughout the whole of 2009, reaching the 1.50 mark by autumn. This dampened expectations by companies that exports would recover from the collapse at the start of the year.

Business model and strategy

BayernLB refocused its business model as part of the Hercules restructuring project. The restructuring concept was developed in cooperation with all the Group strategic subsidiaries in the first quarter of 2009 and submitted to the EU at the end of April 2009. After the measures had been drawn up in detail, significant elements were implemented in the second half of 2009. BayernLB's new strategic direction can be summarised as five goals:

- to focus on clearly defined customer groups, regions and products
- to make greater use of comprehensive product expertise through cross-selling
- to downsize the Bank significantly and increase efficiency
- to reduce risks over the long term
- to significantly expand Group-wide management

BayernLB is positioning itself overall as a customer bank focused on German and handpicked foreign customers. Risks are also being limited accordingly. The future business model will be based on the Mittelstand (mid-market), large corporates, commercial real estate customer segments and retail customer business and should ensure a balanced mixture of earnings.

The entire change process is incorporated into Project Hercules. BayernLB is being supported in this area by the Boston Consulting Group. With the planning phase completed, implementation of the change process in the line units began in mid-2009, actively guided by Project Hercules.

New segment structure

Visible signs of BayernLB's new direction include the new segment and Dezernat structure which also incorporates the Group's strategic subsidiaries. The Corporates & Markets segment is responsible for large corporates, financial institutions and institutional investors. All financial market products are also managed by this segment. Real estate financing, public-sector financing and relationship management for the savings banks were combined together in a second segment, which is also responsible for Bayerische Landesbodenkreditanstalt (BayernLabo). The focus on the Mittelstand (mid-market) business, particularly in Bavaria, is reflected in the creation of the Mittelstand and Retail Customers segment. Deutsche Kreditbank AG, Berlin (DKB) and Bayerische Landesbausparkasse (LBS Bayern), Landesbank Saar, Saarbrücken (SaarLB) and Banque LBLux S.A., Luxembourg (LBLux) are also allocated to this segment. Hungarian bank MKB Bank Zrt., Budapest (MKB) is included in the Eastern Europe segment. Hypo Group Alpe Adria, Klagenfurt (HGAA) was included within this segment until it ceased to be a part of the Group at the end of 2009.

The segment structure is a reflection of the targeted focus. This focusing, however, is to be accompanied by a much greater emphasis on tapping the potential available in the Bank's customer groups and core regions. To relieve the pressure on sales units so they can focus on these key tasks, non-core business has been separated from the target and core businesses. A new segment, the Restructuring Unit (RU), was created for this purpose on 1 July 2009 and given its own Dezernat (responsible Board of Management member). This segment has operational responsibility for all the core bank's key portfolios being wound down. The RU's Dezernat is also responsible for monitoring the winding down of non-core business within the entire Group and reporting on this process to the governing bodies. Furthermore, the RU is in charge of handling all the core bank's exposures that are in restructuring or liquidation around the world.

Implementation successes

Significant progress in reducing the RU portfolios has been achieved since the founding of the RU at the start of the second half of 2009. An additional EUR 4.0 billion was actively unwound on top of the planned EUR 6.7 billion. As at 31 December 2009, the portfolio that the RU was operationally responsible for had a volume of EUR 56.3 billion.

Successes in other areas of focusing and reduction were also achieved. BayernLB's international presence is being scaled back according to plan. The representative offices in Montreal, Beijing, Tokyo and Mumbai were closed, while preparations for shutting down the Shanghai and Hong Kong branches are on track and will be implemented in 2010. The Milan branch and Kiev representative office will also be closed. The London, New York, Paris and Luxembourg branches will remain open. The measures aimed at cutting operating expenditure and staff costs are on target. For example, more than 90 percent of the cuts in the workforce within Germany had already been contractually agreed by December 2009.

In view of the significant downsizing of BayernLB, it was necessary to revise the entire organisational structure of the Bank. Based on the new business area and Dezernat structure, the number of management levels was generally reduced from four to three and management responsibilities widened. The new organisation has a markedly flatter hierarchy. As a result of the introduction of the new structure on 1 July 2009, the number of management posts was reduced by around one-third. By the end of 2013, when the implementation of the target structure has been completed, manager headcount within the Bank will be roughly half the level it was on 31 December 2008.

In the restructuring process, the business areas have focused heavily on customers, regions and products. The first successes of this focus can be seen in the business areas' figures for 2009.

Important changes within the BayernLB Group

The disposal of Hypo Group Alpe Adria (HGAA) and therefore BayernLB's exit from large parts of Central and South Eastern Europe last year was an important part of the BayernLB realignment process. Though painful for BayernLB, it was the most acceptable solution for all parties concerned.

Prior to the sale, extensive efforts had been made to restructure HGAA within the BayernLB Group. HGAA's growth initially ground to a halt in autumn 2008 when the financial crisis escalated. In November 2008, when the basic restructuring plan for the BayernLB Group was agreed, the decision was taken to restructure HGAA. At the start of 2009, the restructuring of HGAA was initiated under Project Hypo Fit 2013, which formed part of BayernLB's Hercules restructuring programme.

When risk provisions rose sharply in the first half of 2009, HGAA's supervisory board took the decision in summer 2009 to have a comprehensive special review of the loan portfolio carried out by auditing firm PricewaterhouseCoopers AG (PwC asset review). The findings were presented to HGAA's supervisory board on 16 November 2009. Based on the PwC asset review and HGAA's internal audits of the credit portfolio, HGAA's executive board calculated that a writedown of around EUR 1.7 billion was required for 2009. As a result, HGAA was in need of another large capital injection. After a comprehensive review, BayernLB came to the conclusion that there was no justification on economic grounds for maintaining an equity investment.

After complex negotiations with the Republic of Austria and the other shareholders, an agreement was reached to sell HGAA. BayernLB's total investment in HGAA since its acquisition amounted to around EUR 3.7 billion. BayernLB has been cooperating with an investigation initiated by the public prosecutor in 2009 on the acquisition of the majority stake in HGAA. The outcome of the investigation is still pending.

Painful though this episode has been, BayernLB has been able to draw a line under it and can now look to the future. No further capital injections are needed from the Free State of Bavaria, the BayernLB Group's risk profile has significantly improved thanks to this solution and it enjoys a stable core capital ratio of 10.9 percent even after the 2009 net losses are taken into account.

In addition to the sale of HGAA, the Group was consolidated in other ways also. For example, shares in LB(Swiss) Privatbank AG, Zurich were sold to the former co-owner Landesbank Hessen-Thüringen (Helaba). In exchange, BayernLB acquired all shares in LBLux from Helaba. In addition, a share sale agreement was concluded with the state government of Saarland to sell Landesbank Saar (SaarLB). The agreement initially provides, after the necessary approval has been obtained, for the transfer of a 25.2 percent stake to the Saarland, ending BayernLB's majority stake and allowing SaarLB to be deconsolidated. In subsequent years, BayernLB will have the option of selling its remaining shares to the Saarland and therefore ending its participation in SaarLB completely.

Group management principles were also revised so that the remaining Group members can be better managed. To promote more detailed discussion on business performance in the large subsidiaries, new "performance dialogues" are to be held. These dialogues will supplement current Group management through Group-internal reporting, supervisory boards and management boards. A process has also been defined for BayernLB to participate in personnel selection and setting target agreements for key management functions in the subsidiaries.

Outlook

The key groundwork was laid in the business areas of the Bank in 2009 to achieve positive business performance and greater customer penetration. This included redefining the target customers of Corporates and Financial Institutions. An investment committee within the Corporates & Markets Business Area monitors the profitability of customer relationships and manages sales. Greater cross selling is being targeted through real estate service products. Joint initiatives to optimise the partnership with the savings banks are now well underway. DKB also achieved some notable successes. For example, the number of new customers increased, while deposit volumes rose. Customer deposits increased by 8.1 billion to EUR 25.8 billion.

A key focus in 2010 will be on continuing to implement the restructuring concept. In addition to further downsizing and focusing, expanding our market position in the Bavarian Mittelstand will be a key goal. To achieve this, a new strategy was set for the Mittelstand Business Area, while credit volumes in this segment were markedly increased. Meanwhile, the presence in the environmental technology sector continues to be expanded. German companies are extremely well positioned in these markets and will participate in global growth. BayernLB and its customers will leverage the potential benefits from this trend.

Key changes to the scope of consolidation and the participations portfolio

The majority stake acquired in Hypo Group Alpe Adria, Klagenfurt (HGAA), in 2007 was deconsolidated at the end of 2009. HGAA is no longer included in the balance sheet as at 31 December 2009 but fully incorporated in the income statement for 2009.

In December 2009, the shareholdings in LBLux of 75 percent less one share and in LB(Swiss) of 50 percent were restructured. After 21 December 2009, BayernLB is the sole shareholder in LBLux and Helaba is the sole owner of LB(Swiss).

BayernLB has sold 25.2 percent of its shares in SaarLB to the Saarland. Its holding prior to this was 75.1 percent and will fall to 49.9 percent when the transaction is completed as expected in the second quarter of 2010.

More information on the changes to the scope of consolidation can be found in the notes.

Changes to letters of comfort

A letter of comfort issued by BayernLB was previously in effect for LB(Swiss) Privatbank AG. As at the end of 21 December 2009, the Bank transferred its holding in LB(Swiss) to Helaba. At that time, the letter of comfort for LB(Swiss) lapsed, and liabilities of LB(Swiss) Privatbank AG established after the end of 21 December 2009 ceased to be covered by the letter of comfort. Previous declarations have therefore been revoked.

Under the share purchase and transfer agreement of 18/21 December 2009, BayernLB sold a 25.2 percent holding in the share capital of Landesbank Saar (SaarLB) to the Saarland. SaarLB will cease to be a part of the BayernLB Group when the transaction is completed. As at this date, the reasons for a letter of comfort from BayernLB for SaarLB will cease to apply. All liabilities of

SaarLB established after the end of the date on which the sale closes (the closing date) will therefore no longer be covered by the letter of comfort from BayernLB. Accordingly, BayernLB rescinds this letter of comfort in relation to all liabilities established by SaarLB after the closing date, revoking all earlier declarations. The precise date of closing, expected to be in the second quarter of 2010, has not yet been set and will be announced by BayernLB in a press release.

Human resources

Moving to a more performance and responsibility-focused culture

The Bank has been restructuring itself over the past year to adapt the organisation to the requirements of the focused business model. Management structures have been streamlined and two new areas in the form of the Restructuring Unit and Mittelstand Business Area created. As a consequence of the structural and organisational changes required within the Bank, employees will need to demonstrate even greater personal responsibility and drive despite the tougher conditions. The Bank's opportunities in the future will come from the move towards a corporate culture that sets even greater store by performance and responsibility.

Changes in headcount

As at 31 December 2009, a total of 11,821 staff were employed by the Group. Over the year, headcount in the BayernLB Group fell by 8,464, and at BayernLB by 508 to 4,472.

Change in headcount within the BayernLB Group

			Change	
	2009	**2008**	**absolute**	**in %**
Year-end headcount at BayernLB Group	**11,821**	**20,285**	**−8,464**	**−41.7**
of which				
• Male	5,214	8,272	−3,058	−37.0
• Female	6,607	12,013	−5,406	−45.0
of which				
• Full-time employees	10,117	18,391	−8,274	−45.0
• Part-time employees	1,704	1,894	−190	−10.0
of which				
• Trainees	153	196	−43	−21.9

Restructuring of the retirement benefit programme

In light of BayernLB's difficult economic situation, the Board of Management and Board of Administration decided in 2009 that the Bank could no longer afford the financial costs of having a retirement benefit programme modelled on the pension system for civil servants. The previous pension scheme was therefore closed, while the retirement benefit programme was converted to a standard defined contribution scheme.

Staff reductions

In 2009, BayernLB was confronted with the greatest challenge in its history. The Board of Management agreed to develop and detail the new focused business model. Most of the resulting reductions in headcount will take place between 2009 to 2012. Despite the massive scale of the cuts, which will see the workforce shrink by more than 25 percent, the reductions in 2009 were implemented according to plan. By December 2009, more than 90 percent of the cuts within Germany had already been contractually agreed. Redundancies in Germany have therefore been avoided, and the reductions in headcount targeted in Project Hercules, can thus be regarded as completed since the remainder can be achieved through natural attrition.

New non-collective wage agreement remuneration system for BayernLB

The key elements of a remuneration structure in line with industry standards have been created through a new non-collective wage agreement remuneration system. This non-collective wage agreement remuneration system has been structured in accordance with regulatory requirements. Variable components of salary will be orientated more in line with the principles of sustainability, transparency and risk avoidance. The remuneration committee assesses the suitability of the remuneration system, particularly the application of individual remuneration components. The committee then informs the Board of Management on the findings of its assessment at least once a year.

The Board of Management regards the non-collective wage agreement remuneration system as a key component of a forward-looking human resources policy for attracting, developing and retaining qualified personnel.

Staff development and training

Staff make an important contribution to achieving the company's objectives. One of the prime strategic tasks therefore is to attract, develop and retain for the long term the qualified and committed staff BayernLB needs for its own future development.

The Bank has achieved these objectives through systematic personnel development and has created the right conditions for filling demanding positions internally.

The Bank continued to invest in ongoing and sustainable personnel development throughout 2009. Around EUR 3.3 million was budgeted for personnel development measures. At the Munich headquarters, 6,634 participants attended 1,443 events devoted to a variety of specialist and managerial themes.

Talent management

In competing for the best staff, a key factor for achieving business success is identifying, developing and encouraging high-performers with potential within the company.

Talent management promotes a culture centred on responsibility and performance and extends the participants' social, strategic and specialist skills. Besides retaining staff with potential, BayernLB supports systematic succession planning for demanding specialist and management positions.

Change management

A change process was implemented to systematically and consistently manage the change in culture and overcome the challenges posed by the Hercules restructuring project. Change coaches were appointed to support staff in the change process, while change workshops were held in all areas to draw up specific measures for implementing the focused business model and the related and necessary changes in culture at BayernLB.

Corporate responsibility

Companies have a duty towards society. BayernLB Group takes its corporate responsibilities seriously by supporting a wide variety of projects. Its activities are centred around helping the community, education and science, art and culture and sustainability management.

Helping the community

Companies within the BayernLB Group support and sponsor the less fortunate in society, giving them the chance of a better future. The Bank is heavily involved in the “We help children” campaign run by the charity Sternstunden. Every cent of each donation reaches children in need as the sponsors pick up all the administration costs. At the annual Sternstunden gala held in the run-up to Christmas, a record EUR 4.58 million was raised. Volunteers from BayernLB, BayernLabo and LBS spent the day collecting donations on behalf of Sternstunden. The second prize to the 2009 Sternstunden prize draw – a home loan savings account credited with EUR 10,000 – was donated by LBS.

Over the past year, Sternstunden has sponsored more than 128 projects at home and abroad under the stewardship of handpicked and reputable charitable organisations based in Germany. Thanks to their work, aid went straight to children around the world who are sick, disabled or in need, swiftly bypassing bureaucratic hurdles.

Staff who give their time to charitable and social organisations deserve special mention. They perform a valuable service in rescue teams, the Federal Agency for Technical Relief, the fire brigade and crisis intervention teams (CIT). BayernLB supports these activities by giving volunteers paid leave.

DKB carries out a whole range of activities through its corporate responsibility foundation (DKB Stiftung). In 2009, it launched and gave its support to numerous projects focusing on education, culture and the conservation of sites of historic interest. One area of activity was the establishment of an organisation which helps disadvantaged people integrate into the world of work. DKB also continued to support one of its pet projects, the Liebenberg apprenticeship pact, which helps underprivileged youths. Thanks to this model scheme, now in its fourth year, young people were given training by specialists in the fields of horticulture and landscape gardening. The first year have now successfully completed their apprenticeship and are now in employment. The Liebenberg apprenticeship pact was designated as a “selected landmark in the land of ideas” in a nationwide competition held by the “Germany Land of Ideas” project.

LBLux supported SOS Children's Village Mersch, the Luxembourg-based foundation "Fondatioun Kriibskrank Kanner", which helps children with cancer, and Archikonvent der Templer in Munich, which hands out 40,000 meals to the needy every year. A regular fixture of the support given to social projects is the annual donation to Oeuvres Paroissiales of the Sacré-Coeur Parish in Luxembourg City, which takes care of people and families who are underprivileged or in need.

MKB's projects are focused on health and helping people. The Bank supports the Hungarian Red Cross and the International Child Rescue Service. Both organisations help children living under difficult conditions.

Education and science

An important part of the work in promoting education and science is giving young people a helping hand into the working world. BayernLB Group helps talented and disadvantaged children and young people alike. Each of the locations and economic regions it operates in are also supported through its sponsorship of teaching and research programmes.

LBS's support includes helping children and young people find non-violent ways in their free time of expressing and dealing with their conflicts and emotions. In partnership with the "Alliance for children fighting violence" project, it donates EUR 200,000 to the "United we are strong" anti-violence programme run by the Bavarian branch of the German national association for the protection of children (DKSB). The practical programme is focused on volunteer trainers of teams of children and young people. Thanks in part to the assistance given by LBS Bayern, "united we are strong" training sessions are now held throughout Bavaria. Other beneficiaries of LBS's help include 1,000 sports associations, which have been given sponsorships as a starter kit so that three youth trainers or leaders can be given the necessary coaching and a further trainer or leader can attend the course at a discounted price.

The financial managers of the future get practical training and financial support thanks to the combined efforts by BayernInvest and BayernLB, who sponsor the elite programme Finance & Information Management (FIM) run by the University of Augsburg and the Technical University of Munich.

MKB awards educational scholarships in a range of subjects each year to 100 exceptionally gifted children from primary school right through to university degree level. Thanks to scholarships funded by the Bank, 11 students completed their university degree last year.

The SaarLB academic award celebrated a milestone anniversary in 2009. The EUR 25,000 prize has been awarded over the past 10 years in recognition of work carried out by universities and research institutions within the Saarland. The practical focus of the research work carried out in the region is evident from the winners of the award. In an anniversary ceremony held at Saarbrücken palace, leading figures from the political, scientific and financial worlds acknowledged the importance of the prize for the Saarland's standing as a centre of finance and science. The 10th SaarLB academic award went to a study group at the University of Applied Sciences (HTW) led by Prof. Dr. Günter Schultes and to Dr. Ulf Werner at the INM – Leibniz Institute for New Materials based in Saarbrücken. The prize winners developed a new nano material which improves the performance of sensors. Areas of application include the automotive industry and companies active in the field of hydraulics.

Support for the Munich Financial Center Initiative (fpmi)

The Munich Financial Center Initiative furthers the interests of all players within Bavaria's financial sector. Its participants are companies from the banking and insurance sectors, venture capital and leasing companies, the Bundesbank, Munich's stock exchange, professional bodies, business and trade associations and research institutions linked to universities.

Its prime objective is to boost Bavaria, and especially Munich, as a financial centre and to improve the area's standing outside the region. Regular discussions are held with representatives of the European Commission and the European Parliament in Brussels to achieve this end.

As a member of the Board of Trustees of the Bavarian Center of Finance, BayernLB helps promote its activities, particularly collaborative projects between Bavarian universities and financial service providers with a practical focus, a careers centre for newly qualified talent and the exchange of knowledge and experience at specially organised events. The third Bavarian Finance Summit brought together major names from the worlds of academia, business and politics once again. A key contribution to the summit's success came from the "New direction for regulation – lessons from the financial crisis" event.

BayernLB continued to actively support the Germany as a financial centre campaign (Initiative Finanzstandort Deutschland (IFD)), a wide-ranging programme by the German financial sector.

To promote public-private partnerships, ÖPP Deutschland Aktiengesellschaft was established on the initiative of the IFD and in cooperation with the Federal Ministry of Finance, the Federal Ministry of Transport, Building and Urban Affairs, the banking sector, the construction industry and other interested parties. It commenced its advisory activities at the start of 2009. BayernLB also has a stake in Partnership Germany and supports it in its work.

Art and culture

The BayernLB Group sponsors a wide range of projects. These include expanding in-house collections, exhibiting works in in-house galleries and giving support to cultural projects and institutions. Its constant goal is to make cultural heritage accessible to a wide audience.

In 2009, four exhibitions were held at the BayernLB Gallery – including a retrospective on Hans Langner, commonly known as Birdman. The works of the multi-media artist covered a wide range of paintings, found art, installations and functional design patterns.

MKB is well-known within Hungary as a leading collector and patron of the arts. Over 17 years, it has built up a collection of around 400, mainly classical, Hungarian works. It has also organised a number of exhibitions with leading museums to give the public greater access to the collection. The exhibition of the famous Hungarian painter Dezső Orbán, held in Győr, the city of his birth, was particularly popular.

MKB supports a number of institutions including the Museum of Fine Arts, one of the most visited museums in Hungary. In 2009, it sponsored the exhibition “From Botticelli to Titian. Masterpieces from 200 years of Italian painting”. The Bank also funded a photo exhibition of the Hungarian-born US photographer Robert Capa at the Ludwig Museum in Budapest and has supported the Liszt Ferenc Chamber Orchestra – one of the most famous orchestras in Eastern Europe – for more than 17 years.

In 2009, LBLux began a three-year partnership with MUDAM (Musée d’Art Moderne Grand-Duc Jean) in Luxembourg. A variety of contemporary craftwork is displayed by the museum in theme-based exhibitions: paintings, drawings, photographs, multi-media, fashion, design, graphic arts, sound and architecture.

Climate protection and sustainable financial solutions

Economic growth and prosperity are being impacted not only by the financial crisis, but also by major trends such as dwindling resources and climate change. Neutralising the negative repercussions of climate change has become one of the key responsibilities of society. All sections of the community – from the political sphere and the economy right through to private individuals – will need to join forces if this problem is to be resolved. The discussions at the UN conference on climate change in Copenhagen in December 2009 have raised public awareness of this important issue further. They have, however, also shown there is an increasingly pressing need for action.

BayernLB is aware of its responsibilities in this area and makes an important contribution to protecting the climate. The Bank committed itself to this principle early on. Making itself greener has been one of its goals since the start of the 1990s. Measures for making the Bank environmentally friendlier have been implemented in accordance with the Environmental Management and Audit Scheme (EMAS) since 1999. But the principal focus of its environmental policy has been on reducing direct and indirect emissions of the greenhouse gas CO_2. In 2008, the Munich headquarters became carbon neutral for the first time thanks to the successful implementation of the climate protection strategy approved by the Board of Management. It achieved this goal again in 2009.

The environmental technology sector has played an important role in making the economy use resources in a more efficient and environmentally friendly way. German, and Bavarian firms in particular, are extremely well positioned in the global market thanks to their capacity for innovation and the technological leadership that goes with it. They are reaping the benefits of growing demand around the world for solutions relating to the issues of energy and resource efficiency and climate protection. The environmental technology sector is therefore already undoubtedly one of the growing markets of the 21st century. BayernLB will continue to increase its commitment to this sector as part of its focused business model. In doing so, it can rely on several advantages including its extensive expertise in the renewable energy segment and customised financial solutions.

Working closely with customers within the sector to provide optimum support is very important. For example, BayernLB held its first climate day during “Bavaria climate week” in 2009. The exhibition under the slogan “Protect the climate – produce value” pressed home the benefits of protecting the climate – both in ecological and in economic terms. A study was also commissioned to examine the impact of climate change on selected sectors in Bavaria and the opportunities for adjustments. The Bank’s goal is to help its customers use the opportunities arising from climate change and to minimise its risks. The Bank will continue to debate these issues in ever greater detail in coming years. It attaches deep importance to the development and implementation of research programmes on the effectiveness of measures to protect the climate. For this reason, the Board of Management took over the chair of the “Climate Change Finance Forum” in 2009. Established as part of the high-tech strategy on climate protection by the Federal Ministry of Education and Research in conjunction with representatives from Germany’s financial and insurance sector, the forum acts as a central research and discussion platform to effectively support the government’s policy on climate protection.

Sustainable lending: sustainability is becoming an increasingly important feature in new and existing banking products. For example, the World Bank has laid down – now generally accepted – guidelines for the financing business. Back in 2004, BayernLB also committed itself in its Bank-wide credit risk strategy to complying with the environmental and social criteria of the World Bank. To complete this complex task, the Bank pooled expertise from the Sales, Risk Office and Environmental Protection Management units. This teamwork also raised awareness of environmental and social issues.

To comply with the World Bank requirements, the 70 or so guidelines were integrated into the Bank’s internal work processes. One outcome is that the principal relationship officers now have a pragmatic set of instruments at their disposal to take a lead and independently verify if project goals meet World Bank criteria. BayernLB has thereby succeeded in integrating the World Bank’s criteria into existing processes and making them workable.

Business performance in 2009

Good results from the customer business were significantly overshadowed by the events at Austrian bank Hypo Group Alpe Adria, Klagenfurt (HGAA) that ultimately led BayernLB to dispose of its holding to the Republic of Austria.

After substantial investments were made to restructure HGAA, a special audit of the credit portfolio commissioned by HGAA's supervisory board indicated the need for new and significantly higher loan loss provisions. As a result, BayernLB could no longer justify continuing to hold its stake. In 2009, the direct and indirect negative impact on operating earnings from HGAA was around EUR 3.3 billion. The BayernLB Group posted an overall operating loss of EUR −2.4 billion (2008: −5.0 billion). Excluding HGAA, the Group would have generated operating earnings of around EUR 900 million.

In compliance with the expectations of the European Commission, the holders of profit participation capital and the silent partners shared part of the losses for the first time. Revenue reserves and capital reserves were also released to absorb the losses. The EUR 10 billion direct and indirect recapitalisation of BayernLB by the Free State of Bavaria, which was agreed in 2008, was carried out in three stages and completed at the end of March 2009 when EUR 4 billion was allocated to reserves. The consolidated net loss for 2009 did not result in any additional need for capital. The Bank continues to have solid regulatory equity ratios.

In January 2009, BayernLB issued a EUR 5 billion bond backed by the agreement reached with the Financial Market Stabilisation Fund (SoFFin) on 3 December 2008 to guarantee up to EUR 15 billion worth of certain bearer bonds issued by the Bank. After BayernLB successfully placed unsecured issues over the course of the year both in Germany and abroad, the remaining EUR 10 billion portion of the guarantee was no longer needed and returned to SoFFin ahead of schedule on 16 October 2009.

On 30 December 2009, the sale of HGAA became effective and HGAA was deconsolidated. HGAA was no longer reported on the balance sheet as at 31 December 2009, but was recognised on a pro-rata basis in the income statement for 2009. As the deconsolidation took effect on 30 December 2009, HGAA's expenses and income items are fully recognised in financial year 2009.

Earnings

Earnings in 2009 were boosted by buoyant customer business, the stabilisation of the financial markets and the effect of the agreement with the Free State of Bavaria which hedged an ABS portfolio with a nominal value of EUR 20 billion (on 19 December 2008 when the agreement was signed). Weighing on earnings were high risk provisions at HGAA and the impact on earnings from the deconsolidation of HGAA.

Further information on each item can be found in the notes.

EUR million	1 Jan – 31 Dec 2009	1 Jan – 31 Dec 2008	Change in %
Net interest income	2,561	2,670	– 4.1
Risk provisions for the credit business	– 3,277	– 1,656	97.9
Net interest income after risk provisions	**– 716**	**1,014**	**–**
Net commission income	434	584	– 25.7
Gains or losses on fair value measurement	887	– 2,076	–
Gains or losses on hedge accounting	98	– 136	–
Gains or losses on investments	– 1,435	– 1,952	– 26.5
Income from interests in companies valued at equity	– 9	9	–
Other income	461	161	> 100
Administrative expenses	– 2,125	– 2,620	– 18.9
Operating profit/loss	**– 2,404**	**– 5,017**	**– 52.1**
Restructuring expenses	– 361	– 87	> 100
Earnings from ordinary activities/ Earnings before taxes	**– 2,765**	**– 5,104**	**– 45.8**
Income taxes	– 328	– 249	31.7
Earnings after taxes	**– 3,093**	**– 5,354**	**– 42.2**
Minority interests	474	274	72.7
Consolidated net income/loss	**– 2,619**	**– 5,079**	**– 48.4**

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

The operating loss of EUR – 2,404 million (2008: EUR – 5,017 million) was largely due to impairments and the deconsolidation of HGAA and overshadowed the BayernLB Group's buoyant customer business.

Return on equity (RoE) was negative in 2009 (2008: negative) due to the operating loss. At the start of 2009, economic value added (EVA) was introduced at Group level as a key management tool. It is calculated by deducting restructuring expenses from the consolidated net income and taking account of the cost of capital.

Net interest income

EUR million	1 Jan – 31 Dec 2009	1 Jan – 31 Dec 2008	Change in %
Interest income	**16,399**	**22,158**	**– 26.0**
of which:			
• credit and money market transactions	10,467	13,581	– 22.9
• investments	1,647	3,222	– 48.9
• hedge accounting derivatives and derivatives in economic hedges	4,285	5,355	– 20.0
Interest expenses	**– 13,837**	**– 19,488**	**– 29.0**
of which:			
• from liabilities to banks and customers	– 5,882	– 8,023[1]	– 26.7
• for securitised liabilities	– 3,658	– 5,078	– 28.0
• for subordinated capital	– 505	– 671	– 24.7
• from hedge accounting derivatives and derivatives in economic hedges	– 3,474	– 5,611	– 38.1
• Other interest expenses	– 318	– 105[1]	> 100
Net interest income	**2,561**	**2,670**	**– 4.1**

1 *The previous year's figure has been adjusted due to the reallocation of the amortisation of hedge adjustments, which results from underlying transactions of hedge accounting, from the item interest expenses for liabilities to banks and customers to the other interest expenses item (see notes nos. 2 and 26).*

Net interest income in the BayernLB Group fell slightly to EUR 2,561 million (2008: EUR 2,670 million). High costs for ensuring liquidity at BayernLB were almost offset by higher earnings in the customer business and higher interest income at some subsidiaries.

Risk provisions for the credit business

EUR million	1 Jan – 31 Dec 2009	1 Jan – 31 Dec 2008	Change in %
Additions	– 3,365	– 2,221	51.5
Direct writeoffs	– 647	– 99	> 100
Reversals	699	568	23.1
Recoveries on written off receivables	38	101	– 62.4
Other risk provision income	– 2	– 5	– 60.0
Risk provisions for the credit business	**– 3,277**	**– 1,656**	**97.9**

Net allocations to risk provisions for the credit business were EUR – 3,277 million (2008: EUR – 1,656 million). Of this, around one half was attributable to HGAA. A further EUR 525 million relating to HGAA arose because BayernLB had to agree to waive receivables totalling over EUR 825 million as part of the disposal of its holding to the Republic of Austria. The waiver of EUR 300 million of receivables from participation capital was recognised in gains or losses on investments.

Net commission income

EUR million	1 Jan – 31 Dec 2009	1 Jan – 31 Dec 2008	Change in %
Securities business	62	71	– 12.7
Credit business	314	339	– 7.4
Payments	50	70	– 28.6
Cards business	34	42	– 20.0
Building savings business	– 34	– 27	25.9
Other net commission income	8	89	– 91.0
Net commission income	**434**	**584**	**– 25.7**

Net commission income fell by 25.7 percent largely as a result of a decrease in commissions from the credit business at the core Bank but also due to EUR 53 million in fees payable to SoFFin. Net commission income was EUR 434 million. All of the Bank's subsidiaries except for MKB also posted lower commission income.

Gains or losses on fair value measurement

Gains or losses on fair value measurement came to EUR 887 million (2008: EUR – 2,076 million). Of this, EUR 998 million was from net trading income (2008: EUR – 1,903 million) and EUR – 111 million from gains or losses from the fair value option (2008: EUR – 173 million).

Trading transactions both in cash and derivative interest-rate products had a positive impact on earnings. A more favourable market environment compared to the previous year set the scene for substantial write ups and profit-taking while the credit portfolios were reduced according to plan. The increased focus on the customer business with liquid products had a positive impact overall on net trading income.

Receivables and liabilities at fair value (fair value option) were significantly impacted by volatile risk premiums. Measurement gains on investments were more than offset by measurement losses on own issues (particularly in the second half) due to lower risk premiums.

Gains or losses on investments

Gain or losses on investments of EUR – 1,435 million (2008: EUR – 1,952 million) were largely due to charges in connection with the deconsolidation of HGAA. The agreed waiver of receivables from profit participation capital of EUR 300 million in connection with the acquisition of the holding by the Republic of Austria was also recognised in the gains or losses on investments item.

The guarantee agreement with the Free State of Bavaria (Umbrella) prevented losses arising from the ringfenced ABS portfolio. In respect of the securities in the "available-for-sale" category and "other receivables and liabilities", the gains from disposals (from the reduction of the credit portfolio) and writedowns (from impairments) largely offset each other.

Administrative expenses

EUR million	1 Jan – 31 Dec 2009	1 Jan – 31 Dec 2008	Change in %
Staff costs	–926	–1,069	–13.4
Other administrative expenses	–914	–1,031	–11.4
Depreciation of property, plant and equipment and intangible assets (not including goodwill)	–285	–520	–45.2
Administrative expenses	**–2,125**	**–2,620**	**–18.9**

Administrative expenses fell by EUR 495 million to EUR 2,125 million due to cost cutting at BayernLB as part of the Hercules restructuring project and due to the fact that the previous year's figure was negatively impacted by one-off writedowns of EUR 250 million on HGAA's customer relationships and brand. Adjusted for this effect, administrative expenses fell by 10.3 percent.

Staff costs across the BayernLB Group fell by EUR 143 million or 13.4 percent to EUR 926 million due partly to staff cuts, changes in the retirement benefit programme and the waiver of provisions for discretionary, variable remuneration at the Bank. Expenses arising from staff reductions were reported under restructuring expenses.

Other administrative expenses fell by EUR 117 million to EUR 914 million. This was due to savings in virtually all cost types and also to the closure of the Bavarian Reserve Fund in 2009 so that contributions to the fund were no longer required (2008: EUR –51 million).

Depreciation of property, plant and equipment and intangible assets fell by EUR 235 million to EUR 285 million, with EUR 250 million attributable to the above-mentioned one-off writedowns on HGAA's customer relationships and brand in 2008. Almost two-thirds of the writedowns during the financial year were due to HGAA.

The cost/income ratio (CIR)[1] was a very good 47.8 percent (2008: > 100 percent) due in part to the high level of gains on fair value measurement.

Restructuring expenses from staff reduction measures were EUR 361 million (2008: EUR 87 million). The restructuring expenses primarily arose at BayernLB. Around half of these occurred in the Central Areas and Other segment, which comprises the Corporate Center, Financial Office, IT & Operations and Risk Office divisions.

Income tax expenses increased by EUR 79 million to EUR –328 million (2008: EUR –249 million) despite negative earnings before taxes. It should be noted that BayernLB's losses in connection with the disposal of HGAA are not a tax expense and therefore the profit for tax purposes differs substantially from the IFRS consolidated net income. Deferred tax assets were also released in the reporting year.

1 *CIR = administrative expenses/net interest income + net commission income + gains or losses on fair value measurement + gains or losses on hedge accounting + other income*

Net assets

Further information on the items is given in the notes.

Assets

EUR million	31 Dec 2009	31 Dec 2008	Change in %
Cash reserves	3,512	3,796	−7.5
Loans and advances to banks	74,606	89,638	−16.8
Loans and advances to customers	158,962	202,567	−21.5
Risk provisions	−2,820	−3,439	−18.0
Portfolio hedge adjustment assets	674	546	23.3
Assets held for trading	37,787	47,252	−20.0
Positive fair values from derivative financial instruments (hedge accounting)	4,037	3,929	2.8
Investments	54,039	62,341	−13.3
Interests in companies valued at equity	72	106	−32.0
Investment property	2,761	3,517	−21.5
Property, plant and equipment	836	1,951	−57.2
Intangible assets	266	2,213	−88.0
Tax assets	3,168	4,659	−32.0
Other assets	916	2,378	−61.5
Total assets	**338,818**	**421,455**	**−19.6**

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

The total assets of the BayernLB Group fell by 19.6 percent or EUR 82.6 billion to EUR 338.8 billion, with EUR 44.7 billion of this decrease attributable to HGAA, which was deconsolidated at the end of the year. Meanwhile, BayernLB forged ahead with the planned reduction in business volumes, accounting for approximately EUR 37 billion of the cut in total assets. For the same reasons, the credit volume – defined as the sum of loans and advances to banks and customers and contingent liabilities from guarantees and indemnity agreements – fell by EUR 62.9 billion to EUR 251.7 billion (2008: EUR 314.6 billion).

Of the EUR 15.0 billion fall in loans and advances to banks to EUR 74.6 billion, around 85 percent relates to short-term transactions in the overnight and up-to-three month maturity segments. Interbank loans receivable fell significantly in Germany and abroad.

Despite the targeted reduction in business, loans and advances to domestic customers rose slightly. Adjusted for the deconsolidation of HGAA, this item rose 0.4 percent to EUR 105.2 billion. Loans and advances to customers fell by a significant 21.5 percent overall to EUR 159.0 billion. Of the EUR 43.6 billion fall, EUR 31.1 billion is due to the disposal of HGAA, as well as to the reduction in BayernLB's foreign activities.

The fall in risk provisions for the credit business was also primarily due to the deconsolidation of HGAA. Although the risk provisions for HGAA must be recognised in the income statement of the annual accounts, they are no longer reported in the consolidated accounts as at 31 December 2009. The EUR 0.6 billion fall to EUR 2.8 billion was due to a EUR –1.1 billion reduction following the disposal of HGAA and a EUR 0.5 billion rise at the other units.

The further 20.0 percent reduction in assets held for trading to EUR 37.8 billion largely took place in BayernLB. Following the termination of most money market activities for trading purposes in 2008, receivables from money market activities of EUR 2.7 billion fell to EUR 4 million at the end of 2009. Bonds and notes were reduced by EUR 2.3 billion to EUR 6.7 billion. Positive fair values from derivative financial instruments not allocated to hedge accounting under IAS 39 fell by EUR 4.9 billion to EUR 29.8 billion.

Positive fair values from derivative financial instruments (hedge accounting under IAS 39) was EUR 4.0 billion (2008: EUR 3.9 billion).

The EUR 8.3 billion fall in investments to EUR 54.0 billion (2008: EUR 62.3 billion) is due to the further reductions in bonds and notes. Sales, repayments and redemptions of asset-backed securities also contributed to this outcome. Overall, bonds and other fixed-interest securities in the loans and receivables category fell by EUR 2.9 billion and by EUR 4.7 billion in the available-for-sale category.

The total fall of EUR 1.9 billion to EUR 3.6 billion in the investment property and property, plant and equipment items was primarily due to the deconsolidation of HGAA.

The disposal of HGAA reduced intangible assets by EUR 1.9 billion to EUR 0.3 billion (previously capitalised HGAA customer relationships and goodwill).

Income tax assets were EUR 3.2 billion (2008: EUR 4.7 billion), comprising current tax assets of EUR 0.2 billion (2008: EUR 0.3 billion) and deferred tax assets of EUR 3.0 billion (2008: EUR 4.4 billion).

Liabilities

EUR million	31 Dec 2009	31 Dec 2008	Change in %
Liabilities to banks	91,484	142,480	–35.8
Liabilities to customers	92,197	91,307	1.0
Securitised liabilities	92,968	117,479	–20.9
Liabilities held for trading	29,304	34,021	–13.9
Negative fair values from derivative financial instruments (hedge accounting)	2,380	3,086	–22.9
Provisions	3,286	3,112	5.6
Tax liabilities	3,368	4,902	–31.3
Other liabilities	1,053	2,160	–51.2
Subordinated capital	8,717	11,821	–26.3
Equity	14,061	11,087	26.8
Total liabilities	**338,818**	**421,455**	**–19.6**

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

Refinancing needs fell in line with the contraction in business volumes. Liabilities to banks fell by 35.8 percent to EUR 91.5 billion (2008: EUR 142.5 billion). Most of the fall happened at BayernLB, although DKB, SaarLB and Banque LBLux also reduced their liabilities to banks, replacing part of the funds by higher customer deposits instead.

Liabilities to customers increased overall by 1.0 percent to EUR 92.2 billion (2008: EUR 91.3 billion). It should be noted that customer deposits booked at HGAA are not reported in the 2009 annual accounts. Adjusted for this effect, liabilities to customers increased by 11.6 percent or EUR 9.6 billion. A particularly satisfactory contribution to this growth came from DKB, which increased its customer deposits by EUR 8.1 billion or just under 46 percent.

Securitised liabilities fell by EUR 24.5 billion to EUR 93.0 billion (2008: EUR 117.5 billion). Adjusted for the disposal of HGAA, the fall was only 3.2 percent and reflects the lower refinancing needs.

Liabilities held for trading fell by EUR 13.9 percent to EUR 29.3 billion (2008: EUR 34.0 billion). Negative fair values from derivative financial instruments not allocated to hedge accounting under IAS 39 fell by EUR 4.1 billion.

Negative fair values from derivative financial instruments (hedge accounting under IAS 39) was EUR 2.4 billion (2008: EUR 3.1 billion).

Provisions rose slightly by 5.6 percent to EUR 3.3 billion (2008: EUR 3.1 billion). Provisions for pensions and similar obligations, which remains the largest category in this item, amounted to EUR 2.6 billion (2008: EUR 2.4 billion).

Income tax liabilities were EUR 3.4 billion (2008: 4.9 billion), comprising current tax liabilities of EUR 0.4 billion and deferred tax liabilities of EUR 3.0 billion.

Other liabilities fell by EUR 1.1 billion largely due to the deconsolidation of HGAA and were EUR 1.1 billion (2008: EUR 2.2 billion) as at 31 December 2009.

Subordinated capital fell by EUR 3.1 billion to EUR 8.7 billion for several reasons: HGAA's subordinated capital of EUR 1.6 billion was reported in the figure for 31 December 2008 and a large volume of BayernLB's subordinated liabilities and profit participation capital matured on 1 January 2009. In addition, to meet the expectations of the EU Commission, silent partners and holders of profit participation rights were required to absorb some of the losses by accepting a reduction in the carrying amount of their investment (EUR –0.1 billion).

Equity

EUR million	31 Dec 2009	31 Dec 2008	Change in %
Subscribed capital	5,914	3,556	66.3
Specific-purpose capital	612	612	–
Hybrid capital instruments	514	545	–5.7
Capital reserve	4,688	1,476	> 100
Retained earnings	3,526	4,840	–27.1
Revaluation reserve	–1,537	–2,379	–35.4
Foreign currency translation reserve	–42	–135	–68.8
Consolidated net income	–	–	–
Minority interests	387	2,573	–85.0
Equity	**14,061**	**11,087**	**26.8**

The BayernLB Group's equity was increased in 2009 by cash inflows totalling EUR 7 billion as part of the (direct and indirect) recapitalisation by the Free State of Bavaria and reduced by a net consolidated loss.

The EUR 0.8 billion improvement in the revaluation reserve to EUR –1.5 billion was due in almost equal proportions to changes in fair value not recognised in the income statement and realized changes in value recognised in the income statement. The significant reduction in minority interests was largely due to the disposal of HGAA.

Banking supervisory ratios under the German Banking Act (KWG) for the BayernLB Group

Risk positions were calculated on the basis of the German Solvency Ordinance (SolvV). As at 31 December 2009, reported core capital ratio – which takes into account risk assets, operational risk and market risk positions – rose to 12.5 percent (2008: 8.0 percent) and the own funds ratio rose to 17.0 percent (2008: 12.3 percent).

EUR billion	31 Dec 2009	31 Dec 2008
Risk positions under the Solvency Ordinance	135.8	197.7
Equity	23.0	24.2
• of which core capital	16.9	15.8
Own funds ratio (at Group level)	17.0 %	12.3 %
Core capital ratio	12.5 %	8.0 %

The capital ratios were improved by the 31.3 percent fall in risk positions and the EUR 10 billion increase in equity from the recapitalisation measures taken by the Free State of Bavaria in 2008 and 2009. Around one half of the fall in risk positions was due to the deconsolidation of HGAA. The planned reduction in business in BayernLB also contributed to this fall. Adjusted for the net consolidated loss for the past financial year, the core capital ratio was 10.9 percent and the own funds ratio 15.7 percent as at 31 December 2009.

Segments

The segment report is based on the monthly internal management report to the Board of Management and reflects BayernLB Group's six segments. The four business segments Corporates & Markets, Real Estate/Public Sector & Savings Banks, Mittelstand & Retail Customers and Eastern Europe incorporate BayernLB's operating business areas, the institutions BayernLabo and LBS Bayern and consolidated subsidiaries. There are an additional two segments Restructuring Unit and Central Areas and Other. As part of the BayernLB Group's restructuring and resizing, the above segments were redefined on 1 July 2009.

The contributions of each segment to the 2009 consolidated operating profit of EUR –2,404 million (2008: EUR –5,017 million) were as follows:

EUR million	1 Jan–31 Dec 2009	1 Jan–31 Dec 2008[1]
Corporates & Markets	477	602
Real Estate/Public Sector and Savings Banks	166	238
Mittelstand & Retail Customers	232	–80
Eastern Europe	–3,436	–734
Restructuring Unit	147	–4,622
Central Areas and Others	13	–423

1 Previous year's figures adjusted due to the restructuring and resizing of the BayernLB Group on 1 July 2009.

The Corporates & Markets segment comprises the Corporates and Markets Business Area and the consolidated holdings BayernInvest Kapitalanlagegesellschaft mbH, Munich, and Kommanditgesellschaft Allgemeine Leasing GmbH & Co., Grünwald.

Corporates is divided into the Relationship Management, Corporate Credit and Structured Credit divisions, which primarily serve globally active German firms and selected large multinationals in the core markets of Germany, Europe and North America. Markets comprises the Treasury Products and Capital Markets divisions and the Asset Liability Management, New York and Asia units. It provides relationship management for financial institutions and institutional customers such as insurers and capital investment companies. It is also responsible for the range of capital market and treasury products and, besides its own customers, serves savings banks, real estate customers and Mittelstand customers with these products.

The Corporates & Markets segment posted an operating profit of EUR 477 million and therefore made a key contribution to consolidated income. The segment's return on equity was 11.2 percent while the cost/income ratio was 38.8 percent. Its results were boosted in particular by Corporates, which generated profitable new business, especially in the first half of the year. In the second half of the year, customer relationships were strengthened as planned, generating higher earnings from cross selling. An excellent result was posted in particular by Corporate Credit, which substantially increased net interest income year-on-year. Markets' notably posted very good earnings results from its business with banks and institutional customers and a positive performance from its customer-generated business. This was offset by high charges from asset-liability management, ultimately reflecting the cost of maintaining higher liquidity during the financial market crisis. Besides a generally good performance by the segment, the net release of risk provisions for the credit business and the significant reduction in administrative expenses by EUR 80 million to EUR –289 million contributed to the positive overall result. Average full-time headcount in Corporates & Markets fell to 764, primarily as a result of the reductions in the workforce as part of the restructuring, but also due to transfers to and from other segments.

The Real Estate/Public Sector & Savings Banks segment comprises the Real Estate and Savings Banks Division, the Public Sector Division, development bank BayernLabo and subsidiary Real I.S.

The Real Estate Division coordinates the core Bank's commercial real estate business. Its focus is on long-term commercial real estate financing and services for the German market and for German customers abroad. In Bavaria, BayernLB serves Mittelstand real estate customers in close cooperation with the savings banks. BayernLB also provides its customers a comprehensive range of products to hedge interest rate and currency risks.

The Savings Banks Division functions as a central hub within BayernLB for the nation-wide cooperation with savings banks across all product groups.

The Public Sector Germany Division not only provides a range of services to the German federal government, German state governments and municipalities but also to all companies and public institutions organised as public-law companies such as development banks, public utilities, churches, foundations and social insurance schemes. It also performs the Bank's role as principal bank for the Free State of Bavaria.

In its role as an organ of government housing policy, BayernLabo conducts banking-related measures to promote subsidised residential construction and municipal construction. In carrying out its public mandate, it remains non-competitive. Besides providing state-subsidised loans, BayernLabo implements BayernLB's public mandate, with the support of the Free State of Bavaria and KfW Förderbank, through its own low-interest loan programme to build homes or rental accommodation. In addition, it also finances local authorities in Bavaria.

Real I.S. is an asset management company for BayernLB's commercial real estate that is firmly integrated into the Sparkassen-Finanzgruppe (savings banks financial group). It is active in real estate consulting and is an investment company. Besides public funds and Luxembourg special funds, it also provides individual fund solutions, portfolio management and manages institutional international real estate portfolios.

The Real Estate/Public Sector & Savings Banks segment ended the year with operating profit of EUR 166 million. Return on equity was 15.3 percent, while the cost/income ratio fell significantly to 42.8 percent due to much lower administrative expenses. Its operating profit fell by approximately EUR 73 million from the year before despite interest income rising by just under 15 percent and administrative expenses falling by 17 percent. The decrease is mainly due to a fall in net commission income (special effect in 2008 in the Real Estate Division) and higher risk provisions in the Real Estate Division. In the Savings Banks Division, income from the foreign cash and precious metals business, which was even higher than the good results in the previous year, and income from Market's products both made significant contributions to the positive result. Average headcount was 662 and therefore virtually unchanged on the previous year.

The Mittelstand & Retail Customers segment comprises the Mittelstand Division, LBS Bayern, and the subsidiaries Deutsche Kreditbank AG (DKB), SaarLB and Banque LBLux S.A. The Mittelstand Division's customers are Mittelstand companies, i. e. medium-sized companies, in Bavaria and the rest of Germany. Over the past few decades, BayernLB has built up a customer base in the Mittelstand corporate customer business. To best serve the needs of this customer group, a dedicated division was created, which also provides the Bavarian savings banks and their customers with products and services. The Corporate Customer Support Bavaria and Germany, International Business and Subsidies Business divisions develop and implement financial solutions customised to customer needs. The focus is on serving the needs of Mittelstand companies in Bavaria and the rest of Germany.

LBS Bayern is the home loan and savings bank for the savings banks and a member of Sparkassen-Finanzgruppe (savings banks financial group). It is the market leader in the Bavarian home loan and savings market. Around 1.5 million LBS customers in Bavaria hold 2.1 million home loan savings contracts totalling around EUR 54.7 billion.

Deutsche Kreditbank AG (DKB) is the parent company of the Deutsche Kreditbank sub-group. The sub-group focused systematically in the reporting year on its strategy in the Retail Customer, Infrastructure and Corporate Customer divisions. In retail banking, it once again focused strongly on reaping the benefits of being an internet bank and now has more than 1.8 million customers. In the Infrastructure and Corporates divisions the focus was on the targeted customer sectors. Key contributions to the sub-group's 2009 earnings came from the housing, energy, utilities and renewable energy sectors. The key activities of these divisions were cross selling and expanding deposit volumes. The success of this focus can be seen in the strong deposit growth of 45.9 percent to EUR 25.8 billion.

SaarLB is a Franco-German Mittelstand bank. As a bank for the state and municipal authorities as well as central bank to the Saarland savings banks, it is a partner of the Saarland's economy. Fully licensed as a French bank, it serves German and French customers in their cross-border business activities. Its business model is focused on German and French corporate customers, commercial real estate customers and customers in the renewable energy segment.

Banque LBLux S.A. is one of the leading European banks in the financial centre of Luxembourg. Its core business areas are corporate banking in the Benelux region and international private banking and wealth management. The Bank is also a service provider for BayernLB Group entities and (Group) companies based in Luxembourg. Corporate Banking's business model focuses on listed companies, large local companies with minimum sales of EUR 250 million, real estate customers, institutions and financial service providers in the Benelux region. Banque LBLux S.A.'s Private Banking division is primarily active in international investment consulting and management. In 2009, Banque LBLux S.A. took over from BayernLB the range of asset management services for the Bavarian savings banks.

The Mittelstand & Retail Customers segment posted an operating profit of EUR 232 million. Return on equity and the cost/income ratio improved significantly, with the former rising from –2.9 percent in 2008 to 5.4 percent and the latter sinking from 65.1 percent to 54.4 percent. LBS Bayern improved on a very good operating result for the previous year, rising by 7.5 percent to

EUR 77 million. After posting negative figures in 2008, the subsidiaries DKB and SaarLB contributed an overall operating profit of EUR 131 million to the segment's earnings. Earnings at DKB and SaarLB were partially boosted by writebacks in the gains or losses on fair value measurement and gains or losses on investments items. However, credit risk provisions needed to be increased substantially on the previous year on account of the recession triggered by the financial market crisis. Banque LBLux S.A. increased earnings by around 29 percent to EUR 49 million. The improvement in earnings at Banque LBLux S.A. was also driven by gains on investments (disposal gains and writebacks). Average headcount fell by 97 over the year to 3,354 FTE.

The Eastern Europe segment comprises the MKB sub-group and the HGAA sub-group, which was deconsolidated on 30 December 2009. In accordance with the purchase agreement of 29 December 2009, the Republic of Austria took over BayernLB's stake in HGAA.

The segment's earnings were heavily impacted by the highly negative situation at HGAA due to high provisioning requirements. The additional charges from the deconsolidation of HGAA and BayernLB's agreed waiver of receivables in the amount of EUR 825 million as part of the transfer of the shareholding to the Republic of Austria were allocated to the segment.

The Eastern Europe segment's operating result was significantly affected by indirect and direct charges from HGAA and generated a loss of EUR –3,436 million.

MKBs business performance was satisfactory overall despite higher risk provisions in the credit business. MKB is one of the leading universal banks in Hungary. Its traditionally strong position in the corporate finance segment was further expanded in 2009 (market share of loans: 13.6 percent; market share of deposits: 11.3 percent). MKB is the market leader in factoring with a market share of 31 percent. In the retail business, it focuses on the high net worth customer segment, as well as small companies and the self-employed. The business models of its subsidiary banks MKB Unionbank in Bulgaria and MKB Romexterra Bank in Romania focus on the retail segment and small and medium-sized companies.

The Restructuring Unit segment was established on 1 July 2009 to systematically separate BayernLB's core and non-core businesses in organisational terms also. The segment comprises investment and credit portfolios. The non-core business of the Restructuring Unit is divided among the Munich, New York, London and Hong Kong offices. Existing market, product, analysis and restructuring expertise was also pooled in the Restructuring Units. In addition, a credit process was created in accordance with the requirements of the Restructuring Unit and corresponding committees were established. Separating the core and non-core businesses has relieved the pressure on the core Bank's business areas, while reducing the non-core business has already freed up to a considerable extent previously tied-up capital and liquidity resources.

The Restructuring Unit's investment portfolio contains the investments in asset-backed securities including the guarantee agreement with the Free State of Bavaria to hedge these holdings. It also includes other investments in securities and credit derivatives in portfolios that are no longer part of the Bank's strategic focus. The credit business largely comprises the corporate credit business of the Hong Kong office, acquisition financing and ship and aircraft financing. Portions of the Financial Institutions/Public Sector and Real Estate portfolios defined as non-core business are also included.

Contrary to expectations, the segment finished 2009 with operating earnings of EUR 147 million and a return on equity of 3.1 percent. The reason for this is the positive contribution from the investment portfolio, which is mainly evident in the gains or losses on fair value measurement item and can be attributed in particular to writebacks and gains on sales. Risk provisions for the credit business are in line with expectations and mostly relate to existing exposures assigned from the Financial Institutions portfolio.

The Central Areas and Other segment comprises the central areas Corporate Center; Risk Office; Financial Office, IT & Operations; and the subsidiaries GBW AG sub-group and BayernLB Capital LLC I, USA, Wilmington, as well as “Others”.

No operating business is allocated to the central areas. Investments that are directly related to the business operations of the central areas are assigned to them and recognised through profit or loss. Services performed are almost entirely charged to the business areas, institutions and subsidiaries. Transactions that were executed in the overall interests of the Bank or Group and therefore not allocated to the individual segments are aggregated under “Others”. Refinancing expenses for the investments in the Group’s strategic subsidiaries and the investment performance of the unallocated equity are also recognised under “Others”.

The core business of the GBW AG Group, which focuses on the residential housing sector and the Bavarian region, is leasing, managing and administering its own residential property portfolio.

The operating profit of EUR 13 million was largely generated from the gains from the closure of the Bavarian Reserve Fund, one-off effects from the non-servicing of silent partner contributions and profit participation rights, and from the periodic earnings of the GBW AG sub-group. Average headcount fell significantly by 279 to 2,327 FTE.

Outlook

This forecast of the BayernLB Group's performance in 2010 and 2011 may deviate substantially from the actual outcome if any of the following or other uncertainties occur or the assumptions underlying our forecasts prove to be false. The BayernLB Group is under no obligation to update its forecasts in light of new information or future events taking place in the forecast period.

Economic environment

Forecasting was still fraught with a high degree of uncertainty in early 2010. Global growth in manufacturing output within the economy as a whole in the second half of 2009, which was highly pronounced in some cases, was temporarily influenced by factors such as the massive economic stimulus and inventory rebuilding in the early stages of the economic recovery. The favourable impact of these factors will continue to be felt in the first half of 2010. Subsequently, however, momentum is expected to tail off. Balance-sheet recessions, that is, recessions triggered by the battered balance sheets of key players in the economy, are traditionally followed by sluggish recoveries. A further factor here will be the need by the banking sector to write off large volumes of corporate loans in 2010, a delayed effect of the recession.

Although there have been no indications so far of a broad-based credit crunch in Germany, the supply of credit remains restricted. Higher capital requirements for banks will also make it harder to finance a recovery. Overall, the economy as a whole will not reach pre-slump manufacturing output levels until at least 2012. Germany is expected to post growth of 1.5 percent in 2010. Unemployment will increase by around half a million as it will not be possible to maintain the size of the current workforce due to costs. Consumer prices will only rise by a very modest 1 percent or so.

Earnings and liquidity

Profitability overall for the BayernLB Group will be strongly influenced in 2010 by the aftershocks of the international financial crisis. It is by no means certain that the general financial market recovery in 2009 can be sustained. Market participants are still jittery. Credit risk costs are expected to rise in 2010 as the financial crisis has now spread to the real economy.

Although significant one-off effects have disrupted profits over the last two years, earnings are expected to stabilise and return to normal in 2010 and 2011 despite conditions remaining challenging. This applies not only to external influences such as the economic environment but also to the BayernLB Group itself, which must press ahead and complete its restructuring and realignment. Besides the already visible successes in cutting personnel costs and operating expenses, the business model overall will need to be properly implemented and earnings from the customer business further boosted.

Virtually all asset classes have performed very well on the secondary market since the first quarter of 2009. For example, the iTraxx Series 10 credit index, which represents the largest 125 investment-grade borrowers, narrowed from 210 bp p.a. in mid-March 2009 to just 70 bp p.a. at end-2009. The main reason for this very positive performance by markets, other than some fundamental ones, continues to be the injection of liquidity by central banks. For example, the spread between 3M Euribor and 3M Eonia – a measure of liquidity among banks – narrowed from nearly 120 bp p.a. at start-2009 to below 30 bp p.a. at end-2009. This shows that the supply of liquidity among banks has almost completely returned to normal (the long-term average for these spreads is 7 bp p.a.). Although markets are not yet as active as they were before the crisis, high levels of liquidity have made asset-backed securities, bonds and credit default swaps more fungible. As a result, BayernLB has been able to scale down its trading portfolio.

Central banks are expected to gradually decrease the supply of liquidity in 2010. Stock and bond markets are therefore unlikely to recover as sharply as they did in 2009. BayernLB is instead forecasting that they will stabilise further and trend sideways. Maturing securities and most-senior asset-backed securities – which were largely purchased before 2007 – should increasingly benefit from the "pull to par" effect. At present, the greatest uncertainty on credit markets is the future performance of sovereign risk. This can be seen, for example, on the market for sovereign credit default swaps, where new records have recently been set, with negative implications for credit risks in the financial sector.

The generally positive performance of financial markets in 2009 helped ease the situation on the refinancing markets that are key for BayernLB (Pfandbrief and bearer bonds), while significantly narrowing liquidity spreads and providing better conditions for placements, particularly on the domestic market.

Markets should continue to stabilise and settle down in 2010. As the BayernLB Group's refinancing needs will be lower than in 2009, it will be less affected by short-term market turmoil than in 2008/2009. Liquidity spreads should remain at their current levels during 2010.

BayernLB Group's future performance

Based on the environment in the forecast period, the BayernLB Group expects to see moderate business growth in its remaining core businesses. A slow recovery is expected by the Bank, which should continue into 2011 and gain pace. Events of particular significance that could have an impact on assets, the financial situation and earnings will continue to be the ongoing financial crisis and weak economic growth. Based on current perspectives, the crisis will impact the state of the economy for longer than had been expected. Additional risk provisioning, a delayed effect of the recession, is a particular possibility. Moreover, the sharp recovery that took place on financial markets in 2009 is not expected to occur again; financial performance is expected therefore to be positive but weaker. Overall, the BayernLB Group is expecting to break even in 2010. Starting in 2011 at the latest, BayernLB plans to begin restocking the capital of and paying back interest due on its hybrid capital instruments.

BayernLB's restructuring plan was submitted on time to the EU Commission on 29 April 2009. Predicting the outcome of ongoing processes like this one is naturally difficult. This forecast is based on the assumption that the concessions currently proposed will be accepted. The goal of the business model is to create a considerably smaller bank which is focused on clearly defined target segments. After disposing of HGAA, BayernLB had to submit an updated restructuring and business plan to the EU Commission. At present, the outcome of the state aid review process is expected to be announced in the second quarter of 2010. No other events of special significance occurred after the end of financial year 2009.

The focus in 2010 will be to continue with the restructuring of the Bank that was initiated in 2009 and to complete large parts of this process. It is now important for the Bank to focus on the customer business so it can expand its earnings base in the remaining core businesses. BayernLB will continue in particular to expand its market position in the Bavarian Mittelstand (mid-market) further and step up its presence in the environmental technology sector.

Despite the outlook for the economy and the capital markets, the BayernLB Group is confident overall that the revised business model and the changes it involves will create the conditions needed for assets, the financial situation and earnings to grow and improve again in the medium term. Changes in the general economic situation, however, might have a corresponding impact on the BayernLB Group.

Risk report

Basis

This risk report is prepared in accordance with the requirements of IFRS 7 on reporting within consolidated accounts. IFRS 7.1 requires that entities provide disclosures enabling users of the financial statements to evaluate the nature and extent of risks arising from financial instruments to which the group was exposed as at the reporting date; they must also say how these risks are managed. IFRS 7.33–7.42 refers to risks that typically include credit risk, liquidity risk and market risk. Besides the disclosures based on IFRS consolidated figures (balance sheet approach), information forwarded internally as a basis for risk management to the Board of Management and its committees (management approach) is also published.

The presentation of credit risks includes a presentation of portfolios with elevated risk profiles as recommended by the Financial Stability Board.

The BayernLB Group also provides disclosures on the other material risk types for the Group in accordance with German Accounting Standards (DRS 5 – 10). The changes to HGB in accordance with the Accounting Law Modernisation Act (BilMoG) and the relevant provisions under German Accounting Amendment Standard 5 (DRÄS 5), which incorporate the changes to HGB in relation to consolidated risk reporting, were taken into account for the first time on 31 December 2009.

The provisions in Section 315 (2) No. 5 HGB in conjunction with Section 315a (1) HGB, which had to be applied for the first time in the reporting year and oblige corporations within the meaning of Section 264d HGB to describe the key characteristics of the internal control and risk management system they use in respect of the consolidated accounting process, were also taken into account.

Figures in the tables may be rounded up or down to the next unit.

Key developments in 2009 and outlook for 2010

With the BayernLB Group being driven to the very brink by the financial crisis in 2008, massive aid from the Free State of Bavaria in the form of equity and a guarantee from the German government's Financial Markets Stabilisation Fund allowed the Bank to revise its business model in close collaboration with the shareholders and the EU Commission. In 2009, a comprehensive restructuring programme for the whole of the BayernLB Group was drawn up on the basis of the model and systematically implemented.

The fundamental decision to focus business activities and exit from areas not forming part of the BayernLB Group's future core business was taken into account by revising risk-strategy standards, reorganising risk management and systematically separating out all non-core business activities. The Restructuring Unit, established on 1 July 2009, manages the reduction portfolio.

At the end of 2009, as part of the strategic focus, the 50 percent holding in LB(Swiss) Privatbank AG was sold and the majority stake in Hypo Group Alpe Adria (HGAA) fully divested. The stake in Landesbank Saar (SaarLB) will be reduced in stages according to plan to below 50 percent in 2010.

However, HGAA was not only sold as part of the new strategy to significantly reduce the size of the Group, but also on account of a dramatic increase in the need for risk provisions there, particularly in the second half of the year.

When a majority stake was acquired in HGAA, BayernLB began to systematically implement needed enhancements in the new subsidiary's management systems, including upgrading risk management to the standards of the BayernLB Group. However, the benefits that were achieved were largely overshadowed by the unexpected and severe impact of the global financial and economic crisis that reached Eastern Europe in the middle of 2008. HGAA was therefore hit by the crisis at a time when a large number of the measures were being implemented to limit and manage risks. In light of the substantial rise in actual and anticipated risk provisions during 2009 and the limitations imposed by BayernLB's strategic focus, the decision was taken to dispose of the majority holding.

With HGAA sold, the BayernLB Group has less consolidated capital but no further exposure to HGAA's risk assets.

Thanks to the capital increase and ringfencing of the ABS investment portfolio by the Free State of Bavaria in the first half of 2009, BayernLB Group continues to have a solid capital base.

Although the impact of the financial crisis on banks' liquidity has lessened, particularly in the second half of 2009, monitoring the BayernLB Group's liquidity and ensuring it is adequate remains a crucial task and high priority. The high liquidity surplus in relation to the smaller balance sheet from the focus on the core business areas and consequent resizing of BayernLB in 2009 is a sign of this easing.

In 2010, the risk situation will continue to be heavily affected by the potential impact of the global financial and economic crisis. BayernLB is also keeping a close eye in particular on commercial real estate markets in Europe and North America and countries within the eurozone with high levels of debt.

Given this crisis environment, the options for taking active, preventative measures with respect to the existing portfolios continue to be very limited. Internal risk management will therefore need to remain focused on systematically limiting risks in new business and on continuing to implement measures to reduce and manage risks in the current portfolio in 2010.

Internal control and risk management system

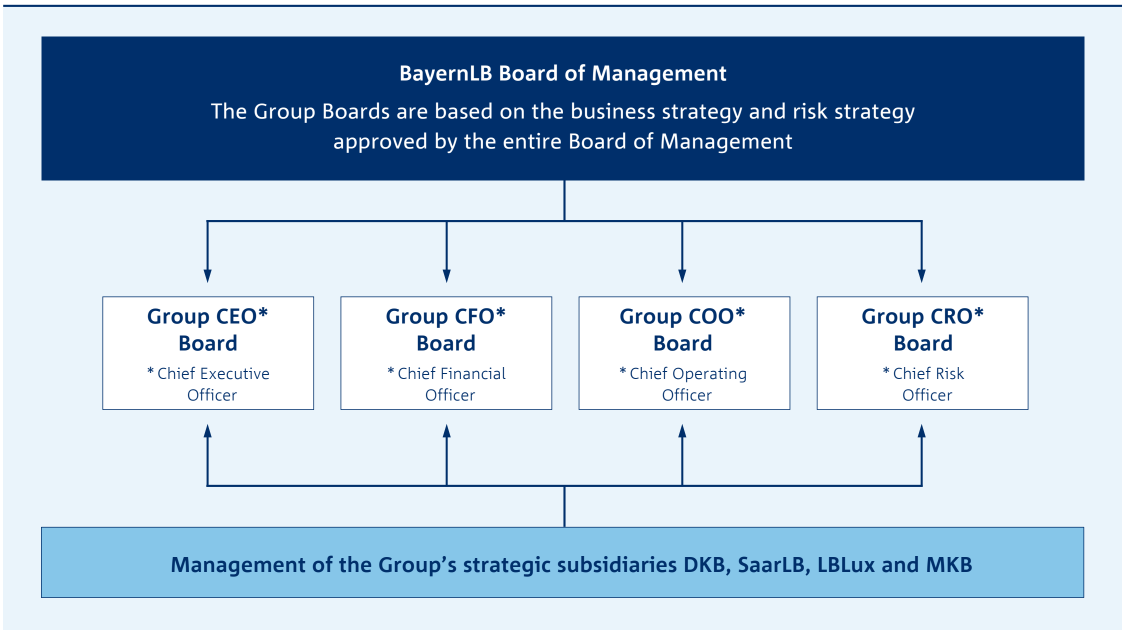
Tasks and objectives

BayernLB has established an internal control system to ensure the accounts have been properly prepared and are reliable. This includes principles, procedures and measures for ensuring the accounts are produced in an efficient and cost-effective manner. The goal of the internal control system is therefore to provide a true and fair view of the BayernLB Group's net assets, financial position and earnings.

The primary aim of the internal control system is to ensure that all transactions are properly entered, processed and documented in accordance with legal requirements and standards, the provisions under the Statutes and other internal directives. It also ensures that risks are adequately disclosed.

Organisation

Group Boards within the BayernLB Group



BayernLB's Board of Management ("Group Board of Management") is responsible for providing the BayernLB Group with a legally compliant business organisation, which, in addition to having suitable internal control procedures, appropriately manages and monitors key risks at Group level. The business organisation prevents conflicts of interest by segregating Sales and Risk Office units and Treasury and Settlement units.

To manage risks across the Group, the Group Board of Management set up several Group Boards whose members are drawn from BayernLB's Board of Management and the boards of management of Group subsidiaries MKB Bank Zrt. (MKB), Banque LBLux S.A. (LBLux), Landesbank Saar (SaarLB), Deutsche Kreditbank AG (DKB) and Hypo Group Alpe Adria (HGAA, up to 30 December 2009).

The main task of the Group Boards is to prepare the resolutions on Group-wide standards for approval by the governing bodies and regularly exchange information on implementing and refining these standards.

Risk Office

The Group CRO Board advises on the standards and guidelines which are approved by the Group Board of Management (BayernLB Board of Management) for managing the key risks at Group level. The Group CRO Board also serves as a forum for exchanging information on current market and risk developments, with the aim of drawing up targeted and timely measures to reduce risks.

The Risk Office comprises the Group Risk Control and Credit Analysis divisions.

The Group Risk Control Division independently identifies, values, analyses, communicates, documents and monitors all risk types at aggregated level. In addition to standard and ad-hoc reporting on the Group's risk situation to internal decision-makers, information is communicated in the form of external risk reporting based on legal provisions and supervisory rules. Group Risk Control is therefore a central registry for the BayernLB Group's risk situation. The Group Risk Control Division develops and maintains the methods and processes needed for the purposes of management and operational monitoring. Another key task is coordinating the introduction of products as part of the new product design process.

Credit risk management in the BayernLB Group is carried out jointly by the Sales units and Risk Office units. In the management process, the Credit Analysis Division analyses, assesses and manages risks in relation to all risk-relevant commitments of BayernLB that are part of the core business (Risk Office function). It participates in setting credit risk strategy in relation to individual customers, sectors and countries, is responsible for ongoing analysis of creditworthiness and transactions, and votes on behalf of the Risk Office in the credit decision process. The same applies to all Group companies.

BayernLB's non-core business activities will be progressively wound down by the Restructuring Unit. The Restructuring Unit also oversees the implementation of the reduction measures in the subsidiaries. The BayernLB portfolios to be wound down include credit substitute transactions, portions of the loan portfolio with banks and the public sector outside Germany, as well as structured financing, including ship financing, aircraft financing, US commercial real estate financing and leveraged buyout financing in Europe, the US and Asia. The goal is to release capital and liquidity tied up in the non-core business as cost-effectively as possible. The primary raison d'être for the Restructuring Unit's winding-down remit is to clear the way for the focused business activities in future, with problem loan handling only a secondary consideration.

The Restructuring Unit is also in charge of the Sales and Risk Office roles in winding down the exposures and portfolios assigned to it. Furthermore, it handles all of BayernLB's exposures in restructuring or liquidation regardless of whether they are allocated to the core business or reduction portfolio.

BayernLB's Board of Management issues standards and guidelines that each individual institution within the Group must comply with.

Financial Office, IT & Operations

The primary task of the Group CFO Board is to introduce and implement standards and directives for ensuring uniform accounts across the Group. The Group CFO Board also serves as a forum for exchanging information on current legal and technical issues in the fields of accounting, supervisory law, regulatory reporting by banks, taxation, business planning, controlling, capital planning and allocation, funding and ensuring liquidity, so that the necessary measures are implemented quickly and effectively.

The operational implementation of Group-wide accounting requirements is the responsibility of the Financial Office, IT & Operations Central Area, which makes sure that the accounts are properly prepared and organises and ensures the effectiveness of the accounting process within the BayernLB Group. Its key tasks include preparing the consolidated annual financial statements and consolidated management report, establishing accounting policies, launching accounting-related projects and providing guidance on national and international developments in accounting.

The Financial Office Central Area is also responsible for implementing the annual accounts accounting standards and accounting-related legal requirements, which are detailed in directives for preparing the annual accounts. These directives, which are an important component of the internal accounting controls, are summarised and documented for the BayernLB Group in the Group annual accounts handbook and in instructions for Group companies on preparing annual accounts.

The consolidated annual financial statements and consolidated management report, which are prepared in accordance with the annual accounts directives, are commissioned by the Board of Management, checked by the auditor and submitted to the Board of Administration for approval. The Board of Administration has set up an Audit Committee whose duties include discussing audit reports and preparing the resolution for the Board of Administration's approval of the consolidated annual financial statements and consolidated management report. The Audit Committee also monitors the accounting process and the effectiveness of internal control, auditing and risk management systems. The auditor may be invited to take part in the discussions of the Audit Committee and Board of Administration on the consolidated annual financial statements and report on the key findings of the audit.

Internal Audit

The Internal Audit Division audits BayernLB's business operations and reports directly to the Chairman of the Board of Management. Its auditing activities are based on a risk-oriented auditing approach and include all in-house or outsourced activities and processes. It also checks the effectiveness and appropriateness of the internal control system and the risk management.

It carries out its assigned tasks independently of the activities, processes and functions to be audited, taking account of applicable legal and supervisory requirements (e. g. KWG and MaRisk). As Group auditor, it also supplements the internal auditing units of the subordinated companies.

Scope of controls and control procedures

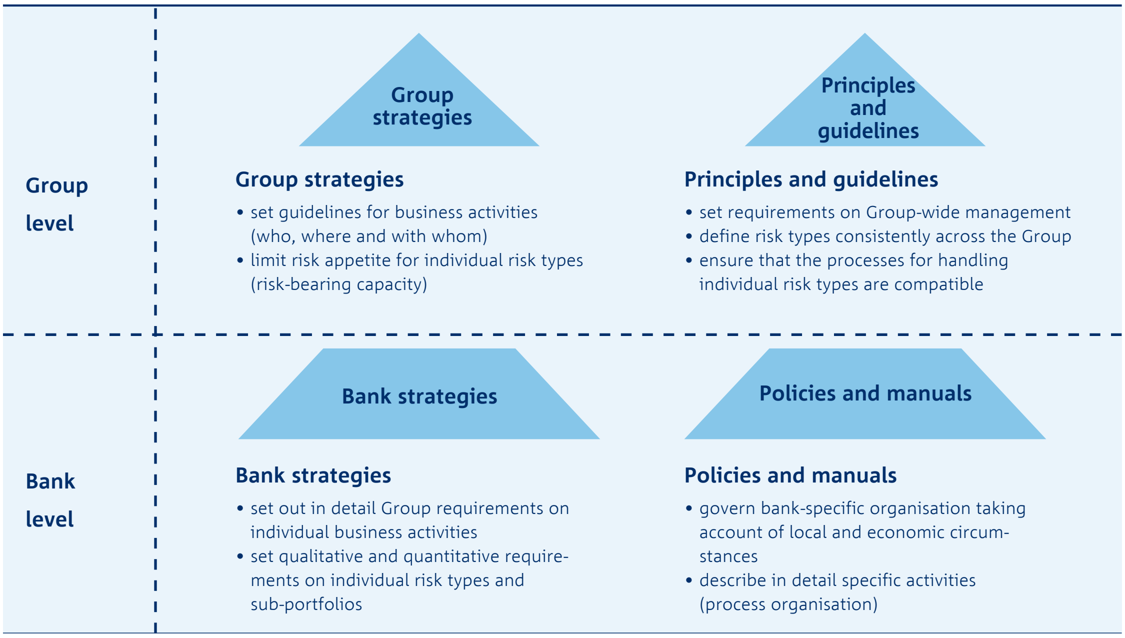
The internal control and risk management system within the BayernLB Group is based on organisational rules.

In respect of the accounting-based internal control system, these rules are detailed in Group annual accounts accounting directives. The main component of these directives is the Group Accounting Manual, which contains key standards for ensuring the consistent use of accounting and valuation policies across the Group based on the requirements applicable to the parent company.

BayernLB has also issued instructions on preparing annual accounts. These are internal guidelines for Group companies in the consolidated annual financial statements. The instructions on preparing annual accounts contain, for example, information on reconciling and eliminating Group-internal transactions, the debt consolidation process, earnings and expenses consolidation, as well as on tasks, contacts and deadlines relating to the preparation of the consolidated annual financial statements. Specialist and technical changes, and control procedures for ensuring high reporting and data quality, are also explained.

In relation to risk management, Group and individual Bank-specific strategies are also derived from the Group Risk Management Principles and the Group Risk Guidelines and then set out in policies and manuals. The management system for risk management rules is shown in the chart below.

Management system for risk management rules within the BayernLB Group



These risk management rules describe the risk management and controlling processes, including the early detection, full entry and appropriate presentation of all major risks. As with the Group Accounting Manual and instructions on preparing annual accounts, these are regularly reviewed, updated and published on the intranet.

To ensure transactions are fully and properly processed, and bookings, data entry and documentation are in compliance with the rules, a wide system of internal controls is implemented within BayernLB. Measures include the segregation of functions, a differentiated access authorisation system to prevent unauthorised intruders, ongoing checks within the workflow process in line with the dual control principle and checks programmed into the IT systems.

As part of the internal controls, ledgers and sub ledgers are checked against each other, manual bookings in ledger accounts monitored and posting runs carried out. Additional checks and reconciliations are conducted to ensure data is correctly transferred between IT systems.

During the preparation of the Group accounts, checks are carried out to determine if underlying data is properly presented and quality assurance is performed on data in the consolidated accounts (e. g. dual control principle, plausibility checks). In 2009, server-based consolidation software was introduced and editing and reading rights were assigned. This software has a number of checks programmed into it to ensure correct data is correctly entered and recorded.

BayernLB has outsourced some of its services (principally IT services, payment services and securities processing) to external companies. Outsourced areas are integrated into BayernLB's internal control system mainly through an outsourcing officer who monitors the external companies concerned on an ongoing basis. Outsourced companies are also regularly checked by BayernLB's Internal Audit.

In BayernLB, the consolidated accounting process is subject to regular controls for inherent risks so that measures can be introduced when necessary to refine the internal control system.

The following sections will take a detailed look at the risk management objectives and the methods for managing each of the risk types.

Risk-orientated management of the Group

Group risk strategy

BayernLB's Board of Management sets the Group risk strategy in accordance with the Group business strategy and specifies business objectives and guidelines for each type of business. The strategy is regularly reviewed and adapted. The key changes in 2009 related to the focus on the restructuring programme, giving top billing in the risk strategy to ensuring risk-bearing capacity is sufficient, and setting the appropriate risk profile requirements.

As part of Group management, BayernLB regularly sends staff members to work in its subsidiaries. In turn, staff at subsidiaries work and receive training at BayernLB's headquarters in Munich. In 2010, the staff exchange programme and the initiation of Group-wide projects will be further intensified as part of the process of creating an interactive Group.

Capital management in the Group

Integrated risk and earnings reporting in the Group

Continual refinements have been made over the past few years at Group level to the management and monitoring instruments used to achieve business strategy goals. The Asset Liability Management Committee (ALCO) is the umbrella entity for combining earnings targets with risk management objectives. Risk reporting and earnings reporting are summarised in the ALCO report. This includes recommendations for action by the Board of Management regarding the strategic and operational management of the Group.

The Board of Management and other bodies receive independent and risk-adequate reports so that all risk types can be operationally managed and risk-bearing capacity maintained. Following the overhaul of risk reporting to the Board of Management and the supervisory bodies in 2008, risk reporting by all Group units has been structured uniformly since the start of 2009. Besides periodic reporting, ad-hoc reporting by risk type is also carried out at an operational level.

Regulatory capital adequacy (solvency)

BayernLB has established the following objectives, methods and processes for determining its capital requirements.

Reported equity is allocated on the basis of own funds planning at the Group level. Own funds is defined as liable capital – the sum of core capital and supplementary capital – plus regulatory Tier III capital. Core capital consists essentially of subscribed capital plus reserves and capital contributions from silent partners. Supplementary capital includes participation rights capital and long-term subordinated liabilities. Regulatory Tier III capital includes short-term subordinated liabilities.

Own funds planning is based largely on the internal target core capital ratio (ratio of core capital to risk positions) and an internally set target ratio (ratio of own funds to risk positions) for the BayernLB Group. It defines for the planning period upper limits for risk assets, market risk positions and operational risks arising from BayernLB's business activities. The effects of market fluctuations – simulated in stress tests – are taken into account by means of capital buffers to ensure solvency criteria are continually met.

As part of the IFRS Group planning, regulatory capital is distributed to each planning unit. These planning units (Group units) are BayernLB's defined business segments, Bayerische Landesbodenkreditanstalt, LBS Bayern and the Group's strategic subsidiaries DKB, MKB, HGAA (up to 30 December 2009), LBLux and SaarLB.

Regulatory capital is allocated to the Group units through a top-down distribution of limits on risk assets and market risk positions approved by the Board of Management, comprising a regulatory minimum core capital ratio in excess of 8 percent for the Group, in addition to segment-specific targets.

The limits on each Group unit's risk asset positions and market risk positions are constantly monitored for compliance. The Board of Management receives monthly reports on current limit utilisations.

Details on increases or decreases in the Group's supervisory ratios are provided in the management report.

BayernLB publishes additional information in its disclosure report in accordance with Section 26a of the German Banking Act (KWG). The disclosure report can be found on BayernLB's website under "Solvency Ordinance".

Risk-bearing capacity

Risk-bearing capacity is monitored at the BayernLB and Group level by means of a three-stage process.

The ICAAP indicates risk-bearing capacity in a narrow sense and is used to assess whether sufficient cover funds are available for the risks taken on. The risk level (risk capital requirement) determined by the ICAAP is calculated using internal statistical models taking into account the target rating.

The ICAAP is supplemented by an extensive system of stress tests. The potential risk capital requirements calculated in these tests are also weighed against portions of the cover funds.

Economic risk planning for ICAAP and stress scenarios and risk cover planning are integral parts of the own funds planning described under "regulatory capital adequacy".

The negative case is used to monitor short-term risk potential, which is indicated by fluctuations around the expected loss. Factored into the calculation are deviations from estimated risk costs due to marginal portfolio deterioration, which occurs on average every one to two years. The potential risk capital requirement calculated would no longer be covered by the risk premiums collected and would therefore use up cover funds. The negative case is therefore regarded as an early warning indictor for the ICAAP in this respect.

The method of calculating risk-bearing capacity is assessed and refined on a regular basis to ensure it adequately takes account of external factors and internal strategic goals.

The confidence level used to calculate economic risk in the ICAAP is based on the strategic target rating. Since 2009, economic risk has therefore been calculated on the basis of a confidence level of 99.95 percent (which corresponds to an A2 rating on Moody's ratings scale). Up to 31 December 2008, the confidence level was 99.96, corresponding to the previous strategic target rating of A1.

The main risk types used for calculating economic risk are credit, country, specific interest rate, market price, investment and operational risk. Other risk types include typical building savings risks at LBS. The economic risk for each risk type is generally calculated using the value-at-risk (VaR) method. Liquidity risk is factored in using stress scenarios.

Economic risk at the BayernLB Group as at 31 December 2009

	BayernLB Group	
EUR million	31 Dec 2009*	31 Dec 2008**
Economic risk per type of risk	**6,194**	**9,320**
• Credit and country risk (counterparty risk)	3,347	6,702
• Credit risk (specific interest-rate risks)	1,513	–***
• Market risk	575	1,602
• Operational risk	452	653
• Investment risk	170	197
• Other risk	137	165

** Based on a confidence level of 99.95 percent*
*** Based on a confidence level of 99.96 percent*
**** As at 31 December 2008 included in market risk*

When interpreting changes in risk capital requirements for credit risks and market risks, it must be noted that specific interest rate risks as at 31 December 2009 are now reported separately as credit risks instead of being integrated with market risk. The parameters for specific interest rate risks have therefore been modified so that the assumed holding period for illiquid portfolios has been increased from a maximum of six months to one year, producing significantly more conservative results.

There has been no material change in the risk situation in regard to operational risks. The fall in the risk capital requirement for operational risk was due to the changeover in methodology from the OpVaR method to the earnings-based standardised approach in accordance with the Solvency Ordinance.

The risk capital requirement, calculated in the above manner, is then compared against the economic capital, where, in accordance with risk strategy requirements, only a portion may be used to cover risks in the ICAAP. The remainder is used as a stress buffer to cover additional risk capital requirements based on special stress scenarios. Currently, at least 30 percent of risk capital is reserved for stress situations.

Economic capital, which represents the maximum loss limit, is derived from the risk cover funds. These risk cover funds are calculated using a classification system based on the balance sheet and income statement, in which the components of capital are categorised by their availability (liquidity) and the external impact of changes in them (capital market effects).

Besides using the results of value-at-risk testing, which is largely based on historical statistical data, a number of stress scenarios involving elevated risk situations are assessed (e. g. “weak economic environment”, “sector crisis” and “market price/liquidity crisis” scenarios). In the scenarios, events that are exceptional or improbable but plausible are deliberately selected. To assess the relevance of these scenarios, early warning indicators were developed for the risk-bearing capacity so that additional economic risk can be identified in good time. Like the scenarios, these indicators are subject to an ongoing review process and modified where necessary to take account of changed conditions. The impact of the scenarios is assessed and noted in the risk report if the corresponding early warning indicator is relevant.

As at 31 December 2009, the scenario loss was EUR 3,596 million (31 December 2008: EUR 3,576 million).

Group-wide uniform standards are used to determine economic risk and scenario losses. In the risk-bearing capacity reporting at Group level, the aggregation by risk type currently takes no account of the impact of diversification and is therefore conservative.

The BayernLB Group holds sufficient economic capital to cover its risk capital requirements resulting from the ICAAP calculation and the stress scenarios. The risk-bearing capacity of the BayernLB Group has therefore been restored as at 31 December 2009.

Liquidity management in the Group

The strategic principles for dealing with liquidity risk within the BayernLB Group are set out in the Group risk strategy. The prime goal of liquidity risk management and monitoring is to ensure the Group's payment obligations can be met and refinancing obtained at all times. These strategic goals are implemented through the Group Treasury Principles, a Group-wide Liquidity Policy and liquidity safeguarding planning. Based on these principles, the liquidity situation at the BayernLB Group was managed and monitored efficiently and continuously. The liquidity safeguarding planning sets out the processes, management tools and hedging instruments needed to avert or address potential short-term crises. The escalation mechanism defines the liquidity status of the Bank using a risk traffic light system. BayernLB's primary objectives are to remain solvent at all times and to avoid reputational damage. BayernLB acts as lender of last resort for the Group if needed.

In the reporting year, management of situational and structural liquidity in BayernLB was the responsibility of the Group Treasury Division within the Financial Office Central Area. The Financial Markets Business Area provides situational liquidity by trading on the money markets. The Risk Office Central Area's Group Risk Control Division is responsible for compiling liquidity overviews and checking liquidity risk on a Group-wide basis.

Remuneration system in the Group

The incentives in the BayernLB Group's remuneration system are structured in accordance with the goals set out in the business and risk strategies. This system is designed to prevent the creation of undesired incentives to open disproportionately risky positions. Variable remuneration is weighted in favour of risk avoidance, sustainability and rewarding staff in line with the Bank's success.

In BayernLB, the remuneration committee assesses the suitability of the remuneration system, particularly the application of individual remuneration components. The committee then informs the Board of Management on the findings of its assessment at least once a year.

BayernLB was among the first group of German banks which committed themselves on 11 December 2009 in a voluntary statement of commitment to apply these standards formulated by the Financial Stability Board (FSB).

To ensure compliance with the requirement in Article 5 (2) of the Supplementary Financial Market Stabilisation Act (Finanzmarktstabilisierungsergänzungsgesetz (FMStErgG)) to harmonise remuneration systems on a Group-wide basis, BayernLB issued guidelines to its subsidiaries to bring them into line with the required standards.

Management of the individual risk types in the Group

Credit risk

Credit risk, which is divided into counterparty risk and credit rating risk, poses the biggest risk to the BayernLB Group in terms of size.

Counterparty risks arise from transactions that result in a claim against a borrower, issuer of securities or counterparty. Any failure by them to meet their obligations results in a loss equal to the amount due but not paid, less the value of realised collateral and the recovery rate on the unsecured portion. This definition covers not only debtor and guarantee risks from the credit business but also issuer, replacement and settlement risks from the trading business.

In 2009, the credit rating-related component of the interest-rate risks of securities (specific interest rate risks) was divided from market price-related interest-rate risks in the risk-bearing capacity calculation.

Country risks – another type of counterparty risk – are also measured, managed and monitored. Country risk in a narrow sense is defined as the risk of a country or business partner, whose registered office is located in another country, failing to meet its obligations on time or at all due to sovereign acts or economic or political problems (transfer and conversion risks). Country ratings are a key tool for measuring individual country risk. When measuring and limiting risks, BayernLB takes account of both country risk in its narrow sense and the total counterparty risks for all individual customers (domicile principle) in each country (with the exception of Germany).

Credit risk strategy and approval process

The credit risk strategy – which is part of the risk strategy covering all types of risk – is set by the Board of Management on the basis of the risk and business policy for the Bank and the Group, taking account of risk-bearing capacity considerations. The credit risk strategy is used to draw up a detailed credit policy, which serves as a basis for operational implementation.

BayernLB has a multi-stage credit approval process. The competence regulation sets out the authority of different levels of competence holders to approve credits based on the amount and rating classification. Credit decisions that require Board of Management and/or Board of Administration approval are voted on first in the relevant credit committee, which is itself also a competence holder. Credit decisions affecting the reduction portfolio have been taken in a separate credit committee since the Restructuring Unit was established.

The decision-making processes in the subsidiaries have been/will be adjusted accordingly; members of BayernLB's Board of Management are represented on the credit committees of some subsidiaries.

Measuring counterparty risks and internal rating systems

Risk measurement at portfolio level is carried out using an analytical system. The risk contribution of each individual business partner to the entire portfolio in the event of an unexpected loss is also calculated for the purposes of risk analysis.

BayernLB uses several statistically based rating procedures, in which borrowers are assigned to rating classes on a 25-tier master rating scale on the basis of default probabilities. BayernLB obtained regulatory approval on 1 January 2007 to use the IRB (Internal Rating Based) approach. Around 80 percent of the Group’s exposure is already measured with rating modules which have been approved after being tested by regulatory authorities.

Rating procedures are maintained and refined by BayernLB largely in collaboration with RSU Rating Service Unit GmbH & Co. KG and Sparkassen Rating und Risikosysteme GmbH. All rating procedures are continuously reviewed to validate their ability to correctly determine default probabilities in each customer and financing segment. The validation process involves both quantitative and qualitative analyses, in which the rating factors, accuracy and calibration of the process, quality of the data and design of the model are assessed on the basis of statistical and qualitative analyses and user feedback. Further information can be found under “Solvency Ordinance” on BayernLB’s website.

BayernLB conducts stress tests on the impact of events that may affect the level of risk capital requirements, both on an ad-hoc and regular basis using assumptions on rating migration.

Credit risk measurement within the BayernLB Group was further refined in the reporting year. In 2009, Banque LBLux passed the IRBA suitability tests for the Corporates, Project Financing and International Commercial Real Estate rating procedures. LBS was switched over to the IRB approach in 2009 after its retail banking business was confirmed as suitable. LBLux and LBS were therefore incorporated in the IRBA disclosure of the Group for the first time. HGAA (consolidated until 30 December 2009) and MKB adopted relevant rating procedures used by BayernLB and employ their own rating procedures for specific customer segments. Using IRBA-compliant rating procedures standardises and improves the quality of credit analysis within the BayernLB Group.

Limiting counterparty risks at business partner and portfolio level

The Group Risk Management Principles stipulate that counterparty risks at borrower/borrower unit level are to be monitored daily in the Risk Office using a Bank-wide limit system. In the limit system, the timing element of default risks is factored in by subdividing the limits into maturity bands. Comparable processes have been implemented in the subsidiaries.

To limit the large credit risks, the maximum gross exposure for each borrower unit is limited to EUR 500 million Group-wide in accordance with Section 19 (2) of the German Banking Act (Kreditwesengesetz (KWG)). Justified exemptions can be approved by the relevant competence holder.

Risk concentrations in individual sub-portfolios are avoided by setting and monitoring risk-orientated upper limits, for example, for sectors or countries.

Collateral

Another key way in which risks are limited at BayernLB Group level is by accepting suitable collateral and valuing it on an ongoing basis. When deciding on an appropriate amount of collateral needed, a close look is taken at the type of financing, the borrower's assets that have been provided, their value and liquidity and a reasonable cost/benefit ratio (acceptance costs and ongoing valuation).

Collateral is processed and valued in accordance with the relevant guidelines, which set out the procedures for determining the value of the collateral, any discounts to be applied, and how often the valuation must be reviewed. Net risk positions are calculated on the basis of the liquidation value of the collateral.

In derivatives trading, master agreements are usually concluded for the purpose of close-out netting. Collateral agreements have been made with certain business partners restricting the default risk for individual trading partners to an agreed maximum and authorising a call for additional collateral should this limit be exceeded.

Credit derivative transactions are only carried out with counterparties rated as investment grade. Replacement risk is also reduced using appropriate credit hedging agreements.

The German Federal Financial Supervisory Authority (BaFin) has granted BayernLB approval to lower capital requirements through real estate liens, guarantees, and financial collateral in the form of securities, cash deposits or credit derivatives within the scope of its approval to use the IRB approach. In 2009, BaFin also extended approval to ship mortgages and registered liens on aircraft.

Early warning and problem loan handling

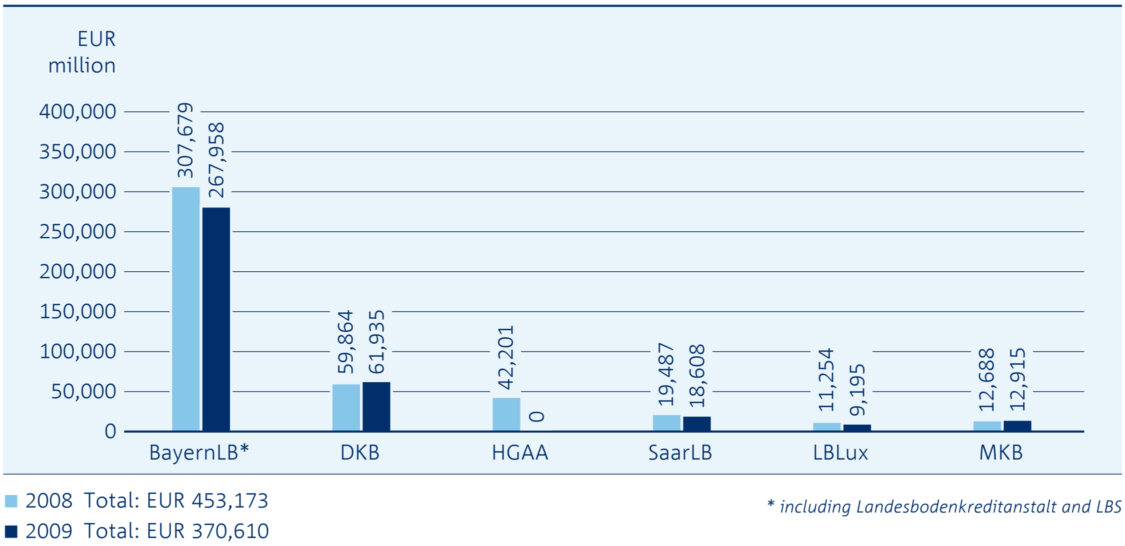
A reporting system is used to constantly monitor all credit exposures in terms of their financial status and collateral, compliance with limits, fulfilment of the terms of their agreements and compliance with external and internal requirements. Exposures with elevated risk are detected early on in the early risk detection process using defined early warning indicators. These indicators are regularly reviewed for suitability. Problem exposures are classified in terms of their level of risk in accordance with standard international categories (special mention, substandard, doubtful and loss) and, if necessary, are made subject to special restructuring and risk monitoring.

By initiating suitable measures such as intensive support or problem loan handling at an early stage, BayernLB aims to minimise or completely prevent potential defaults from occurring.

Portfolio overview pursuant to IFRS 7.34 a) (Management Approach)

The BayernLB Group credit portfolio charts below are based on the internal risk reports to the Board of Management. For the purposes of risk management, the definition of credit volume differs in certain respects from its definition for accounting purposes. The maximum credit risk under IFRS 7.36a (see Balance Sheet Approach) includes, for example, accrued interest and does not take account of close-out netting; this explains the higher total credit volume in the Balance Sheet Approach presentation.

Gross credit risk by BayernLB Group unit



** including Landesbodenkreditanstalt and LBS*

The BayernLB Group's credit portfolio contracted by 18 percent to EUR 370.6 billion over the year. This was due to the sale of Hypo Group Alpe Adria and the systematic implementation of the consolidation policy (particularly in the banking, ABS and corporate customer segments) as part of the realignment of the BayernLB Group. Exposure was principally wound down at BayernLB, falling by EUR 39.7 billion (–12.9 percent). In contrast, the subsidiaries DKB and MKB, whose business models are focused on retail customers and the Mittelstand (mid-market), increased volumes slightly in line with targets.

Credit risk in the BayernLB Group is broken down below by sub-portfolio, rating category, region and size.

The BayernLB Group has the following sub-portfolios:

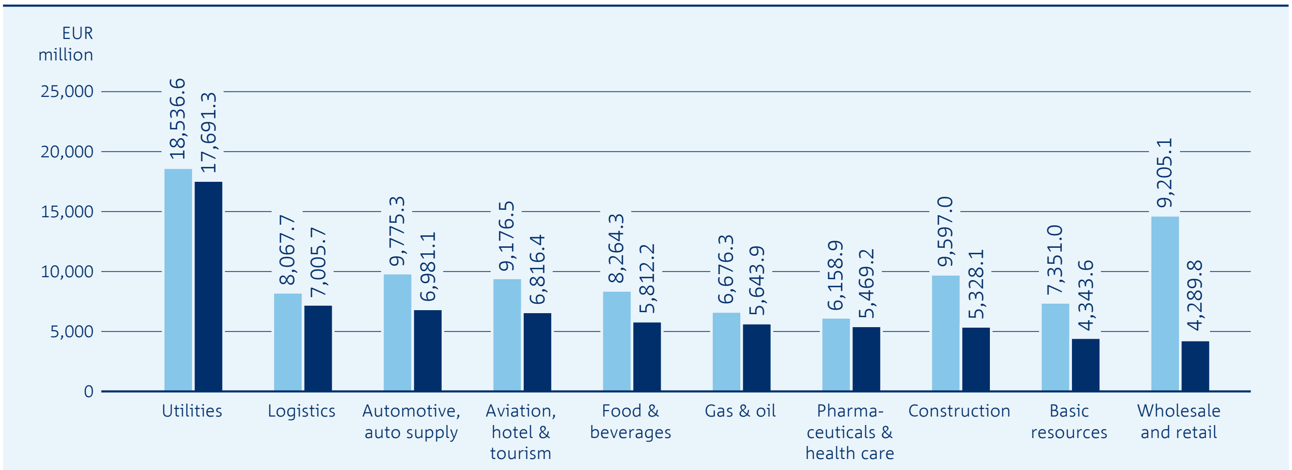
Gross and net credit risk by sub-portfolio within the BayernLB Group

Breakdown by sub-portfolio EUR million	**Exposure 31 Dec 2009**		**Exposure 31 Dec 2008**	
	Gross	**Net**	**Gross**	**Net**
Total	**370,610**	**258,221**	**453,173**	**341,641**
Real estate	50,647	15,234	55,315	20,604
Financial institutions (FI) incl. ABS	189,756	154,398	227,325	207,056
• of which sovereigns/public sector and non-profit organisations	47,777	32,894	50,679	35,904
Corporate customers	85,969	71,196	113,275	90,676
Other	44,239	17,393	57,257	23,305
• of which retail customers	43,824	17,260	52,923	20,719

The consolidation policy provides for a reduction in exposure in all sub-portfolios, although not equally weighted. At BayernLB and LBLux, the reductions were mainly in the Financial Institutions and ABS sub-portfolios, and also selected sectors in the Corporate Customers and Real Estate sub-portfolios.

The reduction in exposures called for in the new business strategy was further boosted in all sub-portfolios by the deconsolidation of HGAA at the end of the year. The fall in the retail customers segment is almost entirely due to the sale of HGAA.

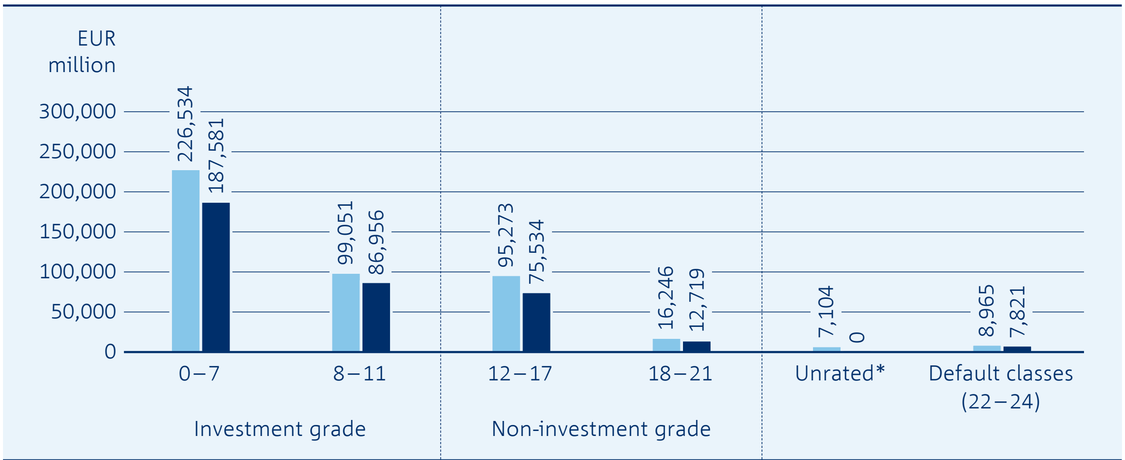
The 10 largest sectors within the Corporate Customers sub-portfolio



■ 2008
■ 2009

The Corporate Customer business remains an important core business area for the BayernLB Group, accounting for 23 percent of the total gross exposure. As a result of the realignment of the Group, business in this segment has been focused on clearly defined customer groups and target regions.

Gross credit risk by rating class within the BayernLB Group



■ 2008 Total: EUR 453,173
■ 2009 Total: EUR 370,610

** Exposures that are unrated/with special rating codes (including simplified classification for e. g. receivables secured by cash) were allocated in 2009 to the relevant rating categories on the basis of the average sector PD of the customer to adequately reflect risks.*

Sub-portfolios by rating class

31 Dec 2008 **Rating class** (net EUR million)	Sub-portfolio Real estate	 FI/ABS	 Corporate customers	 Other*	Total
Total	**20,604**	**207,056**	**90,676**	**23,305**	**341,641**
0–7	3,813	172,798	15,547	3,814	195,972
8–11	7,194	16,954	42,193	8,040	74,381
12–14	4,657	6,651	18,392	3,951	33,651
15–18	2,768	5,253	9,065	3,567	20,654
19–21	665	1,781	2,042	1,039	5,527
Default classes	865	2,599	2,295	741	6,499
Unrated**	555	991	864	1,677	4,087
Special rating codes**	88	29	278	476	870

31 Dec 2009 **Rating class** (net EUR million)	Sub-portfolio Real estate	 FI/ABS	 Corporate customers	 Other*	Total
Total	**15,234**	**154,398**	**71,196**	**17,393**	**258,221**
0–7	3,006	134,548	11,087	2,765	151,407
8–11	4,646	13,957	33,808	8,077	60,488
12–14	3,450	3,019	15,076	4,178	25,724
15–18	2,448	1,018	7,595	1,428	12,489
19–21	904	522	1,965	594	3,984
Default classes	781	1,335	1,663	350	4,129

* *Of which retail customers in 2008: EUR 20,719 million and 2009: EUR 17,260 million*

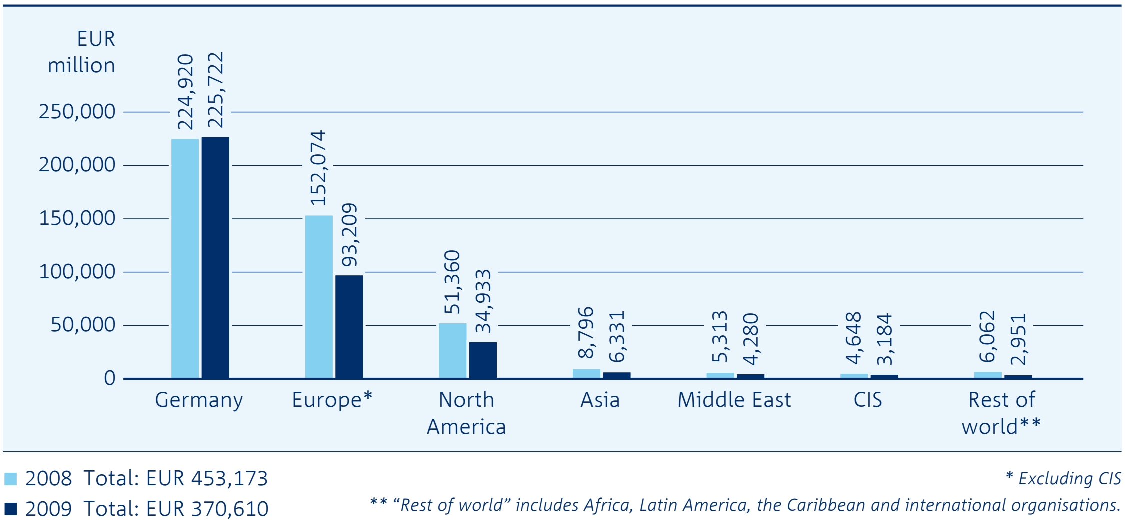
** *Exposures that are unrated/with special rating codes (including simplified classification for e. g. receivables secured by cash) were allocated to the relevant rating categories on the basis of the average sector PD of the customer to adequately reflect risks.*

In the non-investment grade segment, volumes were reduced significantly by the deconsolidation of HGAA. The fall in the investment-grade segment is largely due to the reduction in BayernLB's FI and ABS sub-portfolios. Overall, the portfolio structure has significantly improved, as shown by the increase in the investment-grade share from 71.9 percent in 2008 to 74.1 percent at the end of 2009.

Regions

The BayernLB Group uses the official Bundesbank codes for its breakdown of exposure by country. Countries are grouped into regions on the basis of global and regional economic relationships.

Gross credit risk by region within the BayernLB Group



** Excluding CIS*

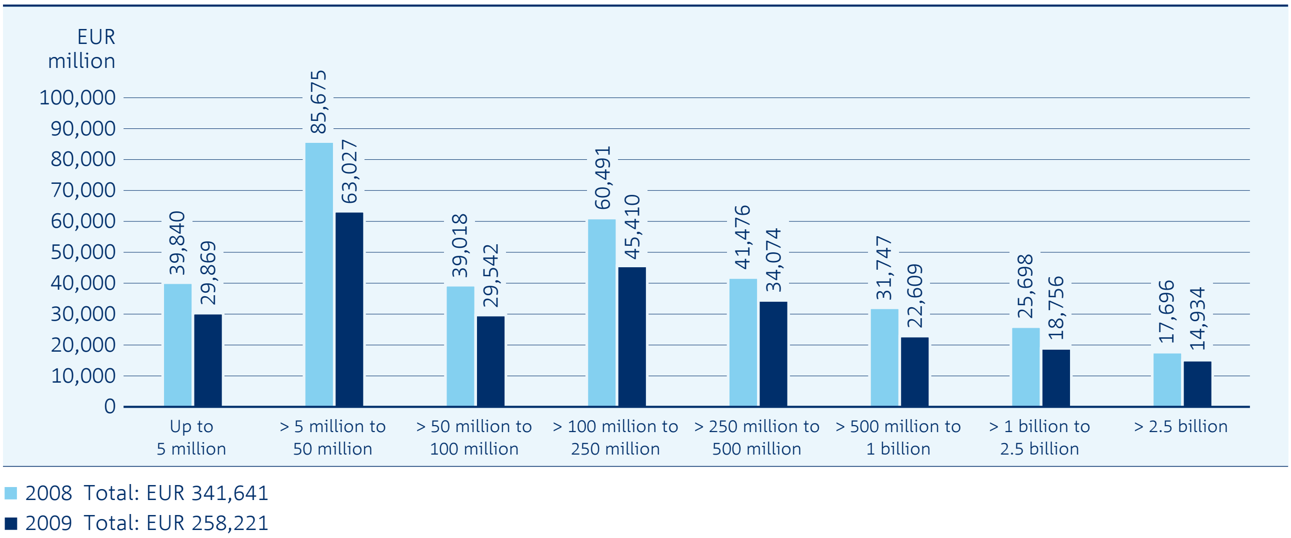
*** "Rest of world" includes Africa, Latin America, the Caribbean and international organisations.*

The Group-wide foreign exposure fell by 37 percent to EUR 145 billion over the year.

Exposures in European countries were significantly cut, particularly through the deconsolidation of HGAA. In Eastern Europe, the exposure is now only EUR 16 billion of which EUR 11.4 billion is in Hungary. The remaining volume of EUR 77.2 billion in Western Europe (excluding Germany) includes EUR 21.6 billion of exposures to borrowers domiciled in eurozone countries that are currently facing some financial difficulties. The exposure to borrowers domiciled in Greece amounts to EUR 1.5 billion (of which EUR 0.5 billion is sovereign debt of the national government); in Spain EUR 9.7 billion (of which EUR 0.2 billion is sovereign debt of the national government), in Italy EUR 6.8 billion (of which 0.8 billion is sovereign debt of the national government), in Portugal EUR 2.1 billion (of which EUR 0.1 billion is sovereign debt of the national government) and Ireland EUR 1.5 billion (of which EUR 0.1 billion is sovereign debt of the national government).

In accordance with the new business strategy, the volume of exposures in non-European regions was also significantly reduced.

Net credit risk by size



The reduction in exposure took place in all size categories, leaving the granularity of the entire portfolio compared with year-end 2008 relatively unchanged. The reduction in the smaller sizes was mainly due to the deconsolidation of the HGAA portfolio, which is focused on retail and Mittelstand customers. The reduction in the larger sizes, however, was due to the significant reduction in exposures in BayernLB's FI and ABS sub-portfolios.

Exposures larger than EUR 2.5 billion are found only in BayernLB's portfolio. These are low-risk loans and advances to Landesbanks with guarantee obligations, deposits at the Bundesbank and loans and advances to the Free State of Bavaria.

Portfolio overview (Balance Sheet Approach)

Based on data from the IFRS consolidated financial statements, the table below shows the BayernLB Group's maximum exposure to credit risk under IFRS 7.36a and taking account of IFRS 7.B9. The gross carrying amounts are reduced by the (offsetting) amounts calculated under IAS 32 and impairment losses calculated under IAS 39.

The BayernLB Group's maximum credit risk under IFRS 7.36a

EUR million	31 Dec 2009	31 Dec 2008
Cash reserves	**3,511.7**	**3,796.4**
• Loans and receivables	0.0	351.6
• Available for sale	452.9	849.0
Loans and advances to banks	**73,813.5**	**89,123.6**
• Loans and receivables	73,748.3	89,035.5
• Fair value option	65.2	88.1
Loans and advances to customers	**157,460.0**	**200,295.4**
• Loans and receivables	156,579.8	198,860.7
• Available for sale	70.8	77.0
• Fair value option	809.4	1,353.7
Assets held for trading	**37,692.5**	**47,218.1**
• Held for trading	37,692.5	47,218.1
Positive fair values from derivative financial instruments	**4,037.3**	**3,929.1**
• Held for trading	4,037.3	3,929.1
Investments	**53,045.7**	**61,249.0**
• Available for sale	19,571.5	24,069.9
• Fair value option	1,039.8	1,430.1
• Loans and receivables	32,434.4	35,708.8
• Held to maturity	0.0	40.2
Contingent liabilities	**18,173.7**	**22,495.4**
Irrevocable loan commitments	**34,697.2**	**44,079.0**
BayernLB Group's maximum credit risk	**382,431.6**	**472,185.9**

The reduction in exposures called for in the new business strategy was further boosted by the deconsolidation of HGAA at the end of the year.

Financial assets that are neither past due nor impaired

31 Dec 2009 Financial assets that are neither past due nor impaired by rating class and balance sheet item	Maximum credit risk (Balance sheet approach)						
	Rating classes						
EUR million	0–7	8–11	12–17	18–21	Default classes	Unrated	Total
Cash reserves	**3,254**	**10**	**–**	**129**	**–**	**117**	**3,510**
• Loans and receivables	2,803	–	–	129	–	115	**3,047**
• Available for sale	450	–	–	–	–	2	**453**
Loans and advances to banks	**60,057**	**7,240**	**2,149**	**2,405**	**3**	**137**	**71,992**
• Loans and receivables	59,992	7,236	2,149	2,405	3	136	**71,921**
• Available for sale	–	–	–	–	–	–	–
• Fair value option	65	–	–	–	–	–	**65**
Loans and advances to customers	**45,338**	**44,910**	**40,144**	**10,817**	**540**	**9,657**	**151,405**
• Loans and receivables	44,610	44,922	40,144	10,817	540	9,657	**150,689**
• Fair value option	728	81	–	–	–	–	**809**
Assets held for trading	**32,344**	**4,007**	**838**	**251**	**136**	**97**	**37,672**
• Held for trading	32,344	4,007	838	251	136	97	**37,672**
Positive fair values from derivative financial instruments	**3,790**	**208**	**27**	**–**	**–**	**–**	**4,026**
• Held for trading	3,790	208	27	–	–	–	**4,026**
Investments	**40,463**	**6,959**	**1,088**	**2,366**	**68**	**102**	**51,046**
• Available for sale	15,281	1,615	312	870	68	56	**18,201**
• Fair value option	857	162	17	–	–	4	**1,040**
• Loans and receivables	24,324	5,219	759	1,495	–	42	**31,839**
• Held to maturity	–	–	–	1	–	–	**1**
Contingent liabilities	**7,431**	**4,015**	**4,051**	**430**	**89**	**363**	**16,379**
Irrevocable loan commitments	**15,190**	**12,242**	**5,991**	**857**	**83**	**61**	**34,423**
Total	**207,866**	**79,591**	**54,288**	**17,255**	**918**	**10,533**	**370,452**

31 Dec 2008 Financial assets that are neither past due nor impaired by rating class and balance sheet item	Maximum credit risk (Balance sheet approach)						
	Rating classes						
EUR million	0–7	8–11	12–17	18–21	Default classes	Unrated	Total
Cash reserves	**2,705**	**374**	**612**	**449**	**–**	**93**	**4,233**
• Loans and receivables	1,922	374	612	443	–	80	**3,431**
• Available for sale	782	–	–	6	–	–	**789**
Loans and advances to banks	**72,067**	**9,552**	**3,758**	**319**	**–**	**622**	**86,318**
• Loans and receivables	71,935	9,552	3,758	319	–	585	**86,150**
• Available for sale	–	–	–	–	–	12	**12**
• Fair value option	72	–	–	–	–	–	**72**
Loans and advances to customers	**64,395**	**48,996**	**58,474**	**12,224**	**402**	**4,095**	**188,585**
• Loans and receivables	63,477	48,893	58,472	12,224	402	3,941	**187,409**
• Fair value option	714	79	–	–	–	–	**793**
Assets held for trading	**34,859**	**7,959**	**3,614**	**301**	**27**	**175**	**46,935**
• Held for trading	34,800	7,959	3,614	301	27	175	**46,876**
Positive fair values from derivative financial instruments	**3,397**	**308**	**196**	**–**	**–**	**31**	**3,933**
• Held for trading	3,397	308	196	–	–	31	**3,933**
Investments	**48,622**	**4,354**	**5,327**	**1,159**	**376**	**82**	**59,921**
• Available for sale	17,801	1,576	2,399	17	320	81	**22,194**
• Fair value option	1,227	288	86	5	1	23	**1,630**
• Loans and receivables	29,570	2,491	2,842	1,136	55	30	**36,124**
• Held to maturity	–	–	–	–	–	–	**–**
Contingent liabilities	**8,690**	**5,165**	**5,172**	**592**	**94**	**532**	**20,245**
Irrevocable loan commitments	**18,703**	**12,214**	**8,880**	**1,164**	**143**	**233**	**41,339**
Total	**253,438**	**88,923**	**86,034**	**16,208**	**1,042**	**5,864**	**451,510**

The maximum credit risk of the BayernLB Group fell by around 19 percent; the sum of financial assets that are neither past due nor impaired fell by approximately 18 percent.

Financial assets that are past due but not impaired

31 Dec 2009 Financial assets that are past due, but not impaired by balance sheet item and period of delay EUR million	Maximum credit risk (Balance sheet approach) Past due for: < 30 days	30 days to 3 months	3 months to 1 year	> 1 year	Total	Fair value collateral
Cash reserves	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to banks	**82**	**11**	**4**	**10**	**108**	**23**
• Loans and receivables	82	11	4	10	108	23
Loans and advances to customers	**1,072**	**452**	**482**	**22**	**2,028**	**531**
• Loans and receivables	1,072	329	386	22	1,809	531
Assets held for trading	**5**	**–**	**–**	**–**	**5**	**1**
• Held for trading	5	–	–	–	5	1
Positive fair values from derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**–**
Investments	**–**	**–**	**–**	**–**	**–**	**–**
• Available for sale	–	–	–	–	–	–
Contingent liabilities	**30**	**5**	**–**	**–**	**36**	**9**
Irrevocable loan commitments	**64**	**13**	**18**	**–**	**95**	**23**
Total	**1,254**	**482**	**504**	**32**	**2,271**	**587**

31 Dec 2008 Financial assets that are past due, but not impaired by balance sheet item and period of delay EUR million	Maximum credit risk (Balance sheet approach) Past due for: < 30 days	30 days to 3 months	3 months to 1 year	> 1 year	Total	Fair value collateral
Cash reserves	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to banks	**89**	**8**	**26**	**11**	**133**	**20**
• Loans and receivables	89	8	26	11	133	20
Loans and advances to customers	**3,140**	**1,745**	**2,386**	**308**	**7,579**	**4,075**
• Loans and receivables	3,140	1,745	2,386	308	7,579	4,070
Assets held for trading	**1**	**–**	**1**	**1**	**3**	**1**
• Held for trading	1	–	1	1	3	1
Positive fair values from derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**–**
Investments	**4**	**–**	**–**	**–**	**4**	**1**
• Available for sale	4	–	–	–	4	1
Contingent liabilities	**46**	**48**	**154**	**8**	**255**	**143**
Irrevocable loan commitments	**47**	**13**	**72**	**16**	**148**	**17**
Total	**3,328**	**1,812**	**2,639**	**344**	**8,123**	**4,257**

The positive effect of the deconsolidation of HGAA was reflected in the significant reduction in overdue but not impaired financial assets.

Renegotiations

Pursuant to IFRS 7.36d, renegotiations of terms of financial assets that would otherwise be past due or impaired must be disclosed separately. In 2009, the contractual terms of financial assets with a total carrying amount of EUR 559 million (2008: EUR 666 million) were renegotiated (maturities were extended and nominal interest rates lowered).

Financial assets that are impaired

Financial assets that are impaired EUR million	31 Dec 2009 Maximum credit risk	31 Dec 2009 Fair value collateral	31 Dec 2008 Maximum credit risk	31 Dec 2008 Fair value collateral
Cash reserves	**–**	**–**	**–**	**–**
Loans and advances to banks	**218**	**–**	**371**	**4**
• Loans and receivables	218	–	371	4
Loans and advances to customers	**3,860**	**2,560**	**3,954**	**2,676**
• Loans and receivables	3,790	2,492	3,906	2,600
• Available for sale	70	68	76	76
Assets held for trading	**–**	**–**	**–**	**–**
Positive fair values from derivative financial instruments	**–**	**–**	**–**	**–**
Investments	**2,147**	**2**	**1,687**	**–**
• Available for sale	1,505	–	1,669	–
• Fair value option	–	–	7	–
• Loans and receivables	642	2	11	–
Contingent liabilities	**100**	**5**	**54**	**2**
Irrevocable loan commitments	**98**	**2**	**69**	**1**
Total	**6,423**	**2,569**	**6,136**	**2,683**

The benefit to the BayernLB Group from the significant reduction in impaired financial assets by the sale of HGAA was more than offset by the contrary trends at other Group units arising from the impact of the financial and economic crises on the creditworthiness of borrowers.

Pursuant to IFRS 7.38, financial or non-financial assets that were obtained in the reporting period by taking possession of collateral held as security must be disclosed separately. In 2009, the BayernLB Group capitalised assets of EUR 35 million (2008: EUR 114 million) in the consolidated balance sheet from collateral obtained in accordance with IFRS 7.38. The marked year-on-year fall was due to the deconsolidation of HGAA. Of the total amount, EUR 17.2 million (2008: EUR 99.9 million) related to land with buildings. The assets acquired will be disposed of or administered.

Risk provisions

Suitable account is taken of all risks in the credit business by establishing risk provisions. The principles governing loan loss provisioning for problem loans and securities set out how loans at risk of default are to be handled, valued and reported (see note 10 on risk provisions).

Information on portfolios with elevated risk profiles (Financial Stability Board recommendations)

The Financial Stability Board, which was established by the supervisory authorities and governments of countries in which the world's leading financial centres are located, issued recommendations on the disclosure of information about portfolios with elevated risk profiles in order to strengthen trust between financial market participants through the transparency that would be created. The portfolios with elevated risk profiles pursuant to the Financial Stability Board are the asset-backed securities (ABS) portfolio, the leveraged finance portfolio and the exposure to US monoliners.

The BayernLB Group's ABS portfolio

The portfolio for the securitisation business can be broken down into two segments: transactions for customers structured exclusively by BayernLB (customer transactions) and investments in asset-backed securities (ABSs).

ABS portfolio

As at 31 December 2009, the nominal volume of the ABS portfolio of the BayernLB Group was EUR 17.5 billion. Compared with 31 December 2008, it had contracted through repayments and the deconsolidation of HGAA by a total of EUR 3.2 billion. The bulk of the portfolio – 97 percent (2008: 95 percent) – is held by BayernLB, with the remaining portions by Banque LBLux S.A. and Landesbank Saar.

The ABS portfolios of the Group subsidiaries of EUR 0.5 billion consist mainly of prime RMBSs (EUR 0.20 billion), CMBSs (EUR 0.16 billion) and CLOs (EUR 0.05 billion). Of these assets, 83 percent have a rating of AAA to A, 8 percent one of BBB and 9 percent one of BB or lower.

The above nominal volume for the BayernLB Group does not include asset-backed securities in the BayernLB portfolio of EUR 1.1 billion that are hedged by either credit default swaps with third parties or a state guarantee from the US.

The following information relates to BayernLB's EUR 17.0 billion portfolio of asset-backed securities covered by the guarantee agreement with the Free State of Bavaria.

Guarantee agreement with the Free State of Bavaria

On 19 December 2008, a guarantee agreement was concluded between BayernLB and the Free State of Bavaria. The guarantee covers actual losses in BayernLB's ABS portfolio, above a first loss of EUR 1.2 billion. The guarantee covers a maximum amount of EUR 4.8 billion. It also largely neutralises the reported changes in the value of asset-backed securities that are mostly due to their capitalisation as derivatives at fair value in accordance with IAS 39, and it reduces the increasingly strict regulatory capital requirements resulting from the deterioration in the ratings in the ABS portfolio. In return for a premium, the Free State of Bavaria undertakes as a protection seller to hedge BayernLB's ABS portfolio. The hedge covers insolvency, non-payment of capital and interest, capital writedowns and losses incurred from any sales before maturity.

Since 1 July 2009, the entire ABS portfolio has been managed by the Restructuring Unit. The RU has been systematically reducing the portfolio, while ensuring losses are kept to a minimum.

The loss estimates of the Bank and the external portfolio advisers appointed by BayernLB as part of the guarantee agreement are currently within the guarantee's agreed bands. Realised losses from defaults and sales of ABSs ringfenced by the guarantee agreement with the Free State of Bavaria stood at EUR 153 million as at 31 December 2009. The losses are less than a third of BayernLB's first loss threshold of EUR 1.2 billion, since the volume of ABSs currently in default is low.

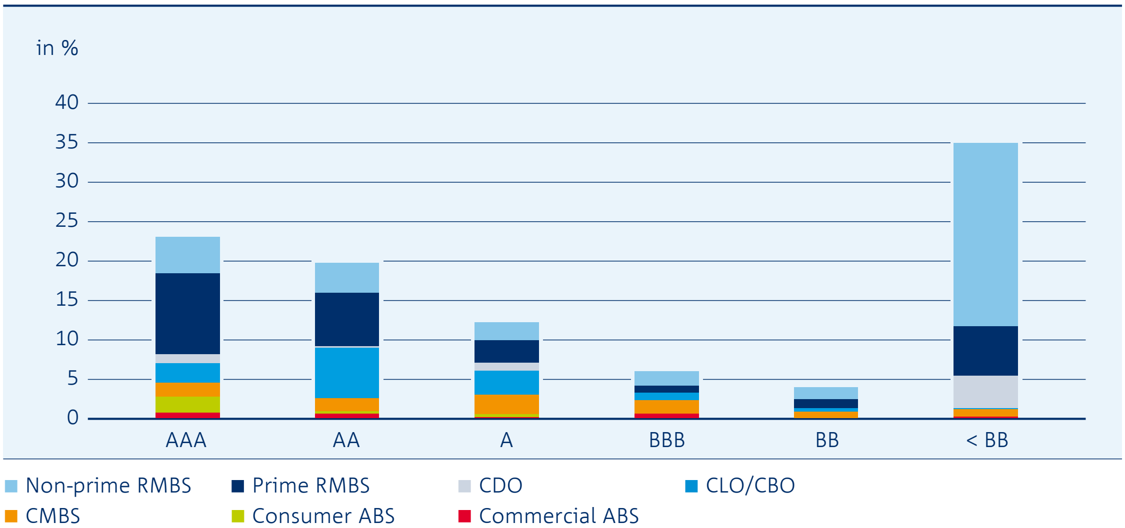
Measurement of the ABS portfolio

In its ongoing assessment of the credit quality of an ABS security, BayernLB focuses on the value and expected change in value of the underlying pool of securitised receivables and on the suitability of the collateralised structural elements (credit enhancements). Based on asset-class and country-specific procedures, impairment classifications are carried out and loss estimates compiled. The assumptions used are continually checked for suitability and plausibility in several ways including comparing them against the measurement findings of the appointed portfolio advisers. In addition, the impact of structural factors and influence of parties involved at individual transaction level are factored in.

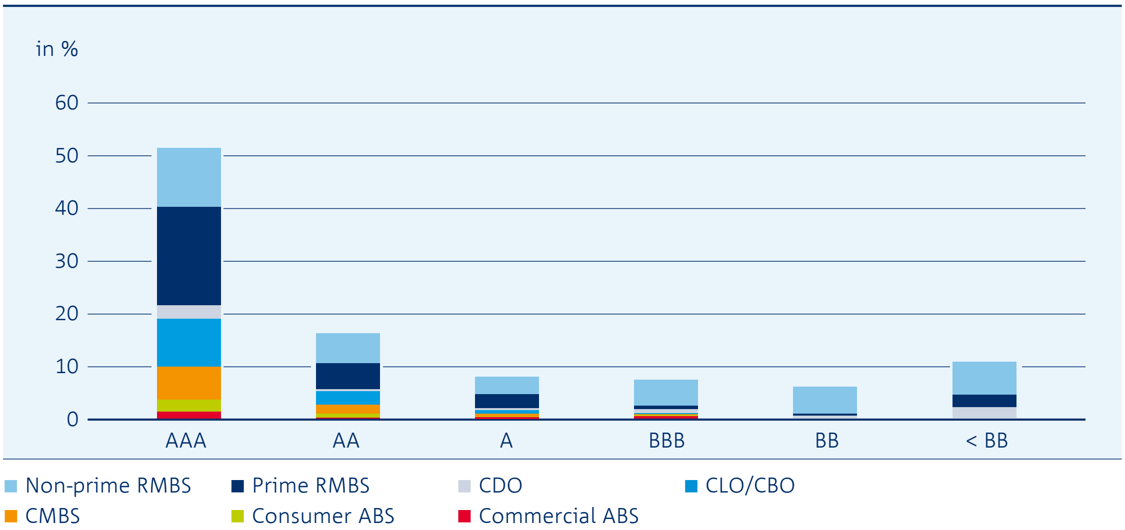
In the current market environment, BayernLB has been using indicative prices to measure asset-backed securities. These are obtained from market data providers, counterparties, brokers and portfolio advisers as part of the guarantee agreement. The prices of different price sources are checked for plausibility using statistical methodology. If a security has a wide range of prices compared with similar securities, it is assessed separately and the unrealistic prices eliminated. After this quality assurance is carried out, the relevant measurement price is obtained through averaging.

The following charts relate to BayernLB's ABS portfolio, which is ringfenced by the guarantee agreement with the Free State of Bavaria.

ABS portfolio by asset and rating class as at 31 December 2009



ABS portfolio by asset and rating class as at 31 December 2008



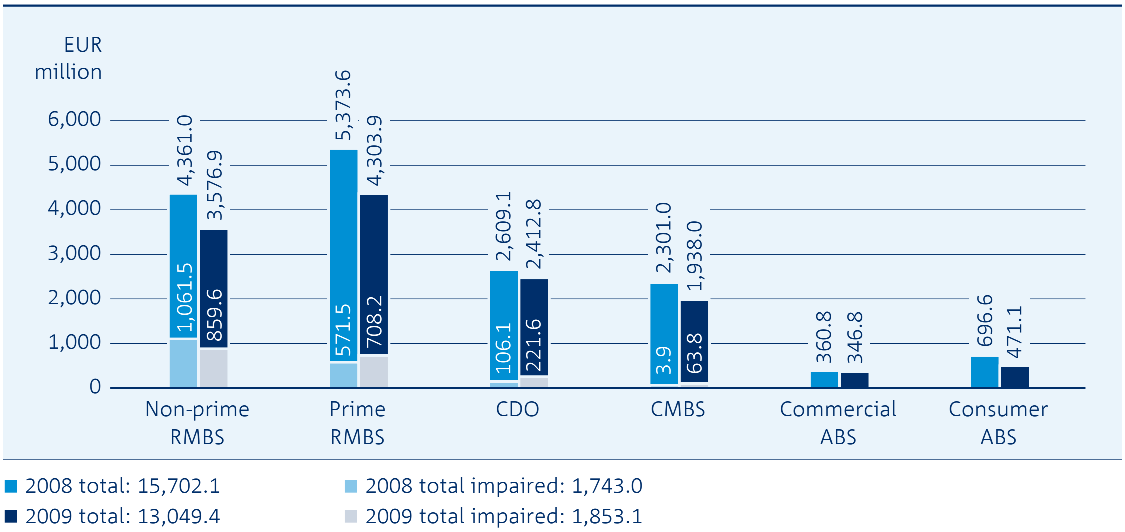
The charts are based on nominal values and the lowest ratings of each asset-backed security from rating agencies Standard & Poor's, Moody's and Fitch (using the most conservative mapping procedure). Accordingly, as at 31 December 2009, 61 percent (2008: 83 percent) of the portfolio was rated investment grade (rating classes AAA to BBB) and 39 percent (2008: 17 percent) as sub-investment grade (rating classes BB and lower).

As in the previous year, the rating migration in the sub-investment grade segment took place principally in the non-prime RMBS and prime RMBS asset classes in relation to the US market and CDOs. Ninety-three percent (2008: 99 percent) of the holdings in the sub-investment grade segment is in these asset classes. Most of these securities were AAA-rated when issued. The original credit enhancement provided with the securities in these segments proved insufficient in many cases to completely absorb the forecast total losses from the underlying securitised portfolios. The portfolio losses in these asset classes were the result of the turmoil on the US mortgage and real estate markets and the large number of credit events at banks in the US and Iceland.

At present, the credit enhancement of the other asset classes in the ABS portfolio in most cases is easily able to cushion the effects of the global financial crisis on the individual transactions that underlie the portfolios.

The rating actions by the rating agencies have been mostly taken into account in the internal assessment of the credit quality of securities and the loss estimates of the Bank and portfolio advisers and have therefore not led to an increase in the expected losses covered by the guarantee agreement.

Changes in IFRS carrying amounts and impairments in the ABS portfolio of the BayernLB Group by asset class



Customer transactions

The nominal volume of transactions structured for customers fell from EUR 5.4 billion as at 31 December 2008 to EUR 2.6 billion as at 31 December 2009.

The year-on-year fall in excess of 50 percent was due to the active termination of transactions and repayments of existing transactions. To date, BayernLB has not experienced any losses on or established loan loss provisions for these transactions.

Leveraged finance

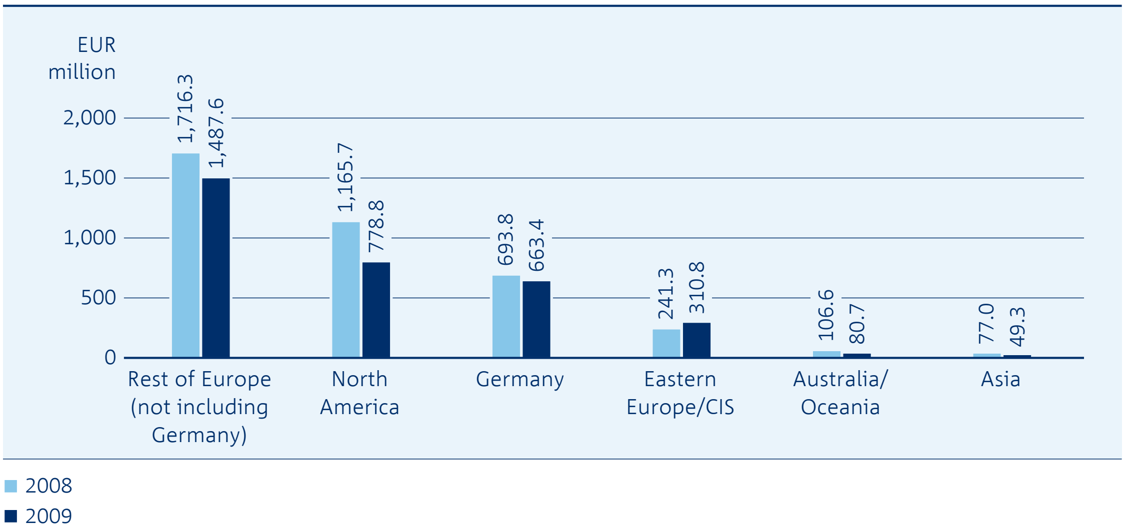
Leveraged finance transactions are typically highly geared, involve repayments from the operating cash flow of the assets financed and have relatively long maturities (generally more than 5 years). This definition therefore covers not only corporate acquisition financing but also other forms of financing with these features.

The BayernLB Group's overall exposure was EUR 3.4 billion as at 31 December 2009, as opposed to EUR 4.0 billion as at 31 December 2008.

In line with the focusing of the business model, most of this portfolio has been successively wound down in BayernLB's Restructuring Unit since 1 July 2009. Financing is now only provided to the Mittelstand and certain project financings in accordance with tighter risk-strategy standards.

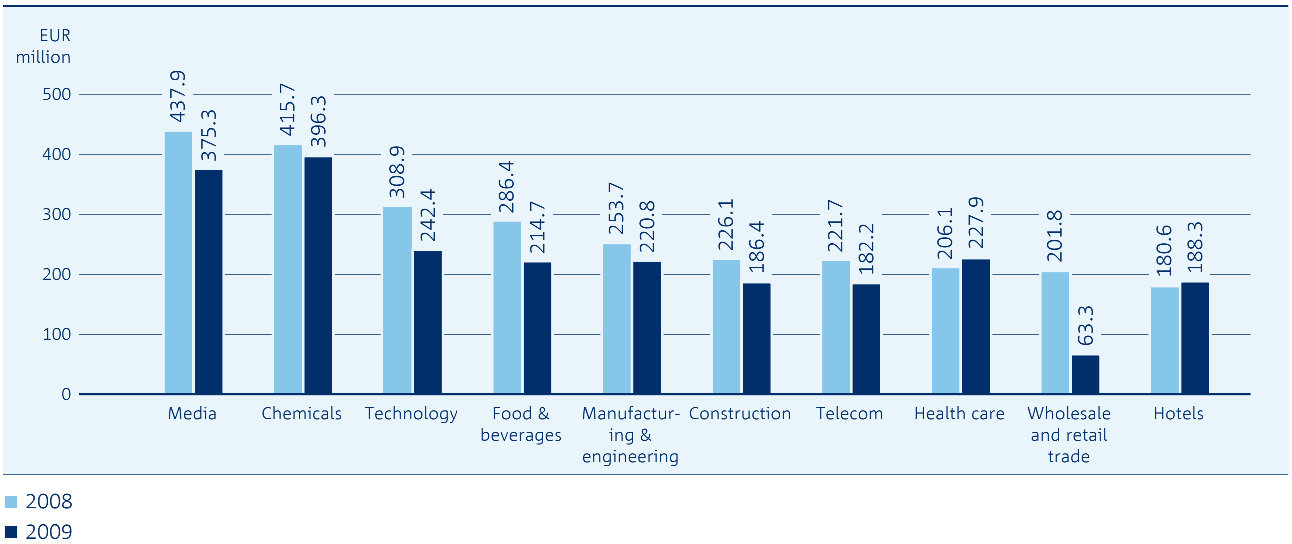
The charts below give a breakdown of the BayernLB Group's leveraged finance transactions by region, sector and rating.

Geographical breakdown



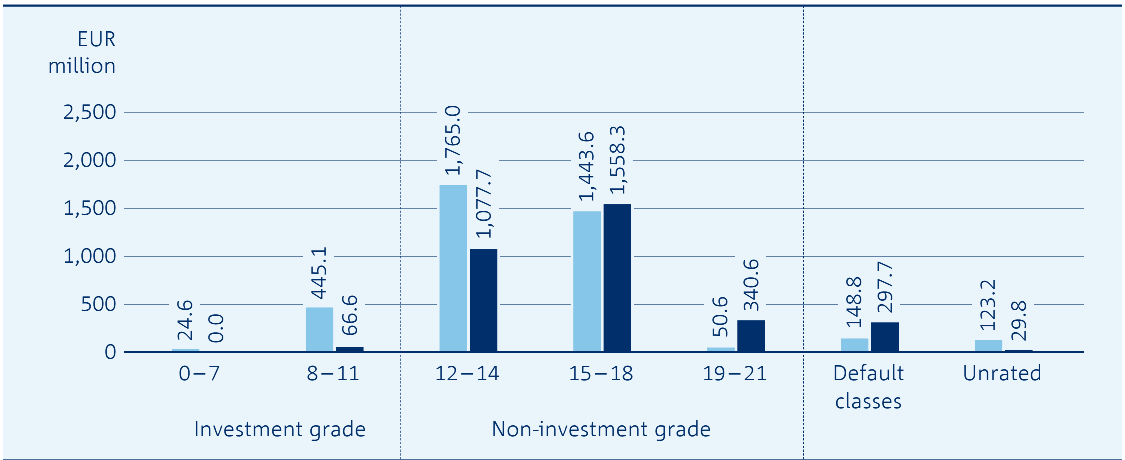
Financing volumes fell disproportionately in North America. The financing in Eastern Europe including CIS relates to the subsidiary MKB.

Sector breakdown



Due to the disproportionate reduction in financing in the wholesale and retailing sector, the real estate sector became one of the 10 largest sectors instead of this sector.

Rating category breakdown



■ 2008
■ 2009

The deterioration in the ratings of existing exposures is within the expected market trend resulting from the financial crisis. Although some financing transactions in default categories were sold on the secondary market, most of the reduction of the portfolio took place in rating categories 8–11 and 12–14.

The reduction in writedowns from EUR 113 million as at 31 December 2008 to a net EUR 63 million as at 31 December 2009 was mainly due to the need to make writedowns in the North American portfolio, which has been transferred in full to the Restructuring Unit.

Monoliner exposure

Nearly all of the BayernLB Group's nominal exposure to US monoliners (insurers that specialise, among other things, in hedging structured securities), totalling around EUR 1.6 billion as at 31 December 2009 (31 December 2008: EUR 2.5 billion), is booked by BayernLB.

Around EUR 1.5 billion of this amount is indirect exposures, where monoliners are not the direct borrowers but act as guarantors. The Bank based its decision primarily on the creditworthiness of the actual borrower, issuer or financing structure; the monoliner's guarantee was viewed at the time the transaction was concluded only as an additional hedging instrument. The reduction in the exposure in the reporting period is due to scheduled repayments and to the restructuring of financings which BayernLB either initiated itself or was a party to.

Direct exposure fell from EUR 0.3 billion as at 31 December 2008 to EUR 0.1 billion as at 31 December 2009.

The total amount of ABSs within the BayernLB Group guaranteed by monoliners fell to EUR 918 million and was 27 percent lower than on 31 December 2008 (EUR 1,259 million). As at 31 December 2009, the volume of ABSs that are not expected to be repaid in full by the actual borrowers or issuers but by utilising monoliner guarantees, was EUR 0.2 billion.

Over the course of 2009, the credit ratings of certain monoliners deteriorated. Ambac Assurance Corporation (Standard & Poor's rating: CC), CIFG (Standard & Poor's rating: CC) and MBIA Insurance Corporation (Standard & Poor's rating: BB+) no longer have an investment-grade rating.

A further EUR 0.4 billion (31 December 2008: EUR 0.7 billion) of the indirect exposure relates to liquidity facilities for US municipal bonds guaranteed by monoliners.

Investment risk

Investment risk (shareholding risk) as defined by the BayernLB Group covers counterparty risk from stakes it holds in companies. This relates to potential (value) losses from:
- the provision of equity or equity-type financing (e.g. silent partnerships), such as non-payment of dividends, partial writedowns, losses realised on sales or a reduction in hidden reserves,
- liability risks (e.g. letters of comfort) and/or profit and loss transfer agreements (e.g. loss transfers),
- capital contribution commitments.

To achieve its corporate aims, BayernLB takes stakes in selected companies to broaden its range of business, obtain services for BayernLB or purely as a financial investment.

Risk strategy and management

The rules governing how investment risks are to be handled are set out in the risk strategy and participation policy, as well as other documents. The policy governs in particular the categorisation of participations as either strategic or quasi-credit/credit-substitution, the handling of mixed and debt- and equity-financed investments, the investment process itself, and controlling and reporting.

BayernLB influences the business and risk policies of the companies it holds stakes in by being represented on shareholder committees or supervisory bodies.

Based on the requirements in the BayernLB Group risk strategy, compatible risk management processes, strategies and procedures are implemented in the Group's strategic subsidiaries. These investments are intensively incorporated into the BayernLB Group's management process through the individual types of risk.

Monitoring investment risks

BayernLB has an independent central unit with the authority to issue guidelines for all methods and processes relating to investment risk control. The business units involved are responsible for operational implementation of risk management instruments.

A classification procedure for assessing and monitoring risk with clear guidelines on the early detection of risks has been implemented for all investments.

Key factors in this are maximum loss potential and early warning indicators. As with credit risk, the assigned rating determines what process – normal, intensive support or problem loan handling – is to be used within BayernLB.

Investment risks are explained in the annual participations report to the Board of Management and Board of Administration using the relevant procedures (classification, early warning). If any relevant early warning signals occur, the decision-makers are notified ad hoc. Significant critical investments are monitored within the intensive support or problem loan process and reported to the Board of Management on a quarterly basis. The report sets out in particular recommendations for action and the implementation status of measures already executed.

Market risk

Market risk relates to potential losses from changes in market prices. The BayernLB Group breaks down market risks by risk factor: general interest-rate risk, currency risk, share price risk, commodity risk, volatility risk, as well as risks from alternative investments.

Specific interest-rate risk – which is considered to be a counterparty risk – is still determined, limited and monitored through the value-at-risk calculation of market risks. In the risk-bearing capacity calculation, however, the specific interest-rate risk is calculated separately. As specific interest-rate risks were reported separately for the first time in the reporting year, they will be subsequently classed as market risks.

Market risks may arise from securities, fund holdings, money market or foreign-exchange products, commodities, derivatives, currency or earnings hedging, quasi-equity funding or mismatches in asset/liability management.

Risk strategy

The risk strategy lays down the strategic principles for dealing with market risks. These may only be assumed within approved limits and are constantly measured and monitored. New and existing products go through a launching process before they are introduced onto new markets.

Measurement

In the BayernLB Group, various instruments are used to monitor and set limits, including risk sensitivity, value-at-risk, stress tests and ratios for calculating risk-bearing capacity. Market risks are normally measured as part of the daily monitoring process using the value-at-risk method based on a one-day holding period and confidence level of 99 percent. BayernLB's value-at-risk method is based on historical simulations, which take into account correlations.

The reliability of procedures for measuring market risk is regularly assessed for quality and the quality of individual risk procedures. In the back testing process, the risk forecast is compared with the actual results (profit or loss). In accordance with the Basel II traffic light approach, the forecasting quality of the risk model is classified as good if the forecast risk is exceeded by an actual negative daily performance on no more than four days a year. At the end of 2009, the forecasting quality of (BayernLB's) key market risk measurement procedures as at 31 December 2009 was good.

The outcomes of the value-at-risk-based measurement must always be viewed in the context of the model's parameters (particularly: the confidence level selected, one day holding period, use of historical data over one year to forecast future events). For this reason, additional, forward-looking analyses are carried out on the basis of extreme or blanket assumptions that are not covered by the measurement methods used. In monthly, standardised stress tests executed across the Group, the risk positions of individual entities are exposed to unusual or blanket market price movements or crisis situations and then analysed in terms of risk potential. These stress scenarios cover price risks for interest rate fluctuations, credit spreads, exchange rates, share prices, prices of alternative investments, commodities prices and volatility risks. Additional individual stress tests are used at individual bank level. The outcomes of the standardised stress scenarios are also incorporated into the Group risk-bearing capacity. For example, in the reporting year, an additional stress-related, economic risk capital requirement for market risks was incorporated due to marked spread widening. The outcomes of the Group-wide stress tests are continually reviewed and modified where necessary.

Within the BayernLB Group, no in-house risk models are currently used for regulatory purposes. The standardised method is used instead.

The interest-rate risk for the investment book portfolios is calculated as a present-value, general interest-rate risk and incorporated within the daily risk monitoring by the Market Risk Controlling unit. Contractual or legal termination rights are modelled as options and incorporated into the risk calculation.

In addition, for the interest-rate risk in the investment book, an interest-rate shock scenario of +130/–190 basis points is calculated. As at the reporting date, the calculated change in interest-rate present value relative to liable capital in BayernLB was below the outlier criterion of 20 percent.

Limiting market risks

In the BayernLB Group, market risks are limited by allocating market risk capital derived from the cover funds in the risk-bearing capacity calculation. The derived limits are monitored at individual entity and Group level. Market risk capital is allocated by setting risk-factor limits on the individual value-at-risk limits. Additionally, the risk factor limits are differentiated according to defined sub-portfolios and hierarchical levels derived from them.

In the risk-bearing capacity calculation, the impact of stress test scenarios is factored in using a buffer to reflect elevated risk situations.

Monitoring market risks

All market risks are monitored and reported on a daily basis by a unit that is separate and independent from Trading. Besides implementing supervisory requirements, the Trading monitoring unit ensures risk transparency and regular reporting to the portfolio managers. Through the Group Risk Report, the Board of Management and Board of Administration are notified each quarter about the market risk situation; market risks are also reported in the monthly risk reports.

In 2009, the market risk in the BayernLB Group on average was EUR 266.7 million in the trading and investment books (value-at-risk with a one-day holding period and 99 percent confidence level). Compared with the previous year, the average value-at-risk has fallen on average by 26 percent and fluctuated over the course of the year within a range of EUR 390.9 million to EUR 177.7 million.

Change in total market risk between 2008 and 2009

	12-month comparison as at 31 Dec 2009			12-month comparison as at 31 Dec 2008		
EUR million	**Average**	**High**	**Low**	**Average**	**High**	**Low**
Specific interest-rate VaR	132.1	223.1	63.8	252.5	414.1	164.9
General interest-rate VaR	112.5	141.3	91.7	115.0	341.8	54.8
Currency VaR	57.6	144.0	8.3	52.8	136.6	12.8
Alternative investments VaR	8.7	13.0	2.8	9.2	12.3	6.9
Equity VaR	8.6	14.5	2.6	8.9	12.2	7.0
Volatility VaR	4.9	7.6	0.9	3.5	9.0	1.8
Commodity VaR	2.4	5.5	1.2	2.9	8.0	0.1
Total VaR	**266.7**	**390.9**	**177.7**	**361.6**	**569.8**	**169.3**

In the BayernLB Group, value-at-risk was largely impacted by specific and general interest-rate risks, followed by currency risks. Commodity risks, equity risks, risks from alternative investments and volatility risks are of secondary importance in relation to overall market risk. Within the Group, BayernLB has the largest share of market risks.

Specific interest rate risks fell over the course of the year at BayernLB (and therefore within the Group) as positions were wound down, credit spreads narrowed and after the guarantee agreement was concluded with the Free State of Bavaria to ringfence the Bank's ABS portfolio. Value-at-risk also fell when the parameters of the correlated risk calculation were expanded as at the end of 2008.

Value-at-risk during 2009

In 2009, value-at-risk from market risk peaked in April. Value-at-risk rose in the first quarter due largely to the initial widening of credit spreads. From May, the winding down of positions referred to above and narrowing of credit spreads resulted in a steady fall in value-at-risk. Due to the deconsolidation of HGAA, HGAA's market risk no longer forms part of the overall risk of the Group as at 31 December 2009.

The spikes in risk (A and B) in April were due to technical factors. The fall in value-at-risk in October (C) was due to the full calculation of correlation. In parallel with the changes in risk, the agreed value-at-risk limits were reduced over the course of the year.

In accordance with the strategic realignment, a strict division has been imposed in the operational monitoring of market risks between the positions designated to be wound down and the remaining trading portfolios.

Starting from 30 September 2009, a value-at-risk for BayernLB's specific interest rate risks has been calculated separately from the other risks so that positions which remain illiquid could be separately weighted against the risk-bearing capacity. To calculate the total market risk, the value-at-risk excluding specific interest rate risks and the value-at-risk for the specific interest rate risk are then added together.

Derivative trades

Within the BayernLB Group, derivative instruments are primarily used by BayernLB; these instruments are used to reduce market and counterparty risks. Banks and public-sector customers are the main counterparties in the derivatives business.

In BayernLB, there is no separate capital allocation or limitation of default risk for counterparties with derivatives positions. Both are done as part of the general process of limiting counterparty risk. In addition, the regulatory and internal management methods for large credit risks also apply.

BayernLB acts as both a protection seller and protection buyer in respect of credit default swap (CDS) transactions; the focus is not on active derivatives trading. CDS positions are measured and monitored daily at individual transaction level. Gains and losses are calculated every day on the basis of this valuation.

Liquidity risk

The BayernLB Group defines liquidity risk as the risk of being unable to meet payment obligations due either in full or on time; or, in the event of a liquidity crisis, the risk that funding is only available at higher market rates, or that assets can only be sold at discounts to market rates. Further information on the risk strategy for managing liquidity risks can be found in the section "Liquidity management in the Group".

Measurement

The liquidity overview is the key tool for measuring, analysing, monitoring and reporting on liquidity risk in the BayernLB Group. This compares the liquidity gaps, that is, the net balance of deterministic and non-deterministic future payment inflows and outflows with the realisable potential liquidity coverage in different maturity bands (starting with a daily maturity band for the first 180 days). The liquidity risks from off-balance sheet entities are fully incorporated.

When forecasting future cash flows, unplanned events are also taken into account. For example, an analysis is carried out on whether purchasers of callable bonds issued by BayernLB reinvest if the bonds are called early and the corresponding reinvestment rates are then incorporated into the cash flow modelling. Payment difficulties of customers are also factored in by incorporating into the liquidity overview specific and general loan loss provisions.

For non-deterministic products, modelling assumptions are used to estimate the expected cash flows. For off-balance sheet positions, these are based on historical utilisation and default rates or on contractual claims against BayernLB using conservative assumptions.

Potential liquidity coverage measures how much cash the Group is able to obtain in the shortest possible time at market rates and how quickly it is able to do so. It shows the ability to cover liquidity gaps and thus all cash flow-based liquidity risks. The most important components of potential liquidity coverage are unrestricted access to central bank funds, the stock of securities eligible as collateral at the central bank and the volume of transactions available for the register of cover to issue covered bonds.

To be adequately prepared for elevated risk situations, the BayernLB Group monitors its liquidity using stress scenarios that differ in terms of severity and cause. Several may be taken into account simultaneously.

When designing scenarios, data from the financial crisis is used to give as conservative an estimate as possible of the liquidity situation if the crisis were to deepen.

The worst-case scenario is the main management tool of the Group Treasury and has been explicitly defined for the purpose. None of the worst-case scenario parameters were breached, even during the financial crisis.

Although the other stress scenarios are based on cash flow forecasts derived from existing agreements, the worst-case scenario is supplemented by a dynamic approach that takes account, in particular, of new credit business.

Diversification in the refinancing structure is also regularly analysed and monitored. In the reporting year, there were no significant concentrations.

At BayernLB level, a specific cash-flow balance for the following 180 days is also calculated regularly for the public Pfandbrief register and the mortgage register. This is submitted to the Board of Management as part of the report required under Section 27 of the German Pfandbrief Act (Pfandbriefgesetz), along with other key ratios for the register of cover. This balance indicated surplus liquidity coverage was available in 2009.

Managing liquidity risk

To ensure it can meet its payment obligations even in times of crisis, the BayernLB Group has an adequate portfolio of securities eligible for refinancing at central banks. Sufficient facilities are available at central banks to ensure that any unplanned payment obligations can be covered as and when needed, even in a worst case scenario on the same day.

A simulation period of between one and 30 years is used when managing structural liquidity. To safeguard the Group's solvency and its ability to refinance, suitable instruments are used to create a funding structure that is balanced in terms of maturities, instruments and currencies. The key management tool is the Group-wide funding planning which is regularly adjusted in line with the current liquidity situation. The capability to issue bonds in the Pfandbrief segment on an ongoing basis and the quality of the registers of cover are ensured by the Collateral Management division.

Coverage ratios are also regularly calculated for management purposes. These indicate the relationship between liquidity reserves and cash to short-term due and callable payment obligations for the core Bank and the Group.

Situational liquidity management (observation period of up to one year) also ensures the supervisory requirements of the Liquidity Ordinance (LiqV) are complied with. A special forecast and management system ensures internal and regulatory minimum limits are complied with at all times. In the reporting year, BayernLB's liquidity ratio was between 1.27 and 1.65 (2008: between 1.28 and 1.37), so that the regulatory requirements (ratio always above 1.0) were complied with at all times.

The Group's strategic subsidiaries independently ensure that the national and sector-specific liquidity requirements that apply to them are complied with. The key requirements were complied with in the reporting period.

Monitoring liquidity risk

Liquidity risks are monitored by Group Risk Control primarily on the basis of the ratios derived from the liquidity overview. The potential liquidity coverage is used as a limit for liquidity gaps, and the maximum utilisation of potential liquidity coverage for the first 180 days and first 10 trading days as a limit ratio. Limit monitoring is carried out for all scenarios classed as relevant, both across all currencies and individually for the most important currencies. BayernLB's Asset Liability Committee (ALCO) decides whether a scenario is relevant and on the related risk tolerance.

Within the escalation procedure, measures to reduce liquidity risks are initiated as soon as set thresholds are reached. In 2009, there were no breaches of defined risk tolerance in any scenario. In summary, the processes used to monitor liquidity risk were effective; these were also systematically refined on an ongoing basis.

The liquidity overviews, limit utilisations and other relevant ratios form part of the risk reports sent regularly to the Board of Management and the responsible controlling units. Depending on the liquidity status, reporting is carried out at least once a month.

Current liquidity situation

In accordance with IFRS 7.39, the remaining contractual maturities of financial liabilities as at 31 December 2009 were as follows:

Contractual maturities of financial liabilities

EUR million	Up to 1 month	Up to 3 months	Up to 1 year	Up to 5 years
31 Dec 2009				
• Financial liabilities	68,208	85,558	123,579	229,158
• Liabilities from derivatives	−370	−119	−1,039	−766
Total	**67,838**	**85,439**	**122,540**	**228,391**
31 Dec 2008				
• Financial liabilities	102,064	146,830	202,310	304,212
• Liabilities from derivatives	955	1,241	663	−781
Total	**103,019**	**148,071**	**202,973**	**303,432**

The BayernLB Group's open, irrevocable credit commitments fell to EUR 34.7 billion (2008: EUR 44.1 billion). The volume of contingent liabilities from guarantees and indemnity agreements fell to EUR 18.1 billion (2008: EUR 22.4 billion). However, in contrast to the economic approach used in the tables below, call probabilities have not been factored into these volumes.

The contractual cash flows reported can be distinguished from the carrying amounts reported on the balance sheet since they are not discounted and include interest payments.

Liquidity overviews are compiled so that liquidity risks can be economically managed and monitored. This involves calculating the liquidity surplus by subtracting in each maturity band the cumulative liquidity gaps derived from balance sheet items, commitments and guarantees, termination rights and derivatives, from the realisable potential liquidity coverage in question. The reported cash flows expected from an economic perspective in relation to non-deterministic products are based partly on modelling assumptions.

2009 **Cumulated figures** in EUR million	**Up to 1 month**	**Up to 3 months**	**Up to 1 year**	**Up to 5 years**
Liquidity surplus	**28,981**	**27,698**	**31,905**	**33,303**
• arising from				
– potential liquidity coverage	45,502	45,787	44,106	21,635
• less				
– liquidity gap from balance sheet items	12,245	10,902	5,292	–15,591
– liquidity gap from commitments and guarantees	5,520	8,145	8,344	3,150
– liquidity gap from termination rights	–1,062	–834	–1,775	–981
– liquidity gap from derivatives	–182	–124	340	1,754

2008 **Cumulated figures** in EUR million	**Up to 1 month**	**Up to 3 months**	**Up to 1 year**	**Up to 5 years**
Liquidity surplus	**24,466**	**30,761**	**22,861**	**43,839**
• arising from				
– potential liquidity coverage	47,625	50,739	55,339	23,064
• less				
– liquidity gap from balance sheet items	16,047	9,107	20,512	–22,241
– liquidity gap from commitments and guarantees	8,239	11,708	13,536	3,155
– liquidity gap from termination rights	–1,298	–922	–1,636	–1,082
– liquidity gap from derivatives	170	86	66	–607

The changes in financial liabilities and liquidity overviews between 31 December 2008 and 31 December 2009 were heavily influenced by the focus on the core business areas coupled with the resizing of the BayernLB Group, particularly the deconsolidation of HGAA.

As is evident from the liquidity surpluses, the BayernLB Group had sufficient liquidity resources in all maturities. The liquidity situation was markedly affected by the capital increase and the stabilisation of the money and capital markets in 2009, which BayernLB took active advantage of to improve its liquidity structure.

The primarily maturity-related changes in potential liquidity coverage, liquidity gaps and, consequently, liquidity surpluses (particularly in maturity bands longer than one month) resulted from a number of factors. As can be seen in the data as at 31 December 2008, the successful completion of the stabilisation measures in the crisis year of 2008 (capital increase by the Free State of Bavaria; conclusion of the SoFFin guarantee) eased the pressure on the maturity band of up to one year. The impact from the implementation of the measures in 2009 combined with the increased acquisition of medium-term refinancing can be seen in the year-on-year fall in the liquidity gap from balance sheet items. In the reporting year, the BayernLB Group therefore took advantage of the more stable conditions and concurrent increased demand on the markets to improve its liquidity structure. A large volume of bonds with maturities of between one and 15 years, both secured (EUR 8.2 billion) and unsecured (EUR 18.7 billion) was placed in the reporting year thus reducing dependence on the money market significantly.

Due to these structural effects and the stabilisation in the markets, internal management ratios improved during 2009 so that the liquidity situation at the BayernLB Group was not critical during the year.

Thanks to the steady improvement in terms of refinancing options and falling liquidity needs, the unused portion of the SoFFin guarantee of EUR 10 billion was returned ahead of schedule in autumn 2009.

Over the coming financial year, the BayernLB Group's liquidity management and monitoring will also focus on the various refinancing options available and on ensuring liquidity reserves are continually adequate, even in a worst case scenario.

Operational risk

The BayernLB Group defines operational risk (OpRisk) in line with the regulatory definition as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes potential OpRisk from legal risks.

Legal risk is the risk of loss resulting from non-compliance with laws and rulings due to ignorance (even if unintentional or unavoidable), insufficient diligence in applying the law or failure to respond to legal changes within a reasonable period of time.

Risk strategy

Rules and procedures for dealing with operational risk are set out Group-wide in the risk strategies, guidelines, operating instructions and an OpRisk manual.

Operational risks within the BayernLB Group are identified and evaluated with the aim of taking appropriate measures to avoid or mitigate the risks, or determine their priority.

BayernLB has undertaken to manage operational risk efficiently in order to protect the company, employees and customers from financial loss, loss of confidence or damage to its reputation.

Legal risks are taken into consideration by the Legal Division, which records losses and carries out regular assessments of potential OpRisk damage from legal risks and is responsible for identifying and centrally managing legal risks.

Risk measurement

For the purposes of disclosure under the Solvency Ordinance (SolvV) and Basel II, BayernLB has applied the standardised approach (STA) since 1 January 2007 to calculate capital requirements for operational risk at Group and individual institution level. HGAA, which was consolidated up to 30 December 2009 and temporarily used the basic indicator approach under the "partial use" provision of Section 277 of the Solvency Ordinance (SolvV), also used the standardised approach starting from 30 September 2009.

To calculate the OpRisk risk capital requirement in the Bank's internal risk-bearing capacity requirement calculation (ICAAP), BayernLB has also used the standardised approach (STA) for SolvV reporting since 30 September 2009 (up to 30 September 2009: value-at-risk model).

Through the data consortium OpRisk (DakOR), which is operated jointly with eight other banks, and the loss database for publicly known OpRisk loss events (ÖffSchOR), primarily from German-speaking countries, BayernLB has access to loss data that it can use for benchmarking.

Risk monitoring

The central OpRisk controlling unit is responsible for issuing guidelines on all methods, processes and systems related to OpRisk controlling and management. The local OpRisk controllers of the business areas and central areas are responsible for managing these risks.

The Group's strategic subsidiaries manage their operational risk using their own OpRisk controlling. The key subsidiaries are included in the BayernLB Group's institutionalised OpRisk loss event reporting procedure. In addition, regular risk inventories are carried out for potentially risk-relevant companies.

Business Continuity Management (BCM)

Business Continuity Management (BCM) refers to all measures and processes used to maintain business activities in operation. BCM ranges from the adoption of preventative protective measures, with the aim of preventing or limiting losses from undesired events, to ensuring business processes, applications and infrastructure are able to resume within a reasonable period of time.

Threat scenarios assuming, for example, the non-availability of staff, loss of usability of buildings, an outage of support systems or limitations on other resources are taken into account. To ensure business operations are properly maintained in an emergency (business continuity), relevant failure scenarios relating to time-critical business processes are examined and suitable measures for maintaining them are drawn up.

The BCM standard applicable in BayernLB and the associated process steps, controls and responsibilities are part of the Bank's organisational rules.

Crisis management steps taken in relation to the swine flu epidemic included the following actions:

- Emergency plans were updated. Key personnel, who are required to maintain business processes in an emergency, were given additional means of gaining remote access (e.g. through notebooks or Blackberry), while emergency rooms were tested for effectiveness.
- Measures to protect staff at high risk of being infected were coordinated in a task force.

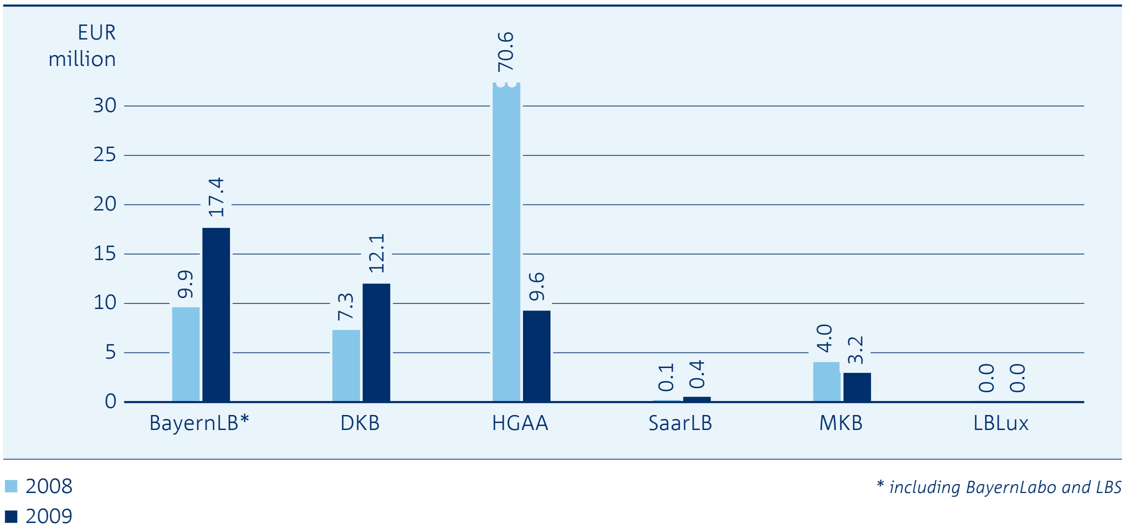
Reporting and status

The BayernLB Group's operational risk and OpRisk management activities are regularly reported to the Board of Management on a quarterly or, in the event of large-scale losses, ad-hoc basis. The risk reports cover various issues including OpRisk losses and major events. The risk report also indicates on a half-yearly basis the relevant OpRisk potential of the Group and summarises the status of BayernLB's BCM activities.

The OpRisk capital requirements within the BayernLB Group under the standardised approach in accordance with the Solvency Ordinance (SolvV) as at 30 September 2009 were EUR 434 million (as at 31 March 2009: EUR 436 million) compared with EUR 503 million as at 31 March 2008. This was largely due to the earnings situation of the whole Bank.

The following chart shows the overall allocations of OpRisk loss events among key Group units of the BayernLB Group that were entered in 2008 and 2009. HGAA's OpRisk situation is inflated due to the retroactive entry of loss events occurring before 2008. The OpRisk loss situation of Hypo Group Alpe Adria (HGAA) was factored in up to the time of deconsolidation (30 December 2009).

Loss by Group unit in 2008 and 2009



** including BayernLabo and LBS*

The higher losses at BayernLB in 2009 were partly due to refinancing losses. The increase in losses at DKB was due to higher credit card losses. Losses at HGAA relate to the year 2009 up to 30 December; HGAA was deconsolidated on 31 December 2009 after being sold.

119 BayernLB Group's consolidated financial statements

[SECTION 4]

SEC. 4

BayernLB Group's consolidated financial statements

Financial statements

Statement of comprehensive income

Consolidated income statement

	Notes	EUR million	2009 EUR million	2008 EUR million
• Interest income		16,399		22,158
• Interest expenses		–13,837		–19,488
Net interest income	(26)		2,561	2,670
Risk provisions for the credit business	(27)		–3,277	–1,656
Net interest income after risk provisions			–715	1,014
• Commission income		1,040		1,114
• Commission expenses		–605		–531
Net commission income	(28)		434	584
Gains or losses on fair value measurement	(29)		887	–2,076
Gains or losses on hedge accounting	(30)		98	–136
Gains or losses on investments	(31)		–1,435	–1,952
Income from interests in companies valued at equity			–9	9
Administrative expenses	(32)		–2,125	–2,620
Other income	(33)		461	161
Operating profit/loss			**–2,404**	**–5,017**
Restructuring expenses	(34)		–361	–87
Earnings from ordinary activities/ Earnings before taxes			**–2,765**	**–5,104**
Income taxes	(35)		–328	–249
Earnings after taxes			**–3,093**	**–5,354**
Minority interests			474	274
Consolidated net income			**–2,619**	**–5,079**

Figures in the tables may be rounded up or down to the next unit.

Statement of comprehensive income

EUR million	1 Jan – 31 Dec 2009	1 Jan – 31 Dec 2008
Earnings after taxes as per the income statement	**–3,093**	**–5,354**
Other comprehensive income not recognised in profit or loss		
• Changes in the revaluation reserve	1,031	–1,682
– change in valuation	269	–3,512
– reclassification adjustment due to realised gains and losses	762	1,830
• Currency-related changes	82	–179
– change in valuation	82	–179
– reclassification adjustment due to realised gains and losses	–	–
• Share of other comprehensive income of associates and joint ventures	3	–12
Other comprehensive income before taxes	**1,116**	**–1,873**
Tax not recognised in profit or loss	–97	–113
Other comprehensive income after taxes	**1,019**	**–1,985**
Total reported comprehensive income recognised and not recognised in profit or loss	**–2,074**	**–7,339**
• attributable:		
– to BayernLB shareholders	–1,684	–6,970
– to minority interests	–390	–369

Other comprehensive income – tax

EUR million	1 Jan – 31 Dec 2009			1 Jan – 31 Dec 2008		
	Amount before taxes	Taxes	Amount after taxes	Amount before taxes	Taxes	Amount after taxes
Changes in the revaluation reserve	1,031	–105	926	–1,682	–110	–1,792
Currency-related changes	82	6	88	–179	–3	–182
Share of other comprehensive income of associates and joint ventures	3	2	5	–12	1	–11
Other comprehensive income	**1,116**	**–97**	**1,019**	**–1,873**	**–113**	**–1,985**

Figures in the tables may be rounded up or down to the next unit.

Balance sheet

Assets

	Notes	31 Dec 2009 EUR million	31 Dec 2008 EUR million	1 Jan 2008 EUR million
Cash reserves	(8, 36)	3,512	3,796	4,207
Loans and advances to banks	(9, 37)	74,606	89,638	68,311
Loans and advances to customers	(9, 38)	158,962	202,567	175,598
Risk provisions	(10, 39)	−2,820	−3,439	−2,326
Portfolio hedge adjustment assets		674	546	–
Assets held for trading	(11, 40)	37,787	47,252	84,670
Positive fair values from derivative financial instruments (hedge accounting)	(12, 41)	4,037	3,929	1,944
Investments	(13, 42)	54,039	62,341	67,702
Interests in companies valued at equity	(43)	72	106	125
Investment property	(14, 44)	2,761	3,517	3,375
Property, plant and equipment	(45)	836	1,951	1,786
Intangible assets	(15, 46)	266	2,213	2,571
Current tax assets	(47)	188	269	362
Deferred tax assets	(47)	2,980	4,390	5,098
Non-current assets and disposal groups held for sale	(16, 48)	29	32	4
Other assets	(17, 49)	887	2,346	2,144
Total assets		**338,818**	**421,455**	**415,571**

Figures in the tables may be rounded up or down to the next unit.

Liabilities

	Notes	31 Dec 2009 EUR million	31 Dec 2008 EUR million	1 Jan 2008 EUR million
Liabilities to banks	(18, 50)	91,484	142,480	93,446
Liabilities to customers	(18, 51)	92,197	91,307	92,617
Securitised liabilities	(18, 52)	92,968	117,479	122,895
Liabilities held for trading	(19, 53)	29,304	34,021	68,555
Negative fair values from derivative financial instruments (hedge accounting)	(20, 54)	2,380	3,086	2,104
Provisions	(21, 55)	3,286	3,112	3,016
Current tax liabilities	(56)	359	531	277
Deferred tax liabilities	(56)	3,009	4,371	4,921
Other liabilities	(22, 57)	1,053	2,160	2,454
Subordinated capital	(58)	8,717	11,821	12,453
Equity	(59)	14,061	11,087	12,833
• Equity excluding minority interests		13,674	8,515	10,707
– subscribed capital		5,914	3,556	3,082
– specific-purpose capital		612	612	612
– hybrid capital instruments	(23)	514	545	621
– capital reserve		4,688	1,476	476
– retained earnings		3,526	4,840	6,414
– revaluation reserve		–1,537	–2,379	–672
– foreign currency translation reserve		–42	–135	48
– net retained profit/net accumulated losses		–	–	126
• Minority interests		387	2,573	2,126
Total liabilities		**338,818**	**421,455**	**415,571**

Figures in the tables may be rounded up or down to the next unit.

Statement of changes in equity

EUR million	Parent									Minority interests	
	Subscribed capital	Specific-purpose capital	Hybrid capital instruments	Capital reserve	Retained earnings	Revaluation reserve	Currency translation reserve	Consolidated net income	**Equity before minority interests**		**Consolidated equity**
As at 31 Dec 2007	**3,082**	**612**	**621**	**476**	**6,547**	**–672**	**43**	**126**	**10,835**	**2,058**	**12,893**
Adjustments pursuant to IAS 8[1]					–133		5		–128	68	–60
As at 1 Jan 2008	**3,082**	**612**	**621**	**476**	**6,414**	**–672**	**48**	**126**	**10,707**	**2,126**	**12,833**
Other comprehensive income[2]						*–1,593*	*–184*		*–1,777*	*–95*	*–1,872*
Consolidated net income								–5,084	–5,084	–274	–5,358
Total consolidated net profit/loss						*–1,593*	*–184*	*–5,084*	*–6,861*	*–369*	*–7,230*
Transactions with owners[3]					1,612				1,612		1,612
Capital increase/ capital decrease	500			3,000					3,500	900	4,400
Changes in the scope of consolidation and other	–26		–18		–161				–205	–70	–275
Allocations to/withdrawals from reserves				–2,000	–3,093			5,093	–		–
Withdrawals from hybrid capital instruments[4]			–58		58				–	–14	–14
Distributions on silent partner contributions, profit participation rights and specific-purpose capital[4]								–9	–9		–9
Dividends paid								–126	–126		–126
As at 31 Dec 2008	**3,556**	**612**	**545**	**1,476**	**4,830**	**–2,265**	**–136**	**–**	**8,618**	**2,573**	**11,191**

Figures in the tables may be rounded up or down to the next unit.
1 Information on year-on-year changes is provided in the Notes.
2 Items that have been offset directly against equity are shown separately in the Notes.
3 Information on transactions with owners is provided in the Notes.
4 Includes distributions on silent partners' capital contributions and profit participation rights subject to split accounting.

EUR million	Parent									Minority interests	
	Subscribed capital	Specific-purpose capital	Hybrid capital instruments	Capital reserve	Retained earnings	Revaluation reserve	Currency translation reserve	Consolidated net income	**Equity before minority interests**		**Consolidated equity**
As at 31 Dec 2008	**3,556**	**612**	**545**	**1,476**	**4,830**	**−2,265**	**−136**	**–**	**8,618**	**2,573**	**11,191**
Adjustments pursuant to IAS 8[1]					10	−114	1		−103		−103
As at 1 Jan 2009	**3,556**	**612**	**545**	**1,476**	**4,840**	**−2,379**	**−135**	**–**	**8,515**	**2,573**	**11,087**
Other comprehensive income[2]						*842*	*93*		*935*	*84*	*1,019*
Consolidated net income								−2,619	−2,619	−474	−3,093
Total consolidated net profit/loss						*842*	*93*	*−2,619*	*−1,684*	*−390*	*−2,074*
Capital increase/ capital decrease[5]	2,358			4,000					6,358		6,358
Changes in the scope of consolidation and other			68		1,209				1,277	−1,778	−501
Allocations to/withdrawals from reserves				−788	−2,622			2,622	−788		−788
Withdrawals from hybrid capital instruments[4]			−99		99				–	−18	−18
Distributions on silent partner contributions, profit participation rights and specific-purpose capital[4]								−3	−3		−3
Dividends paid								–	–		–
As at 31 Dec 2009	**5,914**	**612**	**514**	**4,688**	**3,526**	**−1,537**	**−42**	**–**	**13,674**	**387**	**14,061**

Figures in the tables may be rounded up or down to the next unit.

1 Information on year-on-year changes is provided in the Notes.

2 Items that have been offset directly against equity are shown separately in the Notes.

3 Information on transactions with owners is provided in the Notes.

4 Includes distributions on silent partners' capital contributions and profit participation rights subject to split accounting.

5 Includes EUR −643 million share of losses on silent partners' undated capital contributions in subscribed capital. Information on the share of losses is provided in the Notes.

Cash flow statement

EUR million	2009	2008
Earnings after taxes	**–3,093**	**–5,358**
Items in annual net income not affecting the cash flow and carryforwards to cash flow from operating activities		
• Depreciation, value adjustments and write-ups on receivables and assets	3,736	2,192
• Changes to provisions	133	–68
• Changes to other items not affecting cash flow	951	1,984
• Gains or losses on the sale of assets	1,135	–47
• Other adjustments (net)	–715	–2,919
Sub-total	**2,147**	**–4,216**
Changes to assets and liabilities from operating activities		
• Loans and advances		
– to banks	12,692	–21,046
– to customers	10,237	–28,339
• Securities (unless investments) and derivatives	10,461	6,014
• Other assets from operating activities	2,879	–231
• Liabilities		
– to banks	–46,509	49,344
– to customers	9,704	–1,310
• Securitised liabilities	–3,894	–5,416
• Other liabilities from operating activities	–364	–120
• Cash flows from hedging derivatives	–1,188	–1,139
Interest and dividends received	42,422	59,848
Interest paid	–39,455	–56,557
Income tax payments	–7	–423
Cash flow from operating activities	**–875**	**–3,591**

EUR million	2009	2008
Cash inflows from the sale of		
• investments	–900	1,618
• interests in companies valued at equity	20	28
• investment property	111	223
• property, plant and equipment	99	300
• intangible assets	–33	57
Cash outflows for the acquisition of		
• investments	–251	–1,311
• interests in companies valued at equity	–	–1
• investment property	–250	–355
• property, plant and equipment	–238	–594
• intangible assets	–135	–81
Effects from changes in the scope of consolidation		
• cash inflows from the sale of subsidiaries and other business units	–1,414	1
• cash outflows for the acquisition of subsidiaries and other business units	–192	–315
Cash flow from investment activities	**–3,183**	**–430**
Cash inflows from allocations to equity	6,991	3,223
Disbursements to company owners and minority shareholders	–6	–128
Changes in cash from subordinated capital (net)	–1,795	–456
Cash outflow/inflow from an increase in minority interests	–2	926
Cash flow from financing activities	**5,188**	**3,565**
Cash in hand at end of previous period	3,797	4,207
+/– cash flow from operating activities	–875	–3,591
+/– cash flow from investment activities	–3,183	–430
+/– cash flow from financing activities	5,188	3,565
+/– exchange-rate, scope of consolidation and valuation-related change in cash in hand	–1,415	45
Cash in hand at end of period	**3,512**	**3,796**

Notes

Notes

Notes on the consolidated financial statements

The consolidated financial statements for Bayerische Landesbank (BayernLB), Munich, for financial year 2009 were prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to Commission Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 (including all addenda), as well as supplementary provisions applicable under section 315a (1) of the German Commercial Code (HGB). In addition to the IFRS standards, IFRS also comprise the International Accounting Standards (IAS), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). All standards and interpretations that are mandatory within the EU for financial year 2009 have been applied.

The consolidated financial statements contain the statement of comprehensive income including the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the notes including the segment report. The reporting currency is the euro.

Unless otherwise stated, all amounts are given in EUR million and rounded. Figures in the tables may be rounded up or down to the next unit and are not normally preceded by a symbol if it is clear from the context.

The Group management report including risk report, which also contains the information required under IFRS 7.31 to IFRS 7.42, has been published in a separate section of the annual report.

Accounting policies

(1) Basis

Pursuant to IAS 27.28, BayernLB Group's accounts are drawn up in line with Group-wide accounting and valuation methods. Recognition and measurement are carried out on a going concern basis.

Income and expenses are recorded pro rata temporis and recognised in the period to which they are attributable.

Estimates and measurements required for accounting and valuation under IFRS are carried out in accordance with the respective standards. They are continually assessed and are based on past experience and other factors such as expectations of future events. The calculation of the value of risk provisions, provisions, deferred taxes and the measurement of the fair value of financial instruments in particular involves the application of estimates.

An asset is capitalised when it is probable that the future economic benefits will flow to BayernLB Group and its cost can be measured reliably.

A liability is capitalised when it is probable that an outflow of resources embodying economic benefits will result from its settlement and the settlement amount can be measured reliably.

Effects of new and amended IFRS

In the reporting year, changes to the standards IAS 1 Presentation of Financial Statements, IAS 23 Borrowing Costs, IAS 32 Financial Instruments: presentation, IAS 39 Financial Instruments: recognition and measurement, IFRS 7 Financial Instruments: disclosures, and changes resulting from the IASB's annual improvement process within the BayernLB Group were taken into account for the first time. The changes to IFRS 8 Operating segments, which must be applied in the reporting period of a financial year beginning on or after 1 January 2009, were applied early and voluntarily by BayernLB.

There are two principal changes to IAS 1. The income statement has been expanded to include the components of profit or loss recognised directly in equity to create a "statement of comprehensive income", and certain modifications have been made to the presentation of the balance sheet and the statement of changes in equity. Although the application of amended IAS 1 affects the presentation of the financial statements of the BayernLB Group, the other amended standards do not materially impact the consolidated financial statements. The same applies to the changes to the interpretation IFRIC 9 Reassessment of embedded derivatives, and to the newly issued interpretations IFRIC 12 Service Concession Arrangements, IFRIC 13 Customer Loyalty Programmes, and IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, which must be applied in the reporting year for the first time.

It was decided not to apply early and voluntarily the modified or newly issued standards and interpretations incorporated by the EU Commission into European law that are applicable from or after financial year 2010. This mainly relates to the changes to the following standards that are pertinent for BayernLB: IAS 27 Consolidated and separate financial statements, IAS 32 Financial instruments: presentation, IAS 39: Financial instruments: recognition and measurement, IFRS 3 Business Combinations, as well as changes resulting from the IASB's annual improvement process (as at: 16 April 2009) and the interpretations IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 16 Hedges of a Net Investment in a Foreign Operation, IFRIC 17 Distributions of Non-cash Assets to Owners and IFRIC 18 Transfers of Assets from Customers.

It is anticipated that these standards will be implemented from the date on which they must be applied. No material effects on the consolidated financial statements are expected based on current information.

(2) Changes on the previous year

Gains or losses on non-current assets and disposal groups held for sale were previously recognised under the other income item. Since the reporting year, the information has been reported as additional information in the notes to the income statement.

Gains or losses on repurchases of own issues have been recognised since the reporting year under the other income item (previously: gains or losses on investments); the previous year's figures have been restated (see notes 31 and 33).

For financial year 2008, adjustments were also made in accordance with IAS 8.42 in relation to the issues dealt with below.

In accordance with the amendments to IAS 39 and IFRS 7 Reclassification of Financial Assets by the IASB and Commission Regulation 1004/2008, BayernLB reclassified certain securities as from 1 July 2008 from the available-for-sale category to the loans and receivables category. This included one security that did not meet all the criteria for reclassification. Consequently, the investments and revaluation reserves items were overstated as at 31 December 2008 by EUR 114 million.

The fair value of some interest rate/currency swaps was restated because only the currency component had been recognised. Consequently, the gains or losses on fair value measurement item in financial year 2008 was increased by EUR 62 million, while the taxes on income and earnings item was lowered by EUR 58 million. The resulting adjustment to consolidated income was directly offset against retained earnings, which were reduced by EUR 69 million overall as at 31 December 2008 (EUR –77 million of which as at 1 January 2008 in relation to this issue); the currency translation reserve was increased by EUR 6 million (+EUR 5 million of which as at 1 January 2008). In respect of assets held for trading, the carrying amount as at 31 December 2008 was reduced by a total of EUR 97 million (EUR –143 million of which as at 1 January 2008), while liabilities held for trading were reduced by EUR 33 million (EUR –13 million of which as at 1 January 2008). Deferred tax assets and deferred tax liabilities, which are reported as unchanged as at 31 December 2008, were understated by EUR 64 million and EUR 6 million respectively as at 1 January 2008.

The impact of these changes on the balance sheet and income statement items for the year concerned is shown in the following overview:

Impact on the affected balance sheet items as at 31 December 2008

EUR million	31 Dec 2008 Before adjustment	Adjustment	31 Dec 2008 After adjustment
Assets			
• Assets held for trading	47,349	–97	47,252
• Investments	62,455	–114	62,341
• Deferred tax assets	4,390	–	4,390
Liabilities			
• Liabilities held for trading	34,054	–33	34,021
• Deferred tax liabilities	4,371	–	4,371
• Equity	11,265	–178	11,087
– Equity excluding minority interests	8,693	–178	8,515
of which:			
retained earnings	4,909	–69	4,840
revaluation reserve	–2,265	–114	–2,379
foreign currency translation reserve	–141	6	–135

Impact on the affected income statement items between 1 January and 31 December 2008

EUR million	1 Jan–31 Dec 2008 Before adjustment	Adjustment	1 Jan–31 Dec 2008 After adjustment
Net interest income	2,670	–	2,670
Gains or losses on fair value measurement	–2,138	62	–2,076
Gains or losses on investments	–1,933	–19	–1,952
Other income	141	20	161
Income taxes	–191	–58	–249
Earnings after taxes	**–5,358**	**4**	**–5,354**
Minority interests	274	–	274
Consolidated net income	**–5,084**	**4**	**–5,079**

The corresponding adjustments are recognised in the statement of comprehensive income including the income statement, balance sheet, statement of changes in equity, cash flow statement, segment reporting and the notes.

(3) Scope of consolidation

Besides the parent company, the group of companies consolidated within BayernLB comprise 52 (2008: 166) subsidiaries, of which two (2008: two) are special purpose entities and seven (2008: nine) are special funds fully consolidated under IAS 27 and SIC 12. The consolidated financial statements do not contain proportionately consolidated entities.
Three (2008: five) joint ventures and three (2008: eight) associated companies are accounted for using the equity method.

Changes at BayernLB:

- The sub-group Hypo Alpe-Adria-Bank International AG (HGAA), Klagenfurt, was fully incorporated into the consolidated financial statements of BayernLB after a controlling stake was acquired on 1 October 2007. After a significant rise in risk provisions in the first half of 2009 and the identification of additional risks in a special audit of the credit portfolio, HGAA needed a substantial capital injection. After a comprehensive review, BayernLB came to the conclusion that there was no justification on economic grounds for maintaining an equity investment. After intensive negotiations, BayernLB and the Republic of Austria reached an agreement on a stabilisation plan for HGAA. The key terms are as follows:
  - The Republic of Austria will take over BayernLB's 67.08 percent stake in HGAA for a symbolic price of EUR 1.
  - BayernLB will help ensure HGAA's liquidity by maintaining its existing liquidity lines to HGAA.
  - BayernLB will waive receivables due from HGAA in the amount of EUR 825 million.

Sub-group HGAA including 120 subsidiaries belonging to it were deconsolidated with effect from 30 December 2009 through the sale to the Republic of Austria. Assets of EUR 42,103 million and liabilities of EUR 39,362 million were divested. The principal impact of the sale on the equity of the BayernLB Group was an approx. EUR 2,305 million reduction in minority interests. The disposal of the hidden reserves and charges to assets, liabilities and goodwill, as discovered in the purchase price allocation were recognised in the deconsolidation loss of EUR –1,141 million, reported under the gains or losses on investments item. Goodwill and HGAA's customer relationships as at 31 December 2009 were not therefore tested for impairment. Receivables in the amount of EUR 825 million were waived, with EUR 525 million of this amount recognised under risk provisions and EUR 300 million under gains or losses on investments. The full impact of the disposal of HGAA on the BayernLB Group's income statement was as follows:

EUR million	BayernLB Group	Negative impact of HGAA	BayernLB Group not incl. negative impact of HGAA
Net interest income	2,561	778	1,783
Risk provisions for the credit business	–3,277	–2,183	–1,094
Net commission income	434	151	283
Gains or losses on fair value measurement	887	–10	897
Gains or losses on hedge accounting	98	43	55
Gains or losses on investments/ Income from interests in companies valued at equity	–1,444	–1,502	58
Administrative expenses	–2,125	–668	–1,457
Other income	461	–15	476
Operating profit/loss	**–2,404**	**–3,406**	**1,002**
Restructuring expenses	–361	–20	–341
Income taxes	–328	–20	–308
Earnings after taxes	**–3,093**	**–3,446**	**353**
Minority interests	474	467	7
Consolidated net income	**–2,619**	**–2,979**	**360**

- The agreement between BayernLB and Landesbank Hessen Thüringen to restructure their shareholdings in the jointly owned subsidiaries Banque LBLux S.A., Luxembourg, and LB(Swiss) Privatbank AG, Zurich, was concluded and came into effect on 21 December 2009. Following the acquisition of a 25 percent stake less one share, BayernLB is now the sole shareholder of Banque LBLux S.A., Luxembourg, although this subsidiary was already fully incorporated in the consolidated financial statements. The acquisition reduced only minority interests by EUR 130 million. In return, BayernLB transferred its 50 percent holding in the joint venture LB(Swiss) Privatbank AG, Zurich, which was accounted for in the consolidated financial statements using the equity method up to 30 June 2009, to Landesbank Hessen-Thüringen. Consequently, the shares in companies valued at equity was reduced by EUR 48 million year on year. No material deconsolidation gain or loss arose.

- Under the share purchase and transfer agreement of 18/21 December 2009, BayernLB sold a 25.2 percent holding in the share capital of Landesbank Saar, Saarbrücken, to the Saarland. Until the transaction is concluded as expected in the second quarter of 2010, Landesbank Saar will continue to be fully incorporated in the consolidated financial statements. No disclosure under the item "non-current assets and disposal groups held for sale" was made as the requirements of IFRS 5 were not fully met.

Changes in the consolidated sub-group of Deutsche Kreditbank Aktiengesellschaft (DKB), Berlin:

As a materiality criterion was not met, the following companies were consolidated for the last time in the 2009 annual accounts and deconsolidated with effect from 31 December 2009: DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin; DKB Wohnen GmbH, Berlin; Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich; Aufbaugesellschaft Bayern GmbH, Munich; and Spezialfonds BayernInvest DKB I-Fonds, Luxembourg. The holding in special fund BayernInvest DKB I-Fonds will continue to be recognised in the consolidated financial statements within the fair value option category under the investments item. A deconsolidation effect of EUR 3.8 million was recognised in gains or losses from investments.

Due to the fall in the number of companies included within the scope of consolidation, deconsolidation effects and changes in the items "investment property", "property, plant and equipment" and "provisions" arose. These, however, were not material for the BayernLB Group.

Under the divestment and acquisition agreement of 27 August 2009, portions of the assets of the consolidated DKB Wohnungsgesellschaft Thüringen mbH, Gera, were transferred to DKB Wohnungsgesellschaft Blankenhain GmbH & Co. KG, Berlin, and DKB Wohnungsgesellschaft Gera-Zwötzen GmbH & Co. KG, Berlin. DKB Wohnungsgesellschaft Thüringen mbH, holds a 100 percent stake in both German limited partnership entities (Kommanditgesellschaft). As at the balance sheet date, all three entities were incorporated in the consolidated financial statements.

Changes in the consolidated sub-group GBW AG, Munich:

As materiality thresholds were exceeded, the following companies were incorporated in the BayernLB Group's scope of consolidation on 1 January 2009:

- GBW Asset GmbH, Munich
- GBW Wohnungs GmbH, Munich

GBW-Beteiligungs GmbH, Munich, was merged retroactively with GBW AG, Munich as at 1 January 2009.

Changes in the consolidated sub-group of MKB Bank Zrt. (MKB), Budapest:

As materiality thresholds were exceeded, Exter-Bérlet Kft., Budapest, was incorporated in the scope of consolidation on 1 January 2009.

With the exception of the deconsolidation of HGAA, none of these changes in the scope of consolidation had any significant impact on the BayernLB Group's balance sheet and income statement.

BayernLB's scope of consolidation is determined on the basis of materiality criteria. Due to their secondary importance individually and as a group in relation to the net assets, financial position and earnings of the Group, 236 (2008: 334) companies were neither consolidated nor valued at equity. The impact on the balance sheet from the contractual relationships between Group companies and these non-consolidated entities is recognised in the consolidated financial statements.

A complete overview of subsidiaries, joint ventures and associated companies recognised in the consolidated financial statements can be found in the list of shareholdings (see note 77).

(4) Consolidation principles

Consolidation is performed by offsetting the cost of purchasing the subsidiary against the Group's share of the revalued equity as at the acquisition date. This equity is the difference between the assets and liabilities of the acquired company measured at their fair value at the time of initial consolidation, taking account of deferred taxes. Any difference between the higher cost of purchase and the prorated equity is recognised as goodwill under intangible assets on the consolidated balance sheet.

Shares in subsidiaries that do not belong to the parent company are reported as minority interests under equity.

If further shares in a fully consolidated company are acquired, the transaction is not classed as an acquisition within the meaning of IFRS 3 as a controlling interest is already held. Instead, the acquisition of a holding is reported as a transaction with the minority shareholders. The additional shares acquired are offset against equity and the positive or negative amounts arising are therefore recognised in the retained earnings and not through profit or loss.

Joint ventures and associated companies are valued Group-wide at equity and reported under the companies valued at equity item. The costs of purchasing these interests and goodwill are determined at initial consolidation in accordance with the same principles used for subsidiaries. Future carrying amounts are based on the full IFRS financial statements of joint ventures and associated companies.

Most of the financial statements of the entities included in the consolidated accounts are produced on the balance sheet date of the parent company.

When consolidating debt and earnings and eliminating intragroup earnings from subsidiaries, all receivables and liabilities, income and expenditure and intragroup earnings from transactions within the group are eliminated if they are not of secondary importance.

Shares in subsidiaries not consolidated because of their secondary importance and investments are reported under the investments item and measured at fair value.

(5) Currency translation

Assets and liabilities denominated in a foreign currency are on initial recognition translated into the functional currency at the spot rate applicable on the day of the business transaction. A distinction is made in subsequent periods between monetary and non-monetary items when translating currency. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate on the balance sheet date. In the case of non-monetary items valued at historical cost, currencies are translated at the historical exchange rate. Non-monetary items designated at fair value are translated at the exchange rate on the date the fair value was calculated. Income and expenses in a foreign currency are translated into the functional currency at an average exchange rate. Gains or losses on currency translation are recognised through profit or loss. Currency translation differences from equity instruments in the available-for-sale category are reported under the revaluation reserve and not recognised through profit or loss.

In the case of subsidiaries and foreign entities included in the consolidated financial statements whose annual results are not reported in euros and whose functional currency is not the euro, the balance sheet items in the consolidated financial statements are translated into euros at the exchange rate of the respective currency on the balance sheet date, while income and expenses are translated at a Group-wide average exchange rate. Currency exchange rate differences arising from this translation are reported in the currency translation reserve in equity and not recognised through profit or loss.

(6) Offsetting

Liabilities are set off against receivables if they relate to the same counterparty, are payable on demand and an agreement has been reached with the counterparty that interest and commissions are calculated as if only a single account existed.

(7) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognised in the balance sheet from the date upon which the balance sheet entity becomes a contractual party either entitled to obtain consideration or required to provide consideration in return. Regular way purchases or sales of financial assets (regular way contracts) are normally recognised here using trade date accounting. Derivatives are always recognised on the date of the trade.

Under IAS 39, all financial instruments, including derivative financial instruments, must be recognised in the balance sheet and assigned to valuation categories. Financial instruments are initially recognised at fair value, which will normally be the cost of purchase.

Financial instruments are subsequently valued according to their assigned category defined as follows:

Financial assets and liabilities at fair value through profit or loss:

These include financial instruments and derivatives held for trading purposes which do not meet hedge accounting criteria under IAS 39 (held-for-trading), as well as financial instruments not held for trading purposes where the fair value option is used (financial instruments at fair value through profit or loss).

- Financial instruments and derivatives held for trading:
  These are measured at fair value and recognised under gains or losses on fair value measurement. Realised and current income are also shown under this item. Current income from derivatives in economic hedges is recognised in net interest income. Derivatives in economic hedges include derivatives to hedge fair value option transactions and derivatives in other economic hedges. These derivatives do not meet hedge accounting criteria under IAS 39. They are used for risk management and have not been concluded for trading purposes. Held-for-trading financial instruments are reported under assets held for trading and under liabilities held for trading.
- Financial instruments at fair value through profit or loss (fair value option):
  The fair value option is used to minimise or eliminate valuation-related inconsistencies and to avoid the separation of embedded derivatives that must be separately presented. The fair value option is also used for a portfolio of financial instruments managed on a fair value basis in accordance with a documented risk management or investment management approach. The assets are measured at fair value. Gains or losses from measurement are reported under the gains or losses on fair value measurement item, while current income is reported under net interest income. Financial instruments to which the fair value option has been applied (particularly structured issues and liabilities with embedded derivatives) are mainly reported under loans and advances to banks/customers, investments, liabilities to banks/customers, securitised liabilities and subordinated capital.

Held-to-maturity investments:

These are non-derivative financial assets with fixed or determinable payments and fixed maturities traded on an active market that BayernLB has the intention and ability to hold to maturity. They are measured at amortised cost and regularly assessed for permanent impairment. All realised and unrealised gains or losses are reported under the gains or losses on investments item, and current income under net interest income.
As at the balance sheet date, BayernLB Group held no financial investments classed as held-to-maturity.

Loans and receivables:

These include non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and to which the fair value option has not been applied or are not designated as available-for-sale. They are measured at amortised cost.
This category includes loans that are mainly reported as loans and advances to banks/customers. Impairments are treated according to the criteria set out under note 10 on risk provisions. Current income is reported under net interest income.

This category also includes securities that, as at the date of recognition or reclassification, are neither traded on an active market nor held for re-sale in the short term. Any necessary impairments are deducted from the carrying amount of the asset. Checks to detect impairment are regularly carried out. Impairment includes both specific loan loss provisions and portfolio provisions. Impairments of securities are calculated in the same way as for risk provisions (note 10) and using the specific rules for the ABS portfolio which are set out in the risk report. Gains or losses on a sale or impairments are recognised under gains or losses on investments. Current income and unwinding are reported under net interest income. Securities classed as loans and receivables are recognised under financial investments.

Available-for-sale financial assets:

These include any non-derivative financial assets (mainly receivables and investments) that are classified as available for sale or are not assigned to any of the categories described. They are measured at fair value.

Any difference between fair value and amortised cost is shown as a separate item in equity (revaluation reserve) and not recognised through profit or loss until the asset is either disposed of or permanently impaired. Gains or losses on their sale or permanent impairment are reported under the gains or losses on investments item, and current income in net interest income. Available-for-sale financial assets are regularly assessed for impairment, whereby a distinction is made between equity and debt instruments based on the underlying indicators. Equity instruments are classed as impaired if their fair value has fallen permanently or significantly below the cost of purchase. Debt instruments are classed as impaired if their fair value is below (amortised) cost and the loss of future interest and principal payments is expected to have occurred on the balance sheet date. Where there is no further reason for impairment, writedowns on debt instruments are reversed on the profit and loss account up to the value of the amortised cost and the difference to fair value is recognised in the revaluation reserve and not through profit or loss. Reversals of equity instrument writedowns are recognised in the revaluation reserve and not directly through profit or loss. Available-for-sale financial instruments are reported under the cash reserves and investments items.

Liabilities measured at amortised cost:

Liabilities measured at amortised cost include financial instruments not used for trading purposes and where the fair value option is not used. They are measured at amortised cost. Current income is reported under interest expenses.
Financial instruments included in this category are mainly reported under liabilities to banks/customers, securitised liabilities and subordinated capital.

Financial assets are derecognised if the contractual rights to cash flows from the assets have expired or the Group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the contractual liabilities are discharged, cancelled or expire.

Fair value

The fair value of a financial instrument is the amount for which it could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Fair value is calculated where possible by reference to a quoted price on an active market (e. g. stock market price) pursuant to IAS 39 AG 71. A market is considered to be active for a financial instrument if quoted prices are readily and regularly available from an exchange, dealer or similar, and these prices represent actual and regularly occurring market transactions between knowledgeable, willing parties in an arm's length transaction.

If no active market exists, the fair value is calculated using a range of valuation methods including valuation models based on discounted cash flow methods and indicative valuation prices. The goal is to establish what the transaction price would have been in an arm's length exchange between knowledgeable and willing parties on the valuation date. An inactive market is characterised by severely limited trading volumes, very wide bid/offer spreads and wide price swings of indicative prices. As in the previous year, the markets for the Bank's ABS portfolio remained inactive over the reporting year.

Measurement of BayernLB's asset-backed securities

As no active market currently exists for asset-backed securities in BayernLB's portfolio, measurement is based on indicative counterparty or indicative broker prices or on indicative prices from providers of market data. These prices are checked for plausibility based on several price sources and using statistical methodology. If a security has a wide range of prices compared with similar securities, it is assessed separately and the unrealistic prices eliminated. In certain cases, the credit quality is also rated.

Initially, ABS investments are analysed and any long-term impairments identified regardless of whether they have been guaranteed by a monoline insurer. If the monoline guarantee is considered sound on the basis of the bond guarantor's credit rating, the ABS investment is not written down to its fair value. If the credit rating of the monoline insurer deteriorates substantially, the monoline guarantee is disregarded and the ABS investment valued as though the guarantee did not exist.

Since mid-December 2009, indicative prices have also been used to measure impaired US residential mortgage-backed securities (RMBSs), which are likewise classed as asset-backed securities. The internal model based on the discounted cash flow method used until then was discontinued as additional price sources became available and the above assessment procedures introduced. Thanks to these measures, the entire ABS portfolio was measured uniformly from mid-December. Due to the transition, the measurement of ABSs had a negative impact on the statement of comprehensive income of EUR 160 million as at the date of transition. Due to the ringfencing of these portfolios by the Free State of Bavaria, the measurement of hedging transactions in accordance with IAS 39 reversed this effect and compensated for these measurement losses.

Measurement of the guarantee agreement with the Free State of Bavaria ("Umbrella")

To hedge the ABS portfolio, the Bank has concluded a guarantee agreement with the Free State of Bavaria. This credit default swap (CDS) covers all losses above a first loss of EUR 1.2 billion and below the upper limit of EUR 6.0 billion.

To measure the CDS, the Bank treats impaired securities as defaults and for non-impaired securities uses a CDO model based on a single-factor Gaussian Copula model for CDS tranches. Default probabilities are calculated on the basis of internal ratings, loss given default and the residual maturity of the hedged asset-backed securities.

The sensitivity of key input factors in these models is
- for a ten-basis-point upward (downward) shift in the EUR interest rate curve: EUR –1.6 million (EUR +1.6 million),
- for a one-year extension (reduction) in the maturity of the underlying asset-backed securities and the expected maturity of the guarantee agreement: EUR +31.3 million (EUR –46.0 million),
- for a ten-basis-point upward (downward) shift in credit spreads: EUR +32.9 million (EUR –18.2 million).

The guarantee agreement is a financial instrument which is capitalised on the balance sheet as a credit derivative in accordance with IAS 39. Under this agreement, the Free State of Bavaria, as protection seller, hedges BayernLB's ABS portfolio in return for a premium. The effect from the measurement of the guarantee agreement is reported under the gains or losses on investments item. Further information on the guarantee agreement is given in the Management Report.

Measurement of specific securities at Group companies

In one subsidiary, an internal valuation model is used for individual fixed-interest securities in the fair value option category for which no active market exists on the reporting date. This valuation model is based on the discounted cash flow method. The risk-adjusted interest rate for discounting the cash flows is calculated from the market rates for the corresponding residual maturity as derived from the euro swap curve, plus a liquidity spread derived from the market and an individual risk premium.

Other valuation models

Fair values are also calculated using recognised valuation models based exclusively on observed market data. Valuation models include the present value method, option price models and other methods.

Unless a market price as defined under IAS 39 AG 71 is available, the present value method is used for interest-bearing financial instruments. Valuation is based on cash flow structures, taking account of nominal values, residual maturities and the agreed day count convention.

For financial instruments with contractually agreed fixed cash flows, the cash flow structure is calculated using the agreed cash flows. For variable rate instruments, cash flows are determined using forward curves. Discounting is carried out using matching currency and maturity yield curves, as well as a risk-adjusted spread. Observed market data is used where spreads are publicly available. For interest rate derivatives, the valuation is based on yield curves for matching currencies and maturities. For OTC derivatives, counterparty risk at portfolio level is also factored in.

Options and other derivative financial instruments with option characteristics are largely valued on the basis of the Black Scholes option pricing model. The following valuation parameters are used in the valuation process: cumulative probability distribution function for standard normal distribution, option strike prices, continuously compounding risk-free interest rates (for different currencies and maturities), price volatilities, option time to expiry, estimated dividends, interest rate and pricing barriers, discounts, increments and probabilities of occurrence.

Credit derivatives are valued using the hazard rate model on the basis of current credit spreads.

For options with several possible exercise dates, a binomial model is used. Publicly accessible market data is also used in the valuation.

Summary of the key valuation models by derivative product group:

Product group	Principal valuation model
Interest-rate swaps	Present value method
Forward rate agreements	Present value method
Interest-rate options	Black 76
Forward exchange deals	Present value method
Currency swaps/cross currency swaps	Present value method
Foreign exchange options	Black 76, Barone-Adesi-Whaley
Equity/index options	Black-Scholes, Roll-Geske-Whaley
Credit derivatives	Hazard rate model
Commodity caps/floors	Vorst

Structured products are created as part of structured issues. These structures are each hedged with swaps.

In addition to the above methods, these structures are measured mainly using short-rate and BGM models (Libor market model) and Monte Carlo simulations.

In accordance with IFRS 7.25, to calculate the fair values of credit business measured at amortised cost, cash flows are discounted using the risk-free interest rate curve adjusted by a transaction-specific spread. The spread comprises a constant margin over the term to cover costs, the expected profit, and a credit component that reflects the creditworthiness of the business partner. When concluding a new transaction, the total initial spread is determined by interpolation, whereby the transaction is measured at the carrying amount (old transactions at par). The current expected loss is determined at the end of the following month and used to break down the spread into its margin and creditworthiness portions (on conclusion of the transaction). Fair value is calculated on the balance sheet date using the constant margin spread and the expected loss applicable at the time.

For deposit-taking business, cash flows are discounted using the risk-free interest rate curve, credit spread and liquidity spread. This spread reflects BayernLB's current credit standing and varies according to the currency and coverage status (covered, uncovered, uncovered with guarantee obligation, subordinated) of the transaction. The added spreads are based on Asset Liability Management's internal pricing curves and tested for plausibility independently of Trading using the external market interest rate.

These valuation models are used to calculate the fair values of financial instruments in the held-for-trading, fair value option, loans and receivables, available-for-sale and liabilities measured at amortised cost categories. This includes in particular the following balance sheet items:

- Loans and advances to banks/customers
- Interest rate derivatives with positive fair value reported under assets held for trading and under hedging derivatives
- Debt securities reported under investments
- Liabilities to banks/customers
- Securitised liabilities
- Interest rate derivatives with negative fair value reported under liabilities held for trading and under hedging derivatives
- Subordinated capital

Recognised valuation procedures, particularly the discounted cash flow method, are used to calculate the fair value of equity instruments reported under investments that are not traded on an active market. Expected cash flows are based on the forecasts of the entities in question.

Embedded derivatives

Embedded derivative financial instruments are recognised as independent derivatives and measured at fair value where separation from the host contract is required. In such an instance, the host contract is recognised and measured according to its valuation category. No separation is carried out for structured products classed as a fair value option.

Hedge accounting

Interest rate, currency and credit risks are managed using derivative financial instruments to hedge on-balance sheets assets or liabilities. Hedges that meet hedge accounting criteria within the meaning of IAS 39 currently include only fair value hedges in which all or a portion of an on-balance sheet asset, balance sheet liability or a portfolio of financial instruments is hedged against a change in fair value from the interest rate or currency risk that could affect the result for the period. A high degree of effectiveness is needed here to ensure changes in the fair value of the hedged underlying transaction in terms of the hedged risk and the hedging derivative lie within a range of 80–125 percent. In BayernLB Group, fair value hedge accounting is applied in the form of micro fair value hedges, portfolio hedges in the narrow sense and portfolio hedges in the broader sense. Like underlying and hedging transactions, portfolio hedges in the narrow sense are reported under micro fair value hedges.

Interest rate swaps and currency swaps are the primary hedging instruments. Derivatives used to hedge the fair value of on-balance sheet assets and liabilities are measured at fair value; any resulting changes in value are recognised through profit or loss. The carrying amounts of the underlying transactions in micro hedges and in portfolio hedges in the narrow sense are adjusted in line with the gains or losses from the measurement attributable to the hedged risk and recognised through profit or loss. Where portfolio fair value hedges in the broader sense are carried out, the cumulative gains or losses from measurement attributable to the hedged risk for financial assets are recognised within the BayernLB Group under the portfolio hedge adjustment assets item on the balance sheet and the carrying amounts of the underlying transactions left unchanged at amortised cost.

Derivative financial instruments in economic hedges that do not meet hedge accounting criteria are recognised as held-for-trading and valued according to their category. Unlike current income and expenses of derivative financial instruments held for trading purposes, the current income and expenses arising from these derivatives are reported under net interest income.

(8) Cash reserves

Cash reserves include cash, balances with central banks, debt certificates issued by public entities and bills of exchange eligible for refinancing with central banks and not reported under assets held for trading. They are recognised at nominal value except for debt certificates issued by public entities and bills of exchange that are recognised on the balance sheet at fair value.

(9) Receivables

Loans and advances to banks and customers are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market or held for trading purposes. They are valued at amortised cost provided they are not classified as available for sale and are not fair value option receivables or underlying transactions of an effective fair value hedge. Premiums and discounts are spread over their term and reported under interest income.

Writedowns of receivables in the loans and receivables category are reported separately under risk provisions and offset against assets. Writedowns in other portfolios are recognised directly by reducing the carrying value of the corresponding assets.

(10) Risk provisions

Risk provisions for credit products in the loans and receivables category are reported as a separate asset item on the balance sheet; they cover specific loan loss provisions and portfolio provisions relating to on-balance sheet transactions. BayernLB exercised its option of establishing flat-rate specific loan loss provisions for non-material receivables.

Risk provisions are calculated in BayernLB Group by analysing customer relationships at quarterly intervals. Specific loan loss provisions are established for significant individual credit exposures if objective indications of impairment exist with an impact on future expected cash flows. Objective indications include in particular:

- A rating of 19 or worse on a 25-tier rating scale
- Interest or principal payments or overdrafts past due for more than 30 days
- Forced renewals
- Rescheduling by other banks
- Payment deferrals or applications for payment deferrals
- Rating-related restructuring or reorganisation
- Standstill agreements
- Deterioration in the value of collateral
- Excessive debt or insufficient cover
- Country-specific problems

Specific loan loss provisions are determined by subtracting the present value of future expected cash flows, calculated using the original effective interest rate based on the discounted cash flow method, from the carrying amount of the receivable. Risk provisions are raised or lowered if expected cash flows change. Unwinding – the change in the present value of future expected cash flows over the period – is reported as interest income; the current interest payments received are not subsequently recognised as net interest income but counted as repayments. Collective single loan loss provisions are established for portfolios composed of similar, non-significant receivables on the basis of collective risk assessment. These are reported under the specific loan loss provisions.

Credit-rating-related portfolio provisions are calculated on the basis of historical probabilities of default and loss rates for all material and immaterial-receivables, where an individual assessment reveals no indications of impairment and for which no collective specific loan loss provisions have been established. This uses a procedure based on parameters derived from the Basel II system that are regularly assessed.

To reflect country risks (transfer risk and general political risk), portfolio provisions are also established on the basis of country risk-specific probabilities of default and loss rates, where these risks have not already been taken into account through specific loan loss provisions.

Irrecoverable receivables are derecognised, normally by utilising existing specific loan loss provisions. Bad debt losses for which no or insufficient loan loss provisions have been set up, are charged to existing portfolio provisions (utilisation). An identical amount is allocated to portfolio provisions, which is reported as a direct write-off in risk provisions for the credit business.

Expenses for additions to risk provisions, income from the reversal of risk provisions and recoveries from written-off receivables are reported in the income statement under risk provisions for the credit business.

(11) Assets held for trading

Assets held for trading include all financial assets held for trading, precious metals and derivative financial instruments with positive fair values not designated as hedging instruments under hedge accounting criteria in accordance with IAS 39. In the period to 30 June 2008, BayernLB allocated to the held-for-trading category certain loans and advances to banks/customers from money market transactions due to its intention to trade these transactions. As the purpose of conducting money market activities – now focused on liquidity management – has changed, loans and advances to banks and customers arising from money market activities are categorised as loans and receivables if they were established after 1 July 2008 and reported under loans and advances to banks and customers. Transactions classed as held-for-trading up to this date are reduced accordingly as they mature.
Gains or losses from the measurement or sale of and current income from held-for-trading assets, with the exception of current income from derivatives in economic hedges, are recognised in profit or loss under gains or losses on fair value measurement. Current income from derivatives in economic hedges is reported in net interest income.

(12) Positive fair values from derivative financial instruments (hedge accounting)

This balance sheet item contains derivative financial instruments with positive market value that are used as hedges and meet hedge accounting criteria within the meaning of IAS 39. The derivative instruments are measured at fair value. Both changes in the fair value of the hedging instruments and changes in the fair value of underlying transactions that arise from the hedged risk are reported under the gains or losses on hedging transactions (hedge accounting). Interest income and expenses from hedging derivatives are reported under net interest income.

(13) Investments

Investments include financial assets categorised as held-to-maturity, loans and receivables and available-for-sale. Interests in non-consolidated subsidiaries, non-consolidated joint ventures and non-consolidated associated companies are classified as available for sale and reported as investments provided they are not classified as held-for-sale. Investments are measured according to their designated category.

(14) Investment property/property, plant and equipment

Investment property leased to third parties or primarily held for capital gain is reported under investment property on the balance sheet. Property, plant and equipment comprise mainly land and buildings for own use, as well as business and office equipment.
Mixed-use property that is separately disposable is allocated proportionately to the investment property and the property, plant and equipment items. If a division of the real property is theoretically impossible, the entire property is only reported as an investment asset if an insignificant proportion (less than 10 percent) of the property is for internal commercial use.

Assets are valued at amortised cost, that is, the purchase or production costs of assets subject to wear and tear are depreciated on a straight line basis in accordance with their useful life. Any loan loss provisions are also set off. The option under IAS 40 to measure investment property at amortised cost was exercised.

Useful life is based on the following criteria:

• Buildings	25–50 years
• Business and office equipment	3–25 years

Any indication of impairment is reported as an impairment expense. Where there is no further reason for impairment, assets are written back up to a maximum of the amortised costs.

Any subsequent purchase or production costs are capitalised if they lead to an increase in the economic benefit of these assets.

Expenditure on maintenance is reported as an expense in the corresponding financial year.

Depreciation of investment property is reported under other income, and depreciation of property, plant and equipment under administrative expenses. Reversals of writedowns are reported under other income.

(15) Intangible assets

Intangible assets include goodwill from consolidated subsidiaries, intangible assets produced in-house (proprietary software) and other intangible assets that have been purchased.

Costs for software development are capitalised where its production is likely to result in an inflow of economic benefit and costs can be determined reliably. If the criteria for capitalisation are not met, expenses are immediately recognised on the income statement.

Intangible assets produced in-house and other intangible assets are measured at amortised cost. The intangible assets produced in-house and other intangible assets are all amortised on a straight line basis over an expected useful life of three to five years.

Any indication of impairment is reported as an impairment expense. Where there is no further reason for impairment, assets are written back up to a maximum of the amortised costs.

Goodwill and purchased brand names are allocated to cash-generating units and assessed for impairment at least once annually. The carrying amount of the cash-generating unit including allocated goodwill is compared with its recoverable amount. The recoverable amount is the greater of value in use or net realisable value. If there are objective indications that the original expected benefits are no longer expected, the unit's goodwill is initially written down. Any further writedowns are then charged proportionately against the rest of the cash-generating unit's assets.

The MKB Bank Zrt. (MKB) sub-group, Budapest, examined the value as at 31 December 2009 of the goodwill from the acquisition of MKB Romexterra Bank SA, Targu-Mures (Romania), recognised in accordance with IFRS 3.56 and IAS 36.

The recoverable amount of each cash-generating unit was calculated on the basis of its value in use by discounting future cash flows. Independent external valuation reports were also used. The cash flow projections were based on current operating profit, the results of a five-year forecast and expected improvements resulting from restructuring. The five-year forecast assumed a loss of EUR 12 million in the first year and a profit of EUR 5 million at the end of the fifth year. Both net interest income and non-interest related income were expected to increase as a result of the restructuring. The economic environment was posited to be weak initially in 2010 with high levels of credit defaults. It was also assumed that a portion of the non-performing loans would be sold as part of the restructuring. Given the growth potential in the Romanian market, however, the extrapolations in the five-year forecast can be viewed as realistic estimates.

A base pre-tax interest rate of 11.1 percent was used in the weighted cost of capital to calculate the recoverable amount of MKB Romexterra Bank SA. Comparing the value in use derived from the discounted cash flow method against the carrying amount of MKB Romexterra Bank SA results in a required writedown of EUR 32 million.

Amortisation of goodwill is reported under other income, while amortisation of intangible assets produced in-house and other intangible assets is reported under administrative expenses. Reversals of writedowns are reported under other income. As before, reversals of goodwill writedowns are not recognised.

(16) Non-current assets or disposal groups held for sale

Non-current assets or disposal groups classified as held for sale are recognised as at the reporting date at the lower of carrying amount or fair value, less disposal costs.

(17) Other assets

Other assets include prepaid expenses and leasing assets that have not yet been leased.

(18) Liabilities

Liabilities to banks and customers and securitised liabilities are shown at amortised cost if they are not classed as a fair value option or if they are underlying transactions of effective fair value hedges. Premiums and discounts are spread over the term of the transaction and reported under interest expenses.

(19) Liabilities held for trading

Liabilities held for trading contain all financial liabilities held for trading and derivative financial instruments with negative market value not designated as hedging instruments under hedge accounting criteria within the meaning of IAS 39. Current income from derivatives in economic hedges excepted, gains or losses from the measurement or sale of and current income from held-for-trading liabilities are recognised in profit or loss under gains or losses on fair value measurement. The effect of the inclusion of a counterparty-specific credit spread in the measurement of OTC derivatives and the effect of the measurement of financial instruments at mid-market rates compared with bid/offer prices based on sensitivity analyses are recognised under liabilities held for trading.

(20) Negative fair values from derivative financial instruments (hedge accounting)

This balance sheet item contains derivative financial instruments with negative market value which are used as hedges and meet hedge accounting criteria within the meaning of IAS 39. The derivative instruments are measured at fair value. Both changes in the fair value of the hedging instruments and changes in the fair value of hedged underlying transactions that arise from the hedged risk are reported under the gains or losses on hedging transactions item (hedge accounting). Interest income and expenses from hedging derivatives are reported under net interest income.

(21) Provisions

Provisions for pensions, similar obligations and other provisions are reported under this item.

There are several pension plans in the BayernLB Group, some of which are financed by an external pension provider. The defined benefit plans set out the old age, invalidity and surviving dependents' benefits that beneficiaries are entitled to on the occurrence of an insured event (reaching a set age, invalidity, death) and which depend on a variety of factors such as age, length of service and salary. One subsidiary also has a multi-employer plan, which is classed as a defined benefit plan under IAS 19. But as the statutory benefit is financed on a pay-as-you-go basis and the subsidiary is exposed to actuarial risks associated with the current and former employees of other members or employers, it is accounted for as if it was a defined benefit plan (IAS 19.30) for simplicity's sake.

Pension obligations are calculated annually using actuarial reports. Directly and indirectly defined benefit obligations are valued, and available fund assets offset against these liabilities.

Pension provisions are calculated on the basis of the following actuarial assumptions:

in %	2009	2008
Calculatory interest rate	6.0	6.0
Expected returns on plan assets	4.5	4.7
Changes in salary	3.2	3.6
Adjustments to pensions	2.3	2.5

The value of the pension obligations is calculated using the benefit/years of service method (projected unit credit method), whereby the obligations are valued on the basis of the benefit entitlements acquired up to the reporting date (defined benefit obligation). In the valuation, account is taken of future trends of set parameters such as salary and pension increase projections that have an impact on the size of the benefit.

The pension provision is calculated by deducting the present value of the pension obligation from the fair value of the plan's assets covering the pension obligation. Actuarial gains or losses arising from the difference between expected and actual figures that have not yet been recognised are also taken into account. Actuarial gains or losses at the end of the reporting period exceeding the limits under IAS 19.92 of 10 percent of the greater of present value of the obligation or the fair value of the plan assets are spread over the expected average remaining working lives of the pension beneficiaries and recognised from the subsequent year as an additional component of pension costs.

Provisions in credit business at both individual transaction and portfolio level have been set up to meet contingent liabilities and other liabilities where there is a risk of default.

Other provisions are set up in accordance with IAS 37 for present legal or de facto obligations, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

(22) Other liabilities

Other liabilities include prepaid income, accruals and distributions for hybrid capital instruments reported in equity.

(23) Hybrid capital instruments

Debt and equity instruments are classified in accordance with IAS 32, taking account of the IDW statement IDW RS HRA 9 on financial instrument accounting under IFRS of 12 April 2007. A financial instrument is therefore recognised in equity if:

- it evidences a residual interest in the assets of an entity after all liabilities are deducted (IAS 32.11)
- and in particular it contains no contractual obligation to deliver cash or other financial assets to the contractual partner (IAS 32.16).

The accounting methods used in the consolidated financial statements for the terms and conditions of hybrid capital instruments used by BayernLB and its subsidiaries are shown below.

Undated silent partnership contributions not callable by the lender meet the criteria for disclosure under equity.

Dated silent partnership contributions, including those callable by the lender and profit-participation certificates, must be divided into their equity and debt components (split accounting), as they are compound financial instruments. The fair value of the debt component is initially measured by discounting the nominal value of the compound instrument as a whole by its effective interest rate. The amount is reported under subordinated capital. In subsequent years, interest on the debt component is compounded and the resulting expenses reported in interest income. If a compound financial instrument shares in the losses, this has an impact on the payments that the hybrid capital instruments will get in future. The present value of the debt components must then be adjusted as necessary in accordance with IAS 39.AG8.

The equity component, which as a residual interest within the meaning of IAS 32.11 corresponds to the present value of expected future distributions, is recognised in equity as a hybrid capital instrument.

As in the previous year, in accordance with the agreement on the approval of recapitalisation measures in line with the expectations of the EU Commission, no distributions were made on silent partner contributions and profit participation rights unless the distribution was contractually required. If unpaid capital distributions are subject to a potential obligation to be paid at a future date they are reported in equity as a hybrid capital instrument.

Due to the stricter expectations of the EU Commission, the silent partner contributions and profit participation rights issued by BayernLB absorbed a portion of the Bank's losses. The share of the losses relates to the repayment of the nominal value of the hybrid capital instrument, i. e. the debt component. If a change in future expected cash flows is expected for the debt component corresponding to a zero-coupon bond, the present value is adjusted in accordance with IAS 39.AG8 as the contractually agreed obligation will not be met by maturity. The amount from this was EUR 117 million which was reported under other income.

Subordinated bonds are reported on the balance sheet as subordinated capital, as are subordinated innovative financial products (e. g. preference shares), which are classified as core capital under banking supervisory law.

(24) Leasing

Under IAS 17, leases are divided into finance leases and operating leases. Agreements are classified on the basis of the distribution of economic risks and rewards from the leased property. A lease is classified as a finance lease if all risks and rewards incident to ownership are substantially transferred to the lessee.

BayernLB Group as lessor

With respect to finance leases, receivables due from the lessee are recognised at net investment value. Lease payments received from the lessee are divided into an interest portion and a principal portion. The interest portion is reported as interest income on an accrual basis, while the principal portion reduces the receivable with no effect on income.

With respect to operating leases, leased items are capitalised at amortised cost and recognised as investment property or property, plant and equipment. Lease payments received are reported under other income, and depreciation and writedowns in administrative expenses.

BayernLB Group as lessee

With respect to finance leasing, leased items are recognised either as investment property or property, plant and equipment, and the obligations to the lessor as a liability. Lease payments are divided into an interest portion and a principal portion. The interest portion is recognised under interest income, while the principal portion reduces the liability reported.

Lease payments owed by BayernLB Group under operating leases are recognised under administrative expenses.

(25) Taxes

Current tax assets and liabilities were measured by applying the currently applicable tax rates. Tax receivables and tax liabilities are reported in the amount of the expected refund or payment.

Deferred tax assets and liabilities arise from the difference between the value of an asset or a liability reported on the balance sheet and the respective fiscal value. It is expected this will result in future income tax burden or relief effects, which are classed as temporary differences. Deferred taxes are recognised where permitted. They are valued, for each of the companies consolidated within the Group, at the specific applicable income tax rate expected to be valid for the period of the reversal of the temporary differences based on new tax legislation having been passed or come into effect.

Deferred tax assets from unused tax losses carried forward and deductible temporary differences are only reported if it is probable that taxable profit of future periods will be sufficient for the tax benefit to be utilised. In respect of Group companies, if the sum of the loss carryforwards and deductible temporary differences exceed the taxable temporary differences, the amount of deferred tax assets recognised was calculated on the basis of the tax planning for the company in question or consolidated tax group in question. BayernLB's tax group was expanded in the reporting year to include Deutsche Kreditbank Aktiengesellschaft, Berlin. When recognising deferred tax assets from interest carryforwards, the same accounting methodology used for deferred tax assets from tax loss carryforwards was applied.

Deferred taxes are not discounted. Deferred tax assets and liabilities which have been recognised in the income statement are established and carried as income; if these items are not relevant to the income statement, they are reported in equity.

Tax expenses and income arising from earnings from ordinary activities are reported in the consolidated income statement under income taxes. Income taxes related to discontinued operations were not incurred in the reporting year. Other taxes, which are not based on income, are reported under other income.

Segment reporting

Segment reporting reflects the business structure of the BayernLB Group. As at 1 July 2009, the external segment reporting was reorganised to reflect the new business strategy and new internal segments. Current and previous year's figures were adjusted in line with the new segmentation. Six segments comprising the operational business areas, the dependent entities Bayerische Landesbodenkreditanstalt (BayernLabo) and Bayerische Landesbausparkasse (LBS Bayern), the Group's strategic subsidiaries, the Restructuring Unit and Central Areas & Others segment are shown.

Most of the former Corporates and Financial Markets segments, and business with financial institutions (in the former Financial Institutions/Sovereigns segment) were incorporated into the new Corporates & Markets segment.

The Real Estate/Public Sector & Savings Banks segment was created by merging the Real Estate and Savings Banks divisions with the business with the public sector (from the former Financial Institutions/Sovereigns segment). Bayerische Landesbodenkreditanstalt (BayernLabo) was also allocated to the segment.

The Mittelstand & Retail Customers segment incorporates the Mittelstand Division, which was created on 1 January 2009, the Group strategic subsidiaries Deutsche Kreditbank AG sub-group, Berlin, Landesbank Saar sub-group, Saarbrücken, Banque LBLux S.A., Luxembourg, as well as Bayerische Landesbausparkasse (LBS Bayern).

The new Eastern Europe segment consists of the subsidiary MKB Bank Zrt., Budapest (Hungary) sub-group, which primarily operates in Eastern and South Eastern Europe and the subsidiary Hypo Alpe-Adria-Bank International AG sub-group, Klagenfurt (Austria), which was deconsolidated in 2009.

The new Restructuring Unit segment was created to separately disclose the key portfolios of the business areas defined as non-core business within the scope of the restructuring project, as well as the Credit Investment Portfolio (CIP).

The Central Areas & Others segment includes the central areas Corporate Center, Financial Office, IT & Operations and the Risk Office. The Central Areas & Others segment shows the earnings contributions which are not attributable to any of the other segments. This includes in particular earnings contributions from central areas that cannot be allocated to the operating units in a way which reflects where they were generated.

The segment operating earnings include the operating earnings of the consolidated subsidiaries and unit assigned to the segment. The members of the Board of Management in charge of each segment (Dezernents) are responsible for earnings and serve as segment managers as defined in IFRS 8.9.

Segment reporting is based on IFRS 8 and therefore on the monthly management reports submitted to the Board of Management, which functions as the chief operating decision maker under IFRS 8.7. The management reports and therefore the segmentation is based on the accounting methodology used in the consolidated financial statements under IFRS management reports. Segment reporting does not therefore need to be reconciled with the IFRS accounting methodology used in the consolidated financial statements. Most of the earnings contributions shown under the segments are from financial services. The additional information about products and services required under IFRS 8.32 and on non-current assets by geographical region required under IFRS 8.33 (b) is not available and the costs of providing the information would also be disproportionately high.

Segment reporting as at 31 December 2009

EUR million	Corporates & Markets	Real Estate/Public Sector and Savings Banks	Mittelstand & Retail Customers	Eastern Europe	Restructuring Unit	Central Areas & Others	Consolidation	Group
Net interest income	284	354	840	1,130	215	−89	−173	**2,561**
Risk provisions for the credit business	32	−93	−268	−2,449	−483	−15	–	**−3,277**
Net commission income	129	50	−44	231	75	−13	6	**434**
Gains or losses on fair value measurement	197	27	176	21	426	−11	52	**887**
Gains or losses on hedge accounting	78	−4	−18	44	−2	–	–	**98**
Gains or losses on investments	−11	−1	20	−1,419	−5	−105	87	**−1,435**
Income from interests in companies valued at equity	–	–	–	−13	–	7	−3	**−9**
Administrative expenses	−289	−194	−574	−931	−78	−60	1	**−2,125**
Other income	57	27	101	−50	−1	299	27	**461**
Operating profit/loss	477	166	232	−3,436	147	13	−3	**−2,404**
Restructuring expenses	−38	−29	−52	−20	−46	−177	–	**−361**
Earnings from ordinary activities/ Earnings before taxes	439	137	180	−3,456	101	−164	−3	**−2,765**
Income taxes	−86	−12	−68	−24	−56	−98	15	**−328**
Earnings after taxes	353	125	112	−3,480	46	−261	12	**−3,093**
Segment assets	189,213	48,682	96,433	11,503	47,359	16,029	−70,402	**338,818**
Risk positions	44,833	11,996	44,580	10,454	21,769	2,156	–	**135,788**
Average reported equity	3,999	1,023	3,682	3,150[2]	2,095	150	1,013	**15,112**
Return on equity (RoE) (%)	11.2 %	15.3 %	5.4 %	−86.2 %	3.1 %	–	–	**−16.6 %**[1]
Cost/income ratio (CIR) (%)	38.8 %	42.8 %	54.4 %	67.6 %	10.9 %	–	–	**47.8 %**
Average headcount (FTE)	764	662	3,354	10,482	174	2,327	–	**17,764**

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

2 The average economic/reported equity of the sub-group of Hypo Alpe-Adria-Bank International AG, Klagenfurt, is included in the segment.

Segment reporting as at 31 December 2008

EUR million	Corporates & Markets	Real Estate/Public Sector and Savings Banks	Mittelstand & Retail Customers	Eastern Europe	Restructuring Unit	Central Areas & Others	Consolidation	Group[1]
Net interest income	516	308	849	918	184	–143	38	**2,670**
Risk provisions for the credit business	–88	14	–143	–690	–769	11	9	**–1,656**
Net commission income	187	99	–12	239	99	–16	–12	**584**
Gains or losses on fair value measurement	529	31	–96	52	–2,444	–14	–134	**–2,076**
Gains or losses on hedge accounting	–174	–	81	–46	4	–	–	**–136**
Gains or losses on investments	–27	–1	–239	–104	–1,579	–106	104	**–1,952**
Income from interests in companies valued at equity	1	–	–	6	–	–	2	**9**
Administrative expenses	–369	–234	–562	–1,210	–118	–131	3	**–2,620**
Other income	27	21	43	101	1	–23	–9	**161**
Operating profit/loss	602	238	–80	–734	–4,622	–423	2	**–5,017**
Restructuring expenses	–19	–3	–2	–8	–1	–54	–	**–87**
Earnings from ordinary activities/ Earnings before taxes	583	236	–82	–742	–4,623	–477	2	**–5,104**
Income taxes	–162	–28	–10	–87	–10	13	34	**–249**
Earnings after taxes	421	208	–92	–829	–4,633	–464	35	**–5,354**
Segment assets	217,166	65,295	102,594	55,492	56,125	20,893	–96,110	**421,455**
Risk positions	56,190	13,341	47,919	43,643	34,456	2,101	–	**197,650**
Average reported equity	2,700	676	3,326	3,013	1,351	–71	–899	**10,095**
Return on equity (RoE) (%)	22.3 %	35.3 %	–2.9 %	–24.6 %	–342.2 %	–	–	**–67.7 %**[2]
Cost/income ratio (CIR) (%)	34.0 %	50.9 %	65.1 %	95.7 %	–5.5 %	–	–	**217.8 %**
Average headcount (FTE)	883	648	3,451	11,481	335	2,606	–	**19,405**

1 *Previous year’s figures adjusted due to adjustments in accordance with IAS 8.42 (see note 2).*
2 *BayernLabo’s earnings and share in Group equity are not included in the return on equity (in percent) at Group level.*

Pursuant to the German Solvency Ordinance (SolvV), reported economic equity has since the current reporting year been allocated to the segments on the basis of risk positions for the purpose of internal management.

The previous year's figures were adjusted in line with the economic equity methodology. Economic equity is transferred to the reported equity in the Consolidation column.

Reported return on equity is calculated at segment level by dividing operating profit by economic equity. For the segments, economic equity is derived from the higher of actual allocated economic capital or budgeted equity capital. For the previous year, due to the reorganisation, the actual allocated economic equity was used for simplicity. The cost/income ratio is the ratio of administrative expenses to the sum of net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedging transactions (hedge accounting), and other income.

For all units for which external income tax figures are available from annual financial statements, these have been incorporated into the segment report. For all other units, a standard tax rate has been applied. The resulting income tax residuum of EUR –104 million (2008: EUR –34 million) compared to the Group figure has been recognised in the Central Areas/Others segment under income taxes.

Notes on delimitation of segments:

The Corporates & Markets segment includes the Corporates & Markets Business Area and the consolidated units BayernInvest Kapitalanlagegesellschaft mbH, Munich, and Kommanditgesellschaft Allgemeine Leasing GmbH & Co., Grünwald, (valued at equity), which contribute to the segment's performance. The business area serves large corporate customers in Germany as well as multinationals in Germany and in the core markets of Europe and North America. This is also where all of BayernLB's trading and issuing activities and asset-liability management (ALM) are bundled. BayernLB's business relationships with banks, insurers and other institutional customers (in the former Financial Institutions/Sovereigns segment) were incorporated into the Corporates & Markets Business Area.

The Real Estate/Public Sector & Savings Banks segment comprises BayernLB's commercial and residential real estate customers in Germany and abroad plus the consolidated subsidiary Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich. It also carries out BayernLB's services for the Bavarian savings banks and conducts transactions with government and municipal customers from the public sector outside Bavaria (from the former Financial Institutions/Sovereigns segment). In addition, the legally dependent institution Bayerische Landesbodenkreditanstalt (BayernLabo) is also allocated to this segment.

The Mittelstand & Retail Customers segment serves corporate customers throughout Germany with sales of up to EUR 1 billion. Its main market, however, is Bavaria. Customers are served either independently or in partnership with the savings banks. The segment also includes the Group's strategic subsidiaries Deutsche Kreditbank AG sub group, Berlin, Landesbank Saar sub group, Saarbrücken and Banque LBLux S.A., Luxembourg, which are principally active in retail and private banking. The segment also comprises the legally dependent body Bayerische Landesbausparkasse (LBS Bayern) and special fund LBMUE I-III, Munich, which must be consolidated.

The Eastern Europe segment was established to reflect those business activities conducted primarily in Eastern and South Eastern Europe. It includes the Group strategic subsidiary MKB Bank Zrt. sub-group, Budapest, (Hungary) as well as the income statement results and loss on the deconsolidation of the Hypo Alpe-Adria-Bank International AG sub-group, Klagenfurt (Austria).

The Restructuring Unit segment was established on 1 July 2009 as part of the BayernLB Group's restructuring and resizing programme. In this segment, as with internal management, selected portfolios (non-core activities) are separated from the operating activities of the business segments. The Restructuring Unit also includes asset-backed securities affected by the financial market crisis including the hedging instruments concluded for them and individual positions from troubled securities portfolios (formerly the Credit Investments Portfolio segment). The consolidated units Giro Balanced Funding Corporation, Delaware (USA), and Giro Lion Funding Limited, Jersey (UK), which contribute to the segment's performance, are also allocated to this segment.

The Central Areas & Others segment includes the earnings contributions from the central areas Corporate Center, Risk Office, and Financial Office, and IT & Operations. It mainly shows the earnings from holdings allocated to the segment as well as the costs incurred refinancing and managing these holdings. The refinancing costs of the Group's strategic subsidiaries are also allocated to this segment. The segment also includes cross-divisional business transactions whose earnings contributions cannot be allocated to either a business area or a central area. Moreover the consolidated subsidiaries BayernLB Capital LLC I, Wilmington (USA) and GBWAG Bayerische Wohnungs-AG sub-group, Munich, are also allocated to this segment.

The Consolidation column shows consolidation entries that are not allocated to any segment.

Earnings from typical banking operations after risk provisioning (net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedging transactions, gains or losses on investments, and gains or losses on entities accounted for using the equity method) were EUR –740 million (2008: EUR –2,558 million), of which EUR –2,274 million (2008: EUR 906 million) relates to Europe excluding Germany, EUR –108 million (2008: EUR –1,670 million) to America, and EUR 13 million (2008: EUR –46 million) to Asia/Pacific.

Notes to the statement of comprehensive income

(26) Net interest income

EUR million	2009	2008
Interest income	**16,399**	**22,158**
• From credit and money market transactions	10,467	13,581
of which:		
– from unwinding	125	70
– from the sale of receivables	6	3
• From bonds, notes and other fixed-interest securities	1,604	3,141
• Current income from equities and other non-fixed interest securities	7	19
• Current income from non-consolidated subsidiaries, joint ventures, associates and other interests	28	39
• Current income from profit-pooling and profit transfer agreements	8	23
• From hedge accounting derivatives	2,971	3,318[1]
• From derivatives in economic hedges	1,314	2,037[1]
Interest expenses	**13,837**	**19,488**
• From liabilities to banks and customers	5,882	8,023[2]
• For securitised liabilities	3,658	5,078
• For subordinated capital	505	671
• For hedge accounting derivatives	2,299	3,570[1]
• For derivatives in economic hedges	1,175	2,041[1]
• Other interest expenses	318	105[2]
Total	**2,561**	**2,670**

1 *The previous year's figure has been adjusted due to the reallocation of interest income/expenses from derivatives in economic hedges to interest income/expenses from hedge accounting derivatives.*
2 *The previous year's figure has been adjusted due to the reallocation of the amortisation of hedge adjustments, which results from underlying transactions of hedge accounting, from the item interest expenses for liabilities to banks and customers to the item other interest expenses.*

The total interest income from financial assets and liabilities not carried at fair value through profit or loss was EUR 11,999 million (2008: 16,636 million), while the total interest expenses were EUR 9,994 million (2008: 13,658 million).

(27) Risk provisions for the credit business

EUR million	2009	2008
Additions	3,365	2,221
Direct write-offs	647	99
Reversals	699	568
Recoveries on written off receivables	38	101
Other risk provision gains or losses	–2	–5
Total	**3,277**	**1,656**

The amounts include both on-balance sheet and off-balance sheet credit business.

(28) Net commission income

EUR million	2009	2008
Securities business	62	71
Broker fees	–11	–11
Credit business	314	339
Payments	50	70
Foreign commercial operations	6	6
Home loan savings business	–34	–27
Trust transactions	18	20
Other services	29	116
Total	**434**	**584**

This includes commission income and expenses from financial instruments at fair value.

(29) Gains or losses on fair value measurement

EUR million	2009	2008
Net trading income	**998**	**–1,903**
• Interest-driven transactions	1,005	823[1]
• Equity-related and index-related transactions and transactions with other risks	21	12
• Currency-related transactions	146	–62[2]
• Credit derivatives	–77	–1,991
• Other financial transactions	7	23
• Refinancing of trading portfolios	–97	–587
• Trading-related commission	–14	–14
• Fair value adjustments	7	–107[1]
Fair value gains or losses from the fair value option	**–111**	**–173**
Total	**887**	**–2,076**

1 Previous year's figure adjusted due to the separate reporting of the fair value adjustment.
2 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

Net trading income includes realised and unrealised gains or losses attributable to trading activities, the interest and dividend income related to such transactions and gains on losses on foreign currency translation.

Interest income and expenses from the portfolios in the fair value option and derivatives in economic hedges are reported under net interest income.

Fair value adjustments include the effect of applying counterparty-specific credit spreads in the measurement of OTC derivatives and the effect from measuring financial instruments at mid-market rates instead of bid/offer prices based on sensitivity analyses.

(30) Gains or losses on hedge accounting

EUR million	2009	2008
Gains or losses on micro fair value hedges	**103**	**–196**
• Value of underlying transactions	–700	–1,622
• Value of hedging instruments	803	1,426
Gains or losses on portfolio fair value hedges	**–5**	**60**
• Value of underlying transactions	236	555
• Value of hedging instruments	–241	–495
Total	**98**	**–136**

(31) Gains or losses on investments

EUR million	2009	2008
Gains or losses on loans and receivables investments	**–403**	**–330**
• Gains or losses on sale	–1	–20
• Income from writebacks	44	–
of which:		
– portfolio provisions	44	–
• Expenses from writedowns	446	310
of which:		
– specific loan loss provisions	421	100
– portfolio provisions	25	210[1]
Gains or losses on available-for-sale investments	**106**	**–1,622**
• Gains or losses on sale	–127	–12
• Income from writebacks	683	23
• Expenses from writedowns	450	1,633
Gains or losses on deconsolidation	**–1,138**	**–**
Total	**–1,435**	**–1,952**[1,2]

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).
2 Previous year's figure adjusted due to the reallocation of gains or losses from repurchases of own issues to the other income item (see note 2).

(32) Administrative expenses

EUR million	2009	2008
Staff costs	**926**	**1,069**
• Salaries and wages	727	816
• Social security contributions	124	125
• Expenses for pensions and other employee benefits	75	128
of which:		
– expenses for defined contribution plans	7	9
Other administrative expenses	**914**	**1,031**
• Land and buildings for own use	133	136
• Data processing costs	216	230
• Office costs	20	26
• Advertising	68	93
• Communication and other selling costs	74	81
• Membership, legal and consulting fees	229	291
• Miscellaneous administrative costs	174	174
Amortisation and depreciation of property, plant and equipment and intangible assets (not including goodwill)	**285**	**520**
Total	**2,125**	**2,620**

Staff costs include other non-current employee benefits in the amount of EUR 9 million (2008: EUR 4 million) and employment termination benefits of EUR 12 million (2008: EUR 21 million).

(33) Other income

EUR million	2009	2008
Other income	**1,573**	**1,193[1]**
• Rental income	385	377
of which:		
– rental income from investment property	260	248
• Gains on the sale of property, plant and equipment, intangible assets, investment property and property held as inventory	48	37
• Income from writebacks to property, plant and equipment, intangible assets, investment property and property held as inventory	7	1
• Gains on the sale of underlying transactions from hedge accounting	108	12
• Gains from buying back own issues	127	68
• Income from the writeback of provisions	31	52
• Sundry other income	867	646[2]
Other expenses	**1,112**	**1,032[1]**
• Current expenses from investment property	14	18
– leased property	11	14
– unleased property	3	4
• Losses on the sale of property, plant and equipment, intangible assets, investment property and property held as inventory	42	15
• Depreciation of investment property and property held as inventory	240	112
• Amortisation of goodwill	35	4
• Writedowns on operating leases	88	92[3]
• Losses on the sale of underlying transactions from hedge accounting	36	19
• Losses from buying back own issues	81	48
• Expenses from establishing provisions	23	55
• Expenses from loss transfers	12	7
• Expenses from other taxes	27	27
• Sundry other expenses	514	635[3]
Total	**461**	**161[1]**

1 *Previous year's figure adjusted by EUR 68 million (other income) and EUR 48 million (other expenses) due to the reallocation of the gains or losses from repurchases of own issues, from the item gains or losses on investments (see note 2).*

2 *Previous year's figure adjusted because gains or losses from non-current assets and disposal groups held for sale have been reported since the reporting year under the corresponding income statement items as additional information (see note 2).*

3 *Previous year's figure adjusted due to the separate reporting of writedowns on operating leases.*

In the reporting year, no other income was generated from non-current assets and disposal groups held for sale (2008: EUR 18 million).

A significant proportion of the other income item arose from the adjustment to present value due to the share in losses of dated silent partner contributions and profit participation rights recognised in the income statement (EUR 117 million) and gains from the closure of the Bavarian Reserve Fund (EUR 128 million). Other income and expenses relates largely to non-typical banking items, in particular income from the management of property by subsidiaries.

(34) Restructuring expenses

EUR million	2009	2008
Expenses for restructuring measures initiated	361	87
Total	**361**	**87**

Most restructuring expenses resulted from personnel measures within the scope of Project Hercules, which is focused on winding down non-core activities in the BayernLB Group.

(35) Income taxes

EUR million	2009	2008
Current income taxes	**239**	**423**
• Domestic and foreign corporate income tax including solidarity surcharge	137	367
• Municipal trade tax/foreign local taxes	102	56
Deferred income taxes	**89**	**–174**
• Domestic and foreign corporate income tax including solidarity surcharge	32	–130[1]
• Municipal trade tax/foreign local taxes	57	–44[1]
Total	**328**	**249**

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

A deferred tax expense of EUR 104 million arose from the creation and reversal of temporary differences and the change in loss carryforwards, interest carryforwards, tax credits and tax reserves.

The income tax expenses recognised in the reporting year were EUR 1,203 million higher (2008: EUR 1,934 million higher[1]) than forecast. The factors producing this variation are shown in the table below:

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

EUR million	2009	2008
Earnings before tax under IFRS	–2,765	–5,105[1]
Group income tax rate (in %)	31.4 %	33.0 %
Estimated income tax	**–868**	**–1,685[1]**
• Effects from differing local tax rates	51	–197[1]
• Effects from taxes from previous years recognised in the reporting year	–59	257
• Effects from changes in tax rates	16	–1
• Increase in corporation income tax on former EK02	–	28
• Effects from non-deductible income taxes (particularly withholding tax)	–	2
• Impairment of non-tax deductible goodwill	–	14
• Effects from non-deductible losses on sales or writedowns of participations and shareholder loans/from deconsolidation	961[2]	34
• Effects from additions/deductions on municipal trade tax	55	26
• Effects from other non-deductible operating expenses	82	589
• Effects of tax-exempt income	–13	–211
• Effects from permanent accounting differences	169	183
• Effects from writedowns/corrections	–57	1,288[1]
• Increase/decrease in deferred tax liabilities from outside basis differences	–20	–83
• Other	11	5
Effective income tax expenses (+)/income (–)	**328**	**249**
Effective income tax rate (in %)	**11.9 %**	**–4.9 %[1]**

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2). These adjustments increased the tax expense by EUR 58 million.

2 In the reporting year including transition-related tax effects of the sub-group Hypo Alpe-Adria-Bank International AG, Klagenfurt, which also includes the effects from the non-recognition or the writedown of deferred taxes from loss carryforwards.

Estimated income tax expenses were calculated using the tax rate applicable to companies that are liable to taxes in Germany. A corporate income tax rate of 15.0 percent (2008: 15.0 percent), solidarity surcharge of 5.5 percent (2008: 5.5 percent) and average municipal trade tax of 15.6 percent (2008: 17.2 percent), resulted in a Group income tax rate of 31.4 percent as at the balance sheet date (2008: 33.0 percent).

The changes in calculating the applicable tax rates and the corresponding transition position arose principally due to the consolidation of Deutsche Kreditbank Aktiengesellschaft, Berlin, into BayernLB's tax group. The relevant municipal trade tax was reduced as a result. The changes in tax rates increased tax expenses by EUR 16 million (2008: decreased by EUR 1 million).

In the reporting year, tax effects from the utilisation of tax loss carryforwards of EUR 119 million, for which no deferred tax assets were recognised in the previous year, were reported under effects from impairments and corrections. There continued to be effects on current tax expenses of EUR 40 million from the changes in surpluses of deductible temporary differences recognised in the income statement, for which no deferred tax assets were recognised in the previous year.

Tax-exempt income in the reporting year largely included tax-exempt dividend income. The effects of other non-deductible operating expenses include in particular tax effects from non-deductible interest expenses, the balance of non-deductible interbranch expenses and tax-exempt interbranch income (BayernLB's US foreign entity). The tax effects of municipal trade tax additions/deductions and the effects of non-deductible losses from the sale or writedown of investments were recognised separately in the reporting year (in the previous year in reconciliation items "Other" and "Effects of other non-deductible operating expenses").

Permanent balance sheet differences are primarily the result of unrealised losses from securities of BayernLB's US foreign entity, only a small proportion of which is tax-deductable under US tax law when realised.

Notes to the balance sheet

(36) Cash reserves

EUR million	2009	2008
Cash in hand	**295**	**499**
Deposits with central banks	**2,764**	**2,096**
Debt instruments issued by public entities and bills of exchange eligible for refinancing with central banks	**453**	**1,201**
• Treasury bills and non-interest bearing Federal Treasury notes and similar debt issued by public-sector entities	453	1,186
• Bills of exchange	–	15
Total	**3,512**	**3,796**

(37) Loans and advances to banks

EUR million	2009	2008
Loans and advances to domestic banks	44,952	53,527
Loans and advances to foreign banks	29,654	36,111
Total	**74,606**	**89,638**

Loans and advances to banks by maturity

EUR million	2009	2008
Payable on demand	**9,227**	**13,772**
With residual maturity of	**65,379**	**75,866**
• up to three months	15,761	23,975
• between three months and one year	17,892	15,460
• between one year and five years	20,974	23,934
• more than five years	10,752	12,497
Total	**74,606**	**89,638**

(38) Loans and advances to customers

EUR million	2009	2008
Loans and advances to domestic customers	**105,209**	**106,422**
• Government entities/companies under public law	19,578	17,806
• Private companies/people	85,631	88,616
Loans and advances to foreign customers	**53,753**	**96,145**
• Government entities/companies under public law	3,630	9,871
• Private companies/people	50,123	86,274
Total	**158,962**	**202,567**

Loans and advances to customers by maturity

EUR million	2009	2008
With residual maturity of	**157,060**	**200,800**
• up to three months	17,686	26,672
• between three months and one year	14,336	19,476
• between one year and five years	48,410	63,722
• more than five years	76,628	90,930
Undated maturities	**1,902**	**1,767**
Total	**158,962**	**202,567**

(39) Risk provisions

Specific loan loss provisions

	Loans and advances to banks		Loans and advances to customers		Other asset items		Total	
EUR million	2009	2008	2009	2008	2009	2008	2009	2008
As at 1 Jan	**515**	**7**	**2,265**	**1,927[1]**	**6**	**5**	**2,786**	**1,939**
Changes recognised in profit or loss	**279**	**508**	**1,965**	**815**	**–3**	**2**	**2,241**	**1,325**
• Additions	302	509	2,470	1,296	1	4	**2,773**	**1,809**
• Reversals	11	1	390	410	4	2	**405**	**413**
• Unwinding	12	–	115	71	–	–	**127**	**71**
Changes not recognised in profit or loss	**–2**	**–**	**–2,728**	**–477**	**–2**	**–1**	**–2,732**	**–478**
• Currency-related changes	–	–	11	–	–	–	**11**	**–**
• Changes in the scope of consolidation	–21	–	–2,138	–	–1	–	**–2,160**	**–**
• Utilisation	34	–	655	492[1]	–	1	**689**	**493**
• Transfers/other changes	53	–	54	15	–1	–	**106**	**15**
As at 31 Dec	**792**	**515**	**1,502**	**2,265**	**1**	**6**	**2,295**	**2,786**

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

Specific loan loss provisions by sector

EUR million	2009	2008
Sector groups		
• Banks/financial services providers	939	681
• Real estate	417	393
• Retail customers	156	174
• Construction	120	174
• Food & beverages	110	145
• Automotive	94	89
• Health care	59	62
• Technology	36	35
• Logistics	36	38
• Hotels	34	63
• Steel	34	9
• Aviation	34	45
• Chemicals	30	95
• Non-ferrous metals/coal and steel	23	24
• Pulp & paper	22	55
• Consumer durables	20	72
• Wholesale & retail	19	140
• Utilities	18	28
• Textiles & apparel	13	18
• Media	12	30
• Manufacturing & engineering	11	34
• Tourism	1	40
• Countries/public sector	1	5
• Other sector groups	56	337
Total	**2,295**	**2,786**

Portfolio provisions

	Loans and advances to banks		Loans and advances to customers		Other asset items		Total	
EUR million	2009	2008	2009	2008	2009	2008	2009	2008
As at 1 Jan	**103**	**32**	**549**	**353**	**1**	**2**	**653**	**387**
Changes recognised in profit or loss	**483**	**70**	**339**	**260**	**1**	**–1**	**823**	**329**
• Additions	540	75	523	342	1	1	**1,064**	**418**
• Reversals	57	5	184	82	–	2	**241**	**89**
Changes not recognised in profit or loss	**–539**	**1**	**–410**	**–64**	**–2**	**–**	**–951**	**–63**
• Currency-related changes	–	–	–3	3	–	–	**–3**	**3**
• Changes in the scope of consolidation	–	–	–264	–	–1	–	**–265**	**–**
• Utilisation	540	–	107	99	–	–	**647**	**99**
• Transfers/other changes	1	1	–36	32	–1	–	**–36**	**33**
As at 31 Dec	**47**	**103**	**478**	**549**	**–**	**1**	**525**	**653**

Risk provisions for contingent liabilities and other liabilities are shown as provisions for credit business risks (see note 55).

(40) Assets held for trading

EUR million	2009	2008
Bonds, notes and other fixed-interest securities	**6,691**	**9,001**
• Money market instruments	126	363
• Bonds and notes	6,565	8,638
Equities and other non-fixed interest securities	**94**	**131**
• Equities	94	131
Receivables held for trading	**1,163**	**3,360**
• Schuldschein note loans	1,159	660
• Money market transactions	4	2,700
Positive fair values from derivative financial instruments (not hedge accounting)	**29,839**	**34,760[1]**
Total	**37,787**	**47,252**

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

Assets held for trading includes the fair value from the guarantee agreement with the Free State of Bavaria ("Umbrella") in the amount of EUR 2,319 million. Further information on the guarantee agreement is given in the Management Report.

Assets held for trading by maturity

EUR million	2009	2008
With residual maturity of	**37,693**	**47,182**
• up to three months	1,563	5,346
• between three months and one year	3,934	4,822[1]
• between one year and five years	16,987	18,597[1]
• more than five years	15,209	18,417[1]
Undated maturities	**94**	**70**
Total	**37,787**	**47,252**

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

(41) Positive fair values from derivative financial instruments (hedge accounting)

EUR million	2009	2008
Positive fair values on micro fair value hedges	4,037	3,929
Total	**4,037**	**3,929**

Positive fair values from derivative financial instruments (hedge accounting) by maturity

EUR million	2009	2008
With residual maturity of		
• up to three months	128	56
• between three months and one year	189	52
• between one year and five years	1,808	1,241
• more than five years	1,912	2,580
Total	**4,037**	**3,929**

(42) Investments

EUR million	2009	2008
Held-to-maturity investments	**–**	**40**
• Bonds, notes and other fixed-interest securities	–	40
Loans and receivables investments	**32,434**	**35,359**
Bonds, notes and other fixed-interest securities	32,434	35,359[1]
Available-for-sale investments	**20,514**	**25,411**
• Bonds, notes and other fixed-interest securities	19,592	24,315[1]
• Equities and other non-fixed interest securities	212	262
• Interests in non-consolidated subsidiaries, joint ventures, associated companies and other interests	710	834
Fair value option investments	**1,091**	**1,531**
• Bonds, notes and other fixed-interest securities	1,040	1,430
• Equities and other non-fixed interest securities	51	101
Total	**54,039**	**62,341**

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

Investments in the loans and receivables category arose from the reclassification of securities from the available-for-sale and held-for-trading categories. Further information is given under note (62).

The items bonds and other fixed-interest securities as well as equities and other non-fixed interest securities are broken down as follows

EUR million	2009	2008
Bonds, notes and other fixed-interest securities	**53,066**	**61,144**
• Money market instruments	2,441	2,009
• Bonds and notes	50,625	59,135[1]
Equities and other non-fixed interest securities	**263**	**363**
• Equities	33	73
• Investment units	230	279
• Other non-fixed-interest securities	–	11

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

Investments broken down by maturity

EUR million	2009	2008
With residual maturity of	**53,096**	**60,917**
• up to three months	2,532	5,418
• between three months and one year	6,025	4,261
• between one year and five years	16,425	16,931[1]
• more than five years	28,114	34,307
Undated maturities	**943**	**1,424**
Total	**54,039**	**62,341**

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

(43) Interests in companies accounted for using the equity method

EUR million	2009	2008
Joint ventures	28	68
Associated companies	44	38
Total	**72**	**106**

Summary of financial information on joint ventures accounted for using the equity method

EUR million	2009	2008
Current assets	24	485
Non-current assets	118	1,352
Current liabilities	67	367
Non-current liabilities	74	1,336
Earnings	51	175
Expenses	51	168

Summary of financial information on associated companies accounted for using the equity method

EUR million	2009	2008
Total assets	687	1,003
Equity	176	161
Revenues	53	108
Volume of discontinued operations	1	1

(44) Investment property

EUR million	2009	2008
Land and buildings leased	2,731	3,456
Undeveloped land	29	39
Unused buildings	1	22
Total	**2,761**	**3,517**

Changes to investment property

EUR million	2009	2008
Cost of purchase		
• As at 1 Jan	3,733	3,503
• Changes from currency translation	1	1
• Changes in the scope of consolidation	–734	38
• Additions	258	355
• Transfers	32	–18
• Disposals	274	146
• As at 31 Dec	3,016	3,733
Depreciation and reversals		
• As at 1 Jan	216	128
• Changes from currency translation	–	–1
• Changes in the scope of consolidation	–94	–1
• Depreciation	74	67
• Impairments	73	41
• Reversals	4	1
• Transfers	13	–2
• Disposals	23	15
• As at 31 Dec	255	216
Carrying amount		
• As at 1 Jan	3,517	3,375
• As at 31 Dec	2,761	3,517

Additions to investment property include one purchase of EUR 250 million (2008: 300 million) and the capitalisation of EUR 8 million (2008: EUR 55 million) in subsequent purchase costs.

Writedowns of EUR 52 million relate to investment property held by the GBW AG sub-group, Munich.

Expenditure on construction in progress in the reporting year of EUR 2 million (2008: EUR 41 million) was capitalised.

The fair value of investment property was EUR 3,134 million (2008: 3,810 million). The calculation of the fair value of the key holdings was carried out by an external expert and was based on the discounted cash flow method using market and geodata.

(45) Property, plant and equipment

EUR million	2009	2008
Land and buildings for own use	681	1,217
Business and office equipment	155	263
Equipment leased under operating leases	–	471
Total	**836**	**1,951**

Changes in property, plant and equipment

	Land and buildings for own use		Business and office equipment		Equipment leased under operating leases		Total	
EUR million	2009	2008	2009	2008	2009	2008	2009	2008
Cost of purchase								
As at 1 Jan	1,375	1,221	684	662	589	470	**2,648**	**2,353**
• Changes from currency translation	–2	–7	–5	–11	–	–5	**–7**	**–23**
• Changes in the scope of consolidation	–505	–	–238	4	–532	–	**–1,275**	**4**
• Additions	95	179	67	87	75	328	**237**	**594**
• Transfers	–88	13	–19	1	–	2	**–107**	**16**
• Disposals	86	31	54	59	132	206	**272**	**296**
As at 31 Dec	789	1,375	435	684	–	589	**1,224**	**2,648**
Depreciation and reversals								
As at 1 Jan	158	100	421	380	118	87	**697**	**567**
• Changes from currency translation	–	–1	–2	–6	–	–3	**–2**	**–10**
• Changes in the scope of consolidation	–70	–	–154	2	–170	–	**–394**	**2**
• Depreciation	33	30	61	70	88	92	**182**	**192**
• Impairments	69	30	1	9	7	16	**77**	**55**
• Reversals	2	–	–	–	4	10	**6**	**10**
• Transfers	–73	1	–9	–	–	–2	**–82**	**–1**
• Disposals	7	2	38	34	39	62	**84**	**98**
As at 31 Dec	108	158	280	421	–	118	**388**	**697**
Carrying amount								
As at 1 Jan	1,217	1,121	263	282	471	383	**1,951**	**1,786**
As at 31 Dec	681	1,217	155	263	–	471	**836**	**1,951**

Property, plant and equipment with restricted rights of disposal was valued at EUR 2 million (2008: EUR 6 million) on the balance sheet date.

No expenses (2008: EUR 50 million) for work in progress were capitalised and no liabilities incurred from the acquisition of property, plant and equipment (2008: EUR 206 million) in the reporting year.

(46) Intangible assets

EUR million	2009	2008
Goodwill	150	970
Intangible assets produced in-house	3	16
Other intangible assets	113	1,227
Total	**266**	**2,213**

Changes in intangible assets

	Goodwill		Intangible assets produced in-house		Other intangible assets		Total	
EUR million	2009	2008	2009	2008	2009	2008	2009	2008
Cost of purchase								
As at 1 Jan	981	1,005	25	11	1,770	1,748	**2,776**	**2,764**
• Changes from currency translation	–4	–18	–	–	–1	–6	**–5**	**–24**
• Changes in the scope of consolidation	–841	–	–17	7	–1,524	8	**–2,382**	**15**
• Additions	61	–	6	2	68	80	**135**	**82**
• Transfers	–	–6	–5	8	2	–13	**–3**	**–11**
• Disposals	7	–	–	3	46	47	**53**	**50**
As at 31 Dec	190	981	9	25	269	1,770	**468**	**2,776**
Depreciation and reversals								
As at 1 Jan	11	7	8	4	544	182	**563**	**193**
• Changes from currency translation	2	–	–	–	–	–3	**2**	**–3**
• Changes in the scope of consolidation	–1	–	–6	–	–502	4	**–509**	**4**
• Depreciation	–	–	4	4	117	127	**121**	**130**
• Impairments	35	4	–	–	–	250	**35**	**254**
• Transfers	–	–	–	–	3	–3	**3**	**–3**
• Disposals	7	–	–	–	6	13	**13**	**13**
As at 31 Dec	40	11	6	8	156	544	**202**	**563**
Carrying amount								
As at 1 Jan	970	998	17	7	1,226	1,566	**2,213**	**2,571**
As at 31 Dec	150	970	3	17	113	1,226	**266**	**2,213**

The changes in the scope of consolidation in relation to goodwill and other intangible assets resulted entirely from the deconsolidation of the Hypo Alpe-Adria-Bank International AG sub-group, Klagenfurt (Austria).

(47) Current and deferred tax assets

EUR million	2009	2008
Current tax assets	**188**	**269**
• Germany	143	172
• Abroad	45	97
Deferred tax assets	**2,980**	**4,390**
• Germany	2,858	3,793
• Abroad	122	597
Total	**3,168**	**4,659**

The following deferred taxes under assets and liabilities relate to recognition and measurement differences in individual balance sheet items, and to tax loss carryforwards and tax credits:

	2009		2008	
EUR million	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loans and advances to banks and customers in the German credit business including risk provisions	110	275	416	487
Assets held for trading	32	6,649	728	6,821
Positive fair values from derivative financial instruments (hedge accounting)	–	1,488	–	1,240
Investments	1,251	112	582	631[1]
Property, plant and equipment	10	66	14	115
Non-current assets and disposal groups held for sale	–	4	–	–
Other assets	452	3	1,520	263
Liabilities to banks and customers	38	584	72	869
Securitised liabilities	272	11	81	21
Liabilities held for trading	6,491	1	6,724	14
Negative fair values from derivative financial instruments (hedge accounting)	580	21	846[1]	18
Provisions	386	1	449	50
Other liabilities	7	419	76	1,614
Subordinated capital	33	66	–	149
Interests in subsidiaries and joint ventures	–	10	–	31
Tax loss carryforwards/interest carryforwards	19	–	266	–
Other	–	–	–	–
Sub-total	9,681	9,710	11,774	11,755
Less netting	6,701	6,701	7,384[1]	7,384[1]
Total deferred taxes less provisions and netting	**2,980**	**3,009**	**4,390**	**4,371**

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

The deferred tax assets and liabilities arising in relation to the items assets held for trading, liabilities held for trading, positive fair values from derivative financial instruments (hedge accounting) and negative fair values from derivative financial instruments (hedge accounting) are assumed to have a maturity of no more than 12 months and are therefore current. The remaining deferred tax assets of EUR 2,980 million and deferred tax liabilities of EUR 3,009 million are classed as non-current.

The EUR –48 million change (2008: EUR –101 million) in the balance of deferred tax assets and liabilities does not correspond to deferred tax expenses of EUR –89 million (2008: tax income of EUR 174 million[1]). Most of this was due to the changes in deferred taxes not recognised through profit or loss; this was primarily the result of:

- EUR –102 million (2008: EUR –101 million) booked against the revaluation reserve and
- the derecognition of deferred taxes due to the deconsolidation of Hypo Alpe-Adria-Bank International AG, Klagenfurt, of EUR 147 million.

No effects from the tax deduction of distributions for hybrid capital from current taxes (2008: EUR 3 million) were recognised. In the reporting year, EUR 81 million in current income taxes arising from the share in the losses of silent partner contributions were recognised in equity.

Tax loss carryforwards, interest carryforwards and instalments, for which a deferred tax asset has been recognised, not recognised or for which a loan loss provision has been established, are listed separately in the table below for all types of tax loss and interest carryforwards relevant to the Group. The period of time in which unrecognised loss carryforwards and interest carryforwards may still be used according to the tax law applicable in each case is also shown. Tax loss carryforwards and interest carryforwards of companies liable to tax in Germany may be used indefinitely.

EUR million	2009	2008
Interest carryforwards		
• Interest carryforwards	85	40
– interest carryforwards for which a deferred tax asset has been recognised	–	17
– interest carryforwards for which no deferred tax asset has been recognised	85	23
may be used indefinitely	85	23
Corporate income tax		
• Loss carryforwards	3,368	5,578
– loss carryforwards for which a deferred tax asset has been recognised	70	868
– loss carryforwards for which a provision has been established	848	808
– loss carryforwards for which no deferred tax asset has been recognised	2,450	3,902
expire within five years	–	61
expire after 10 years	23	29
may be used indefinitely	2,427	3,812
Municipal trade tax		
• Loss carryforwards	2,225	3,069
– loss carryforwards for which a deferred tax asset has been recognised	54	547
– loss carryforwards for which a provision has been established	565	521
– loss carryforwards for which no deferred tax asset has been recognised	1,606	2,001
expire after 10 years	–	29
may be used indefinitely	1,606	1,972

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

No deferred tax assets were recognised for deductible temporary differences of EUR 2,758 million (2008: EUR 3,005 million[1)]). In the case of Group companies generating a tax loss in the current financial year or in previous financial years, deferred tax assets of EUR 83 million (2008: EUR 289 million) were recognised, for which the utilisation is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. The amount recognised is based on the tax planning for the consolidated tax group or the company in question.

No deferred tax liabilities were recognised for the EUR 13 million (2008: EUR 11 million) in taxable temporary differences from interests in subsidiaries and joint ventures as it is improbable that the reversal of the temporary difference will occur in the foreseeable future.

(48) Non-current assets and disposal groups held for sale

EUR million	2009	2008
Investments	17	28
Property, plant and equipment	12	–
Total	**29**	**32**

(49) Other assets

EUR million	2009	2008
Prepaid expenses	45	120
Other assets	842	1,555
Leasing assets not yet leased	–	671
Total	**887**	**2,346**[1]

1 Previous year's figure adjusted due to the reallocation of non-current assets and disposal groups held for sale to a separate item on the balance sheet.

EUR 76 million of other assets are due after more than 12 months.

(50) Liabilities to banks

EUR million	2009	2008
Liabilities to domestic banks	66,527	92,507
Liabilities to foreign banks	24,957	49,973
Total	**91,484**	**142,480**

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

Liabilities to banks by maturity

EUR million	2009	2008
Payable on demand	**8,089**	**7,873**
With residual maturity of	**83,333**	**134,587**
• up to three months	18,170	60,926
• between three months and one year	19,310	21,753
• between one year and five years	20,311	24,159
• more than five years	25,542	27,749
Undated maturities (home loan savings deposits)	**62**	**20**
Total	**91,484**	**142,480**

(51) Liabilities to customers

EUR million	2009	2008
Liabilities to domestic customers	**79,880**	**69,350**
• Government entities/companies under public law	13,009	11,594
• Private companies/people	66,871	57,756
Liabilities to foreign customers	**12,317**	**21,957**
• Government entities/companies under public law	335	2,650
• Private companies/people	11,982	19,307
Total	**92,197**	**91,307**

Liabilities to customers by maturity

EUR million	2009	2008
With residual maturity of	**83,041**	**82,644**
• up to three months	49,023	37,937
• between three months and one year	4,036	10,155
• between one year and five years	9,587	12,356
• more than five years	20,395	22,196
Undated maturities (home-loan savings deposits)	**9,156**	**8,663**
Total	**92,197**	**91,307**

(52) Securitised liabilities

EUR million	2009	2008
Bonds and notes issued	**88,738**	**108,802**
• Mortgage-backed Pfandbriefs	5,707	3,484
• Public Pfandbriefs	26,675	35,747
• Other bonds	56,356	69,571
Other securitised liabilities	**4,230**	**8,677**
• Money market instruments	4,145	5,791
• Miscellaneous securitised liabilities	85	2,886
Total	**92,968**	**117,479**

Securitised liabilities by maturity

EUR million	2009	2008
With residual maturity of		
• up to three months	9,364	14,703
• between three months and one year	11,273	17,522
• between one year and five years	53,666	51,794
• more than five years	18,665	33,460
Total	**92,968**	**117,479**

(53) Liabilities held for trading

EUR million	2009	2008
Trading portfolio liabilities	**138**	**704**
• Money market transactions	–	294
• Liabilities from short sales	138	410
Negative fair values from derivative financial instruments (not hedge accounting)	**29,068**	**33,210**[1,2]
Fair value adjustments	**98**	**107**[1]
Total	**29,304**	**34,021**

1 Previous year's figure adjusted due to the separate reporting of the fair value adjustment.
2 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

The effect of the inclusion of a counterparty-specific credit spread in the measurement of OTC derivatives and the effect of the measurement of financial instruments at mid-market rates compared with bid/offer prices based on sensitivity analyses are included in the fair value adjustments.

Liabilities held for trading by maturity

EUR million	2009	2008
With residual maturity of		
• up to three months	1,224	2,530
• between three months and one year	3,121	3,931[1]
• between one year and five years	13,263	12,497[1]
• more than five years	11,696	15,063[1]
Total	**29,304**	**34,021**

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

(54) Negative fair values from derivative financial instruments (hedge accounting)

EUR million	2009	2008
Negative fair values on micro fair value hedges	1,464	2,495
Negative fair values on portfolio fair value hedges	916	591
Total	**2,380**	**3,086**

Negative fair values from derivative financial instruments (hedge accounting) by maturity

EUR million	2009	2008
With residual maturity of		
• up to three months	28	29
• between three months and one year	98	126
• between one year and five years	775	1,253
• more than five years	1,479	1,678
Total	**2,380**	**3,086**

(55) Provisions

EUR million	2009	2008
Provisions for pensions and similar obligations	**2,567**	**2,401**
Other provisions	**719**	**711**
• Provisions for the credit business	198	217
• Restructuring provisions	371	86
• Miscellaneous provisions	150	408
Total	**3,286**	**3,112**

EUR 24 million in other provisions are due after more than 12 months.

Provisions for pensions and similar obligations

Pension provisions are broken down as follows:

EUR million	2009	2008
Present value of pension obligations	**1,853**	**1,776**
• Non-funded plans	461	357
• Funded plans	1,392	1,419
Fair value of plan assets	**–93**	**–79**
Actuarial gains and losses not yet entered	**807**	**704**
Reported pension provisions	**2,567**	**2,401**

Change in the present value of pension obligations

EUR million	2009	2008
As at 1 Jan	**1,776**	**2,057**
Current service expenses	46	60
Interest expenses	111	110
Actuarial gains and losses	–116	–372
Changes from currency translation	2	–12
Changes in the scope of consolidation	–27	4
Benefits paid	–79	–71
Settlement	1	–
Transfers	141	–
As at 31 Dec	**1,853**	**1,776**

Change in the fair value of the plan assets and of reimbursement rights reported as an asset

	Fair Value of the plan assets	
EUR million	**2009**	**2008**
As at 1 Jan	**79**	**92**
Estimated returns	4	4
Actuarial gains and losses	4	–11
Changes from currency translation	3	–11
Changes in the scope of consolidation	–	1
Employer contributions	9	6
Employee contributions	–	3
Benefits paid	–6	–5
As at 31 Dec	**93**	**79**

Plan assets comprise equity instruments (EUR 38 million; 2008: EUR 23 million), debt instruments (EUR 44 million; 2008: EUR 30 million), and other assets (EUR 11 million; 2008: EUR 26 million). Other assets mainly comprise funds in a time deposit account.

Expected income from plan assets is calculated based on long-term yields on the capital market and historical capital market performance. Actual income from plan assets in the reporting year stood at EUR 9 million (2008: EUR 9 million).

Over the past three years, the changes in the present value of pension obligations, the fair value of plan assets and the surplus/deficit in obligations were as follows:

EUR million	2009	2008	2007
Present value of pension obligations	1,853	1,776	2,057
Fair value of plan assets	93	79	92
Surplus/deficit in obligations	**–1,760**	**–1,697**	**–1,965**
Experience-based adjustments to the value of the obligation	–22	27	20

Contributions to the plan for financial year 2010 are estimated at EUR 4 million.

Expenses for the pension obligations reported in the income statement are broken down as follows:

EUR million	2009	2008
Current service expenses	46	60
Interest expenses	110	110
Expected returns on plan assets	4	4
Actuarial gains and losses	–35	–7
Total	**117**	**159**

Except for interest expenses, which are reported under net interest income, the expenses for pension obligations are reported under administrative expenses.

Other provisions

	Provisions for the credit business			
EUR million	Individual transaction level	Portfolio level	Restructuring provisions	Other provisions
As at 1 Jan	**136**	**81**	**86**	**408**
Changes from currency translation	–	–1	–	–
Changes in the scope of consolidation	–124	–	–25	–80
Utilisation	2	–	31	45
Reversals	35	18	18	33
Additions	136	39	358	67
Transfers/other changes	–14	–	1	–167
As at 31 Dec	**97**	**101**	**371**	**150**

Other provisions include in particular personnel-related provisions (EUR 28 million), litigation costs (EUR 8 million) and risks that are not directly associated with credit risks (EUR 4 million). Another key component in the 2009 annual financial statements is EUR 38 million in provisions for investments.

(56) Current and deferred tax liabilities

EUR million	2009	2008
Current tax liabilities	**359**	**531**
• Germany	288	394
• Abroad	71	137
Deferred tax liabilities	**3,009**	**4,371**
• Germany	2,836	3,599
• Abroad	173	772
Total	**3,368**	**4,902**

A breakdown of deferred tax liabilities is given in note 47, alongside the breakdown for deferred tax assets.

(57) Other liabilities

EUR million	2009	2008
Pre-paid income	122	642
Other liabilities	681	994
Accruals	250	524
Total	**1,053**	**2,160**

EUR 8 million of other liabilities are due after more than 12 months.

(58) Subordinated capital

EUR million	2009	2008
Subordinated liabilities	6,359	8,163
Profit participation certificates (debt component)	1,031	1,862
Contributions of silent partners (debt component)	716	906
Hybrid capital	611	890
Total	**8,717**	**11,821**

The EUR 117 million (2008: EUR 0) share in the losses by the profit participation capital and dated silent partner contribution hybrid capital instruments, relates to the repayment of the nominal value of the hybrid capital instrument, i. e. the debt component. If a change in the structure of future cash flows is expected for the debt component, which is equivalent to a zero-coupon bond, the present value is adjusted in accordance with IAS 39.AG8 as the contractual obligation to restock the capital of the instruments will not be met by maturity. The amounts arising from this are recognised under other income.

Subordinated capital by maturity

EUR million	2009	2008
With residual maturity of	**8,699**	**11,821**
• up to three months	1,002	662
• between three months and one year	845	1,470
• between one year and five years	1,574	2,771
• more than five years	5,278	6,918
Undated maturities	**18**	**–**
Total	**8,717**	**11,821**

(59) Equity

EUR million	2009	2008
Equity excluding minority interests	**13,674**	**8,515**
• Subscribed capital	5,914	3,556
– statutory nominal capital	2,300	2,300
– undated capital contributions from silent partners	3,614	1,256
• Specific-purpose capital	612	612
• Hybrid capital instruments	514	545
– profit participation capital (equity component)	344	365
– dated capital contributions from silent partners (equity component)	170	180
• Capital reserve	4,688	1,476
• Retained earnings	3,526	4,840
– statutory reserve	1,268	1,268
– other retained earnings	2,258	3,572[1]
• Revaluation reserve	–1,537	–2,379[1]
• Foreign currency translation reserve	–42	–135[1]
• Net retained profit/net accumulated losses	–	–
Minority interests	**387**	**2,573**
Total	**14,061**	**11,087**

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

Capital measures in the reporting year

As part of the recapitalisation by the Free State of Bavaria, EUR 3 billion in silent partnership contributions were provided to BayernLB in January 2009. A further EUR 4 billion indirect capital increase by the Free State of Bavaria was carried out at the end of March 2009.

Subscribed capital

BayernLB Holding AG holds 100 percent of BayernLB's nominal capital. Due to the capital measures that took place in the reporting year, the Free State of Bavaria's share in BayernLB Holding AG was 94 percent and the Association of Bavarian Savings Banks' share was 6 percent as at the balance sheet date.

In the reporting year, BayernLB complied with the expectations of the EU Commission and absorbed a portion of the losses through a transfer of funds by the holders of undated silent partner contributions. The share of the losses was around 15.1 percent of the nominal amount of the undated silent partner contributions or EUR 643 million and is a component of the allocation of profits not recognised through profit or loss.

Specific-purpose capital

The specific-purpose capital was created by a contribution in kind by the Free State of Bavaria in the form of subsidised loans in 1994/1995. Its legal basis was the Act of 23 July 1994 on the formation of special-purpose assets through the transfer of the Free State of Bavaria's trustee receivables to the liable capital of the Bayerische Landesbank Girozentrale, last amended by the law of 9 May 2006, and the contribution agreements of 15 December 1994 and of 28 December 1995, last amended by an agreement on 23 December 2005. The transferred specific purpose assets are used for the purposes of social housing construction.

Capital reserve

The capital reserve comprises additional contributions to the parent company's equity.

Retained earnings

Allocations to the reserves from earnings generated in previous years and from the negative performance of the current year are reported in retained earnings. They are divided into BayernLB's statutory reserve and other retained earnings.

Revaluation reserve

Gains or losses not recognised through profit or loss from the measurement of available-for-sale financial instruments are reported in the revaluation reserve.

EUR million	2009	2008
As at 1 Jan	**–2,379**	**–672**
Changes from currency translation	7	2
Changes in the scope of consolidation	50	30
Changes in value not recognised in profit or loss	453	–2,137[1]
Changes in deferred taxes not recognised in profit or loss	–48	–124
Changes in value/realisations recognised in profit or loss	408	326
Minority interests and other changes	–28	196
As at 31 Dec	**–1,537**	**–2,379**

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

Foreign currency translation reserve

The foreign currency translation reserve mostly comprises the exchange rate differences arising from the translation of the annual accounts of subsidiaries and foreign entities consolidated within the Group that were prepared in a foreign currency and whose functional currency is not the euro.

Consolidated net profit/loss

Consolidated net income corresponds to BayernLB's net income after changes in reserves and the share of losses of undated silent partner contributions.

Notes on the financial instruments

(60) Fair value of financial instruments

EUR million	Fair value 2009	Carrying amount 2009	Fair value 2008	Carrying amount 2008
Assets				
• Cash reserves	3,512	3,512	3,796	3,796
• Loans and advances to banks[1]	76,315	74,606	91,175	89,638
• Loans and advances to customers[1]	160,249	158,962	205,145	202,567
• Assets held for trading	37,787	37,787	47,252[2]	47,252[2]
• Positive fair values from derivative financial instruments (hedge accounting)	4,037	4,037	3,929	3,929
• Investments	52,481	54,039	59,259[2]	62,341[2]
• Non-current assets and disposal groups held for sale	17	17	28	28
Liabilities				
• Liabilities to banks	91,009	91,484	143,468	142,480
• Liabilities to customers	92,816	92,197	90,305	91,307
• Securitised liabilities	93,447	92,968	117,689	117,479
• Liabilities held for trading	29,304	29,304	34,021[2]	34,021[2]
• Negative fair values from derivative financial instruments (hedge accounting)	2,380	2,380	3,086	3,086
• Subordinated capital	7,905	8,717	11,498	11,821

1 Carrying amounts not including deductions of risk provisions for loans and advances to banks in the amount of EUR 829 million (2008: EUR 618 million) and loans and advances to customers in the amount of EUR 1,979 million (2008: EUR 2,814 million).
2 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

Information on the fair value measurement of financial instruments recognised at amortised cost is given under note (7).

In the case of loans and advances to banks and customers and liabilities to banks and customers with residual maturities of less than a year, the fair value was considered to be the same as the carrying amount for simplicity's sake.

The difference between fair value and carrying amount is EUR 1,438 million (2008: EUR 1,033 million) for assets and EUR –189 million for liabilities (2008: EUR –127 million).

In the reporting year, there were no (2008: EUR 142 million) quoted equity instruments or associated derivatives whose fair value could not be reliably calculated.

(61) Financial instrument valuation categories

EUR million	2009	2008
Assets		
• Financial assets measured at fair value through profit or loss	39,752	50,225
– fair value option	1,965	2,973
loans and advances to banks	65	88
loans and advances to customers	809	1,354
investments	1,091	1,531
– assets held for trading	37,787	47,252
assets held for trading	37,787	47,252[2]
• Held-to-maturity investments	–	40
– investments	–	40
• Loans and receivables	265,057	326,045
– loans and advances to banks[1]	74,541	89,550
– loans and advances to customers[1]	158,082	201,136
– investments	32,434	35,359[2]
• Available-for-sale assets	24,114	29,312
– cash reserves	3,512	3,796
– loans and advances to customers	71	77
– investments	20,514	25,411[2]
– assets of discontinued operations and non-current assets and disposal groups held for sale	17	28
• Positive fair values from derivative financial instruments (hedge accounting)	4,037	3,929
Liabilities		
• Financial liabilities measured at fair value through profit or loss	39,401	41,888
– fair value option	10,097	7,867
liabilities to banks	837	862
liabilities to customers	3,347	2,626
securitised liabilities	5,782	4,106
subordinated capital	131	273
– liabilities held for trading	29,304	34,021
liabilities held for trading	29,304	34,021[2]
• Liabilities measured at amortised cost	275,269	355,220
– liabilities to banks	90,647	141,618
– liabilities to customers	88,850	88,681
– securitised liabilities	87,186	113,373
– subordinated capital	8,586	11,548
• Negative fair values from derivative financial instruments (hedge accounting)	2,380	3,086

1 Not including deductions of risk provisions

2 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

(62) Reclassification of financial assets

Pursuant to the IASB's amendments to IAS 39 and IFRS 7 – "Reclassification of Financial Assets" – and to EU Commission Regulation 1004/2008, available-for-sale and held-for-trading assets were reclassified by BayernLB as loans and receivables as at 1 July 2008. The reclassified holdings relate to most of the ABS portfolio and other bonds.

No active market exists for the securities reclassified from the available-for-sale category to the loans and receivables category. There is no short-term intention to sell or trade them either. Instead, BayernLB has the intention and the ability to hold them for the foreseeable future. In relation to securities reclassified from the held-for-trading category to the loans and receivables category, the extraordinary market circumstances stipulated under IAS 39.50B existed.

There were no other reallocations during the reporting period.

The fair values and the carrying amounts of the reclassified securities for each category broken down by category as at the balance sheet date pursuant to IAS 39 and IFRS 7.12A (b) were:

EUR million	Fair value 2009	Carrying amount 2009	Fair value 2008	Carrying amount 2008
Available-for-sale securities reclassified as loans and receivables	30,508	32,069	31,785[1]	34,819[1]
Held-for-trading securities reclassified as loans and receivables	231	240	224	250
Total	**30,739**	**32,309**	**32,009**	**35,069**

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

The nominal volume of reclassified securities was EUR 34,203 million at the end of the reporting period.

In the following table, pursuant to IAS 39 and IFRS 7.12A, the changes in value recognised and not recognised in profit or loss and current income "without reclassification" are compared with the corresponding "with classification" figures. All effects on income including current earnings components have been recognised.

EUR million	Without reclass-ification[1] 2009	With reclass-ification[2] 2009	Without reclass-ification[1] 2008	With reclass-ification[2] 2008
Reclassification from the available-for-sale category				
• Interest income	790	789	1,729	1,729
– interest income from bonds, notes and other fixed-interest securities	790	789	1,729	1,729
• Gains or losses on hedge accounting	26	26	156	156
– value of underlying transactions	26	26	156	156
• Gains or losses on investments	–422	–403	–120	–331
– gains or losses on sales	–1	–1	–20	–20
– income from writebacks	–	40	–	–
– expenses from writedowns	421	442	100	311
• Change in the revaluation reserve	1,789	508	–4,449	–1,410
Total	**2,183**	**920**	**–2,684**	**144**
Reclassification from the held-for-trading category				
• Interest income	18	–	12	13
– interest income from bonds, notes and other fixed-interest securities	18	–	12	13
• Gains or losses on fair value measurement	4	6	–29	–4
– net trading income for interest-related transactions	4	6	–29	–4
Total	**22**	**6**	**–17**	**9**

1 *Taking account of former categories*
2 *Taking account of categories after reclassification*

(63) Financial instruments measured at fair value

The following table shows the basis on which the fair values of the financial instruments recognised in the balance sheet at fair value were calculated. A division is made into the following three-level hierarchy:

Level 1:

Measurement is made using prices quoted on active markets (no adjustments).

Level 2:

Fair value is calculated using valuation methodology whose measurement parameters are either directly (as prices) or indirectly (derived from prices) observable and do not fall below level 1.

Level 3:

Fair value is calculated using valuation methodology whose key valuation parameters are not based on observable market data.

If the fair value of a financial instrument is calculated on the basis of several measurement parameters, fair value is allocated fully on the basis of the measurement parameter with the lowest level that is relevant for the fair value calculation.

Division of fair value by level

EUR million	Level 1 2009	Level 2 2009	Level 3 2009	Total 2009
Assets				
• Cash reserves	453	–	–	453
• Loans and advances to banks	–	65	–	65
• Loans and advances to customers	–	880	–	880
• Assets held for trading	3,687	33,557	543	37,787
• Positive fair values from derivative financial instruments (hedge accounting)	–	4,037	–	4,037
• Investments	4,479	9,733	6,662	20,874
Total	**8,619**	**48,272**	**7,205**	**64,096**
Liabilities				
• Liabilities to banks	–	837	–	837
• Liabilities to customers	–	3,347	–	3,347
• Securitised liabilities	723	5,059	–	5,782
• Liabilities held for trading	160	27,956	1,188	29,304
• Negative fair values from derivative financial instruments (hedge accounting)	–	2,380	–	2,380
• Subordinated capital	–	131	–	131
Total	**883**	**39,710**	**1,188**	**41,781**

In the reporting year, investment assets in the amount of EUR 5 million were reallocated from level 2 to level 1.

Changes in fair value calculated on the basis of non-observable market data (level 3) – Assets

EUR million	Loans and advances to banks 2009	Loans and advances to customers 2009	Assets held for trading 2009	Investments 2009	Total 2009
As at 1 Jan	72	115	1,284	10,017	**11,488**
• Changes from currency translation	–	–	–21	–77	**–98**
• Change in the scope of consolidation	–	–	–23	–32	**–55**
• Earnings and expenses recognised in profit or loss	–	–	–34	–22	**–56**
• Changes in the revaluation reserve and currency translation reserve	–	–	–	–1,237	**–1,237**
• Call options	–	–	27	98	**125**
• Put options	–	–	643	119	**762**
• Settlements	4	–	29	2,731	**2,764**
• Reclassifications to level 3 from levels 1 and 2	–	–	8	1,594	**1,602**
• Reclassifications from level 3 to levels 1 and 2	68	115	26	829	**1,038**
As at 31 Dec	–	–	543	6,662	**7,205**
Income and expenses recognised in profit or loss during the reporting period for financial instruments held at 31 December	–	–	34	25	**59**

Changes in fair value calculated on the basis of non-observable market data (level 3) – Liabilities

EUR million	Liabilities to banks 2009	Liabilities to customers 2009	Liabilities held for trading 2009	Total 2009
As at 1 Jan	90	53	1,597	**1,740**
• Changes from currency translation	–	–	–16	**–16**
• Earnings and expenses recognised in profit or loss	–	–	–138	**–138**
• Changes in the revaluation reserve and currency translation reserve	–	–	–143	**–143**
• Call options	–	–	46	**46**
• Settlements	85	–	158	**243**
• Reclassifications from level 3 to levels 1 and 2	5	53	–	**58**
As at 31 Dec	–	–	1,188	**1,188**
Income and expenses recognised in profit or loss during the reporting period for financial instruments held at 31 December	–	–	–105	**–105**

The income and expenses recognised in the income statement are shown under the gains or loss on fair value measurement item if they are not measurement gains or losses from hedge accounting (recognised in gains or losses from hedging transactions) or writedowns of investments in the available-for-sale category (recognised in gains or losses on investments).

The reclassifications to level 3 from level 1 and level 2 were made as no prices are quoted on active markets or certain measurement parameters for the models used are no longer observable on the market. The reclassifications from level 3 to level 1 and level 2 were made as active markets with observable market prices began to operate or additional price sources for the valuation models used became available.

(64) Loans and receivables at fair value through profit or loss and financial liabilities at fair value

The maximum default risk from loans and receivables at fair value through profit or loss was EUR 181 million (2008: EUR 265 million) on the balance sheet date. Rating-related changes in the fair value of financial assets in the financial year was EUR –4 million (2008: EUR –8 million), and EUR –6 million (2008: EUR –7 million) since designation.

Rating-related changes in the fair value of financial liabilities in the financial year were EUR –115 million (2008: EUR 258 million), and EUR 9 million (2008: EUR 269 million) since designation.

Rating-related changes in fair value are determined by performing a difference calculation, in which the fair value based on the credit spreads at the end of the reporting year is compared with the fair value based on the credit spreads at the beginning of the reporting year.

The difference between the carrying amount of the financial liabilities and the redemption amount at maturity is EUR 143 million (2008: EUR 182 million).

(65) Net profit or loss from financial instruments

The net profit or loss from financial instruments in each category includes gains or losses from measurement and sale.

EUR million	2009	2008
Financial assets and financial liabilities measured at fair value and recognised in profit or loss	**887**	**–2,076**
• Fair value option	–111	–173
• Financial assets held for trading[1]	998	–1,903[2]
Loans and receivables	**–3,550**	**–1,951**
Available-for-sale financial assets	**98**	**–1,614**
Liabilities measured at amortised cost	**47**	**20**

1 Including gains or losses on currency translation
2 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

In addition, the effect from the fair value measurement of available-for-sale financial assets in the amount of EUR 453 million (2008: EUR –2,137 million) is reported in the revaluation reserve under equity (see note 59) and not recognised through profit or loss.

(66) Derivatives transactions

The tables below show interest rate and foreign currency-related derivatives, forward transactions and other forward transactions and credit derivatives not yet settled as at the balance sheet date. Most were concluded to hedge fluctuations in interest rates, exchange rates or market prices and trades on behalf of customers.

Volumes

	Nominal value		Positive fair value	Negative fair value
EUR million	**2009**	**2008**	**2009**	**2009**
Interest-rate risks				
• Interest-rate swaps	1,019,538	890,158	27,233	25,170
• FRAs	230,716	178,879	64	55
• Interest-rate options	30,713	32,685	431	1,019
– call options	*12,865*	*12,214*	*428*	–
– put options	*17,848*	*20,471*	*3*	*1,019*
• Caps, floors	38,212	33,994	336	277
• Exchange-traded contracts	73,343	60,462	4	5
• Other interest-based forward transactions	5,129	4,134	13	4
Total interest-rate risks	**1,397,651**	**1,200,312**	**28,081**	**26,530**
Currency risks				
• Forward exchange deals	50,469	71,626	1,112	1,022
• Currency swaps/cross-currency swaps	64,912	61,963	1,460	1,821
• Foreign exchange options	5,591	9,199	87	85
– call options	*3,145*	*4,726*	*87*	–
– put options	*2,446*	*4,473*	–	*85*
• Exchange-traded contracts	44	45	–	–
• Other currency-based forward transactions	–	2,331	3	3
Total currency risks	**121,016**	**145,164**	**2,662**	**2,931**
Equity and other price risks				
• Equity forward contracts	60	42	–	19
• Equity/index options	268	611	94	85
– call options	*141*	*253*	*94*	–
– put options	*127*	*358*	–	*85*
• Exchange-traded contracts	437	396	3	3
• Other forward transactions	524	876	266	222
Total equity and other price risks	**1,289**	**1,925**	**363**	**329**
Credit derivative risks				
• Protection buyer	21,415	56,955	2,563	248
• Protection seller	23,246	65,683	207	1,410
Total credit derivative risks	**44,661**	**122,638**	**2,770**	**1,658**
Total	**1,564,617**	**1,470,039**	**33,876**	**31,448**

Breakdown of maturities

	Nominal value							
	Interest-rate risks		Currency risks		Equity and other price risks		Credit derivative	
EUR million	2009	2008	2009	2008	2009	2008	2009	2008
Residual maturities								
• up to three months	172,292	127,148	26,650	47,814	622	842	2,183	4,410
• up to one year	420,203	328,295	28,346	28,969	428	662	11,540	8,814
• up to five years	478,499	418,837	51,285	54,437	236	420	20,071	77,309
• more than five years	326,657	326,032	14,735	13,944	3	1	10,867	32,105
Total	**1,397,651**	**1,200,312**	**121,016**	**145,164**	**1,289**	**1,925**	**44,661**	**122,638**

Breakdown of counterparties

	Nominal value		Positive fair value	Negative fair value
EUR million	2009	2008	2009	2009
OECD banks	774,083	744,138	16,335	17,812
Non-OECD banks	681,946	618,391	11,696	10,893
Public-sector entities within the OECD	10,711	9,414	2,476	109
Other counterparties[1]	97,877	98,096	3,369	2,634
Total	**1,564,617**	**1,470,039**	**33,876**	**31,448**

1 Including exchange-traded contracts

Trading transactions[1]

	Nominal value		Positive fair value	Negative fair value
EUR million	2009	2008	2009	2009
Interest-rate derivatives	1,269,632	1,098,444	22,067	22,377
Currency derivatives	118,880	139,330	2,454	2,841
Equity derivatives	951	1,391	268	243
Credit derivatives	11,681	75,717	121	160
Total trading transactions	**1,401,144**	**1,314,882**	**24,910**	**25,621**

1 Compared with the 2008 Annual Accounts, no derivative non-trading portfolios were reported.

Notes to the cash flow statement

(67) Notes to items in the cash flow statement

The cash flow statement shows the cash flows of the financial year classified into operating activities, investing activities and financing activities.

The reported financial resources balance corresponds to the cash reserves item in the balance sheet and contains the cash balance, deposits with central banks, debt instruments issued by public-sector entities and bills of exchange eligible for funding with central banks. The reported financial resources balance is subject to drawing restrictions in the amount of EUR 96 million.

Payments from loans and advances to banks and customers, from securities (unless investments), derivatives, and other assets are reported as cash flows from operating activities. Payments from liabilities to banks/customers, from securitised liabilities, and other liabilities are also assigned to operating activities. Interest and dividend payments resulting from operating activities are also included under cash flows from operating activities.

Payments for investments, interests in companies valued at equity, investment property and property, plant and equipment (including intangible assets) are reported under cash flows from investment activities. It should be noted that effects resulting from changes to the scope of consolidation are also taken into account under this item.

Cash flow from financing activities relates to the proceeds from capital increases and changes in subordinated capital and minority interests. Distributable profit that has been transferred and payments that have been made to holders of participatory rights, silent participations, and minority interests are also reported here.

In the reporting year the interests in subsidiaries and other business units item was increased for a purchase price of EUR 192 million, resulting in cash outflow of EUR 84 million. The sale of shares in subsidiaries and other business units was made at a symbolic sale price of EUR 1.

The assets and liabilities of subsidiaries that have been sold or deconsolidated due to immateriality comprise:

EUR million	Purchase	Sale
Assets		
• Cash reserves	–	1,414
• Loans and advances to banks	–	4,537
• Loans and advances to customers	–	31,177
• Risk provisions	–	–1,086
• Assets held for trading	–	376
• Positive fair values from derivative financial instruments (hedge accounting)	–	578
• Investments	–	2,633
• Interests in companies valued at equity	–	5
• Investment property	–	751
• Property, plant and equipment	–	1,094
• Intangible assets	–	1,368
• Current tax assets	–	32
• Deferred tax assets	–	538
• Other assets	–	1,596
Liabilities		
• Liabilities to banks	–	7,430
• Liabilities to customers	–	8,815
• Securitised liabilities	–	21,411
• Liabilities held for trading	–	374
• Negative fair values from derivative financial instruments (hedge accounting)	–	106
• Provisions	–	159
• Current tax liabilities	–	36
• Deferred tax liabilities	–	604
• Other liabilities	–	866
• Subordinated capital	–	1,594
• Equity	–	3,618

Supplementary information

(68) Subordinated assets

The following balance sheet items contain subordinated assets:

EUR million	2009	2008
Loans and advances to banks	390	619
Loans and advances to customers	66	105
Assets held for trading	3	4
Investments	2,915	3,407
Total	**3,374**	**4,135**

(69) Assets and liabilities in foreign currency

EUR million	2009	2008
Foreign currency assets	**80,954**	**108,154**
• CAD	1,169	1,277[1]
• CHF	12,069	18,794
• GBP	16,247	16,541
• HKD	571	1,132
• JPY	2,496	4,307
• USD	38,028	55,652[1]
• Other currencies	10,374	10,451
Foreign currency liabilities	**64,049**	**98,012**
• CAD	2,747	4,121
• CHF	9,998	17,259
• GBP	13,660	18,233
• HKD	862	1,096
• JPY	3,458	4,934
• USD	23,363	43,132[1]
• Other currencies	9,961	9,237

1 Previous year's figure adjusted due to adjustments in accordance with IAS 8.42 (see note 2).

(70) Assets pledged as collateral and other pledged assets not derecognised

Collateral relates to funds borrowed for specific purposes, securities repurchase transactions and securities lending transactions, tender transactions with the European Central Bank (ECB), transactions on the European Exchange (EUREX), European Energy Exchange (EEX), Clearstream Banking Frankfurt/Main, Clearstream Banking Luxembourg and other stock exchange and clearing systems.

The carrying amount of assets pledged as collateral relate to the following items:

EUR million	2009	2008
• Loans and advances to banks	12,734	12,792
• Loans and advances to customers	21,640	18,063
• Assets held for trading	2,315	2,637
of which:		
– collateral received which may be sold or pledged on	284	814
• Investments	14,793	18,725
of which:		
– collateral received which may be sold or pledged on	267	2,029
• Investment property	1,405	1,605
• Other assets	15	15
Total	**52,902**	**53,837**

The transactions were executed at standard market terms and conditions.

Liabilities in the amount of EUR 24,764 million (2008: EUR 36,235 million) are set against the transferred assets.

Transferred assets with a carrying amount of EUR 4,316 million (2008: EUR 7,460 million) were also recognised on the balance sheet. The assets are reported under the investments item (2008: EUR 7,285 million). The corresponding liabilities are EUR 4,230 million (2008: 7,192 million).

In these cases, all significant risks and rewards associated with the ownership of the transferred assets remain largely with BayernLB Group.

(71) Collateral received that may be sold on or pledged on

As part of securities repurchase transactions and securities lending transactions, we have received assets as collateral that may be sold on or pledged on even if the collateral provider has not defaulted. Their fair value amounts to EUR 14,805 million (2008: EUR 19,784 million).

Of this collateral received, EUR 12,591 million (2008: 15,034 million) was either sold on or pledged on. An obligation to return the collateral exists.

The transactions were executed at standard market terms and conditions.

(72) Leasing

Finance leases

As a lessor, BayernLB Group recognised receivables with a net investment value of EUR 310 million (2008: EUR 7,244 million). The sharp fall was due to the deconsolidation of the Hypo Alpe-Adria-Bank International AG sub-group, Klagenfurt (Austria), from the BayernLB Group.

The net investment value is calculated as follows:

EUR million	2009	2008
Gross investment value	**469**	**9,392**
• Minimum lease payments with residual maturity of	469	9,381
– up to one year	73	1,632
– between one year and five years	169	4,231
– more than five years	227	3,518
• Unguaranteed residual value	–	11
Unrealised financial income (by residual maturity)	**159**	**2,148**
• up to one year	19	394
• between one year and five years	55	960
• more than five years	85	794
Net investment value (by residual maturity)	**310**	**7,244**
• up to one year	55	1,240
• between one year and five years	114	3,276
• more than five years	141	2,728

In the reporting year, no cumulated loan loss provisions on lease receivables were made (2008: EUR 14 million) and no contingent lease payments recognised as income (2008: EUR 12 million).

Most of the assets leased under finance lease agreement are technical equipment of a water purification plant and vehicles.

As a lessee, BayernLB Group recognises both the leased property and the lease payments owed on the balance sheet.

Carrying amounts of the leased property:

EUR million	2009	2008
Investment property	–	37
Property, plant and equipment	86	123
Total	**86**	**160**

The present value of the minimum lease payments is calculated as follows:

EUR million	2009	2008
Future minimum lease payments (by residual maturity)	**162**	**201**
• up to one year	26	15
• between one year and five years	25	56
• more than five years	111	130
Unrealised financial liability (by residual maturity)	**110**	**95**
• up to one year	4	–
• between one year and five years	19	11
• more than five years	87	84
Present value of minimum leasing payments (by residual maturity)	**52**	**106**
• up to one year	22	14
• between one year and five years	6	45
• more than five years	24	47

In the reporting year, contingent lease payments in the amount of EUR 5 million (2008: EUR 4 million) were recognised as an expense. The conditional rental payments are set in the lease agreements with non-cancellable minimum contractual periods and indices.

Future income from non-cancellable sub-lease agreements is expected to amount to EUR 0 million.

Most leasing agreements largely relate to the leasing of real estate.

Operating leases

BayernLB Group as lessor:

EUR million	2009	2008
Future minimum lease payments under non-cancellable leasing agreements (by residual maturity)	**–**	**812**
• up to one year	–	126
• between one year and five years	–	337
• more than five years	–	349

In the reporting year, no contingent lease payments were recognised as income (2008: EUR 1 million).

The fall in leasing transactions was due to the deconsolidation of the Hypo Alpe-Adria-Bank International AG sub-group, Klagenfurt, from the BayernLB Group.

BayernLB Group as lessee:

EUR million	2009	2008
Future minimum lease payments under non-cancellable leasing agreements (by residual maturity)	**107**	**191**
• up to one year	12	13
• between one year and five years	25	35
• more than five years	70	143

No income is expected from non-cancellable sub-leasing agreements.

In the reporting year, minimum lease payments in the amount of EUR 19 million (2008: EUR 10 million) were recognised as an expense.

Most leasing agreements largely relate to the leasing of office space with options to extend the lease.

(73) Trust transactions

Trust activities are broken down as follows:

EUR million	2009	2008
Assets held in trust	**11,487**	**10,692**
• Loans and advances to banks	139	167
• Loans and advances to customers	6,496	6,989
• Other assets	4,852	3,536
Liabilities held in trust	**11,487**	**10,692**
• Liabilities to banks	28	204
• Liabilities to customers	6,607	6,852
• Other liabilities	4,852	3,636

(74) Contingent liabilities and other liabilities

EUR million	2009	2008
Contingent liabilities	**18,174**	**22,495**
• Contingent liabilities arising from negotiated and discounted bills	–	3
• Liabilities from guarantees and indemnity agreements	18,131	22,404
• Liabilities from collateral furnished for third-party obligations	43	88
• Other contingent liabilities	–	–
Other liabilities	**34,780**	**44,622**
• Placement and underwriting commitments	83	336
• Sale and repurchase agreements	–	206
• Irrevocable credit commitments	34,697	44,080
Total	**52,954**	**67,117**

EUR 5,434 million of contingent liabilities and EUR 13,188 million of other liabilities are due after more than 12 months.

(75) Other financial obligations

Other financial obligations notably arise from rental, use, service and maintenance contracts, as well as from consulting and marketing agreements.

As at the balance sheet date, there were call commitments for capital not fully paid up of EUR 96 million and uncalled liabilities from limited partnership relationships of EUR 31 million. Moreover, there were additional funding obligations amounting to EUR 40 million, as well as a directly enforceable guarantee for the funding obligation of shareholders of the Frankfurt am Main-based Liquiditäts-Konsortialbank GmbH, who are members of the German Savings Bank Association. Amounts due to subsidiaries not included in the consolidated financial statements totalled EUR 55 million.

In addition, other financial obligations worth EUR 167 million arose in connection with Deutsche Kreditbank Aktiengesellschaft, Berlin, notably regarding the DKB Group's joint and several liability and other warranties related to the residential housing business. Amounts due to subsidiaries not included in the consolidated financial statements totalled EUR 144 million.

On the balance sheet date, BayernLB's liability as a member of the guarantee fund of the Landesbanks and central giro institutions came to EUR 506 million.

Under the terms of the statutes of the deposit insurance fund run by the Association of German Public-Law Banks (VÖB), the BayernLB has undertaken to exempt the VÖB from any losses which may be suffered due to measures taken in favour of credit institutions which are majority-owned by the Bank. Moreover, under the terms of the statutes of the deposit insurance fund run by the Landesbanks/central giro institutions, Landesbank Saar, Saarbrücken, has undertaken to exempt the German Savings Bank Association, as the owner of the guarantee fund of the Landesbanks/central giro institutions, from any losses which may be suffered due to measures taken in favour of credit institutions in which Landesbank Saar holds shares.

(76) Letter of comfort

BayernLB provides its subsidiaries with significant benefits in the form of improved business terms and better financing conditions by issuing them and their creditors with letters of comfort. The Bank benefits in turn as this has a positive impact on the value of the subsidiaries, but BayernLB may also be negatively impacted.

Proportionate to the size of its equity interest and with the exception of cases of political risk, BayernLB shall ensure that the companies listed below are in a position to fulfil their contractual obligations.

Name and legal domicile of the affiliated company:
- Banque LBLux S.A., L - Luxembourg
- Deutsche Kreditbank Aktiengesellschaft, Berlin
- Landesbank Saar, Saarbrücken

Letter of comfort for Landesbank Saar, Saarbrücken:

Under the share purchase and transfer agreement of 18/21 December 2009, BayernLB sold a 25.2 percent holding in the share capital of Landesbank Saar to the Saarland.

Landesbank Saar will cease to be a part of the BayernLB Group when the transaction closes. As at this date, the reasons for a letter of comfort from BayernLB for Landesbank Saar will cease to apply.

All liabilities of Landesbank Saar established after the end of the date on which the sale closes (closing date) will therefore no longer be covered by BayernLB's letter of comfort for Landesbank Saar. Accordingly, BayernLB rescinds this letter of comfort in relation to all liabilities established by Landesbank Saar after the closing date, revoking all earlier declarations. The precise date of closing, expected to be in the second quarter of 2010, has not yet been set and will be announced by BayernLB in a press release.

Revocation of the letter of comfort for LB(Swiss) Privatbank AG, Zurich, as at 21 December 2009:

A letter of comfort issued by BayernLB was previously in effect for LB(Swiss) Privatbank AG. As at the end of 21 December 2009, BayernLB transferred its holding in LB(Swiss) Privatbank AG to Landesbank Hessen-Thüringen. As at the end of this date, the letter of comfort for LB(Swiss) Privatbank AG lapsed, and the liabilities of LB(Swiss) Privatbank AG, which were established after the end of 21 December 2009, ceased to be covered by the letter of comfort. Previous declarations have therefore been revoked.

(77) Shareholdings (extract)

The complete inventory of shareholdings under Section 313 (2) HGB is listed separately.

Name and location of the investee	Shareholding in %	Equity/ fund assets in EUR '000	Income/ net earnings in EUR '000
Subsidiaries included in the consolidated financial accounts			
Banque LBLux S.A., L - Luxembourg	100.0	449,265	29,020
BayernInvest Kapitalanlagegesellschaft mbH, Munich	100.0	10,014	–[1]
BayernLB Capital LLC I, USA - Wilmington	100.0	33	7
Subsidiaries included in the BayernLB Capital LLC I sub-group:			
• BayernLB Capital Trust I, USA - Wilmington	100.0	610,765	–
Deutsche Kreditbank Aktiengesellschaft, Berlin	100.0	1,785,163	–[1]
Subsidiaries included in the Deutsche Kreditbank Aktien-gesellschaft sub-group:			
• DKB Finance GmbH, Berlin	100.0	4,432	–1,000
• DKB Grundbesitzvermittlung GmbH, Berlin	100.0	100	–
• DKB Immobilien AG, Berlin-Charlottenburg	100.0	109,265	3,250
• DKB PROGES GmbH, Berlin	100.0	13	–4
• DKB Wohnungsgesellschaft Berlin-Brandenburg mbH, Potsdam	100.0	3,851	–3,165
• DKB Wohnungsgesellschaft Blankenhain GmbH & Co. KG, Berlin	100.0	11,798	29
• DKB Wohnungsgesellschaft Gera-Zwötzen GmbH & Co. KG, Berlin	100.0	3,493	406
• DKB Wohnungsgesellschaft Sachsen mbH, Döbeln	100.0	5,025	–
• DKB Wohnungsgesellschaft Thüringen Lusan Brüte GmbH & Co.KG, Gera	100.0	3,681	211
• DKB Wohnungsgesellschaft Thüringen Lusan Zentrum GmbH & Co.KG, Gera	100.0	11,965	734
• DKB Wohnungsgesellschaft Thüringen mbH, Gera	94.0	61,518	7,529
• FMP Forderungsmanagement Potsdam GmbH, Potsdam	100.0	1,000	–
• MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin	100.0	5,436	133
• SKG BANK AG, Saarbrücken	100.0	81,519	525
• Stadtwerke Cottbus GmbH, Cottbus	74.9	9,778	–728
GBW AG, Munich	93.5	357,566	31,057
Subsidiaries included in the GBW AG sub-group:			
• GBW Asset GmbH, Munich	100.0	1,330	332
• GBW Franken GmbH, Würzburg	73.6	27,181	4,531
• GBW Gebäudemanagement GmbH, Munich	100.0	–169	–234
• GBW Management GmbH, Munich	100.0	51,404	–
• GBW Niederbayern und Oberpfalz GmbH, Regensburg	74.0	12,877	898
• GBW Oberbayern und Schwaben GmbH, Munich	89.0	16,116	500
• GBW Wohnungs GmbH, Munich	100.0	10,307	618

Name and location of the investee	Shareholding in %	Equity/ fund assets in EUR ’000	Income/ net earnings in EUR ’000
Landesbank Saar, Saarbrücken	75.1	757,613	–
Subsidiaries included in the Landesbank Saar sub-group:			
• SaarLB-Bankenbeteiligungsgesellschaft mbH, Saarbrücken	100.0	15,576	–
MKB Bank Zrt., H - Budapest	89.8	953,154	1,063
Subsidiaries included in the MKB Bank Zrt. sub-group:			
• CB MKB Unionbank AD, BG - Sofia	94.0	65,693	6,667
• Exter-Bérlet Kft., H - Budapest	100.0	533	10
• Exter-Immo Zrt., H - Budapest	100.0	3,098	1,728
• MKB Befektetési Alapkezelõ Zrt., H - Budapest	100.0	403	648
• MKB - Euroleasing Autóhitel Zrt., H - Budapest	47.9	20,353	8,225
• MKB - Euroleasing Autólízing Szolgáltató Zrt., H - Budapest	100.0	3,872	1,937
• MKB Romexterra Bank SA , RO - Targu Mures	82.5	50,560	–15,760
• MKB Üzemeltetési Kft., H - Budapest	100.0	238,317	3
• Resideal Zrt., H - Budapest	100.0	2,266	313
• Romexterra Leasing S.A., RO - Bucharest	92.9	7,791	581
• S.C. Corporate Recovery Management S.R.L., RO - Bucharest	100.0	269	–887
Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich	100.0	26,299	–[1]
Special-purpose entities and special funds included in the consolidated financial statements			
Giro Balanced Funding Corporation, USA - Delaware		392	3,281
Giro Lion Funding Limited , GB - Jersey		–23	194
LBMUE I, Munich		113,383	4,916
LBMUE II, Munich		113,054	4,934
LBMUE III, Munich		162,356	5,931
Special-purpose entities and special funds included in the Landesbank Saar sub-group:			
• LB Immo Invest Saar-Fonds, Hamburg		49,917	350
• SaarLB 1-Fonds, Munich		206,199	7,816
• SaarLB 2-Fonds, Munich		189,726	7,384
• SBLB-Fonds, Munich		110,081	5,276
Joint ventures valued at equity			
Joint ventures included in the MKB Bank Zrt. sub-group:			
• Ercorner Kft., H - Budapest	50.0	–3,434	–1,511
• MKB - Euroleasing Autópark Zrt., H - Budapest	50.0	1,792	1,051
• MKB - Euroleasing Zrt., H - Budapest	50.0	25,449	2,089
Associates valued at equity			
KGAL GmbH & Co. KG, Grünwald	27.0	97,648	3,633
Associates included in the MKB Bank Zrt. sub-group:			
• Giro Elszámolásforgalmi Zrt., H - Budapest	22.2	22,368	9,395
• Pannonhalmi Borház Kft., H - Pannonhalma	45.5	2,492	–77

Foreign currency amounts were converted to euros at the respective spot exchange rate at the end of the year.

1 A profit and loss transfer agreement has been concluded with the company.

(78) Administrative bodies of BayernLB

Board of Administration (until March 2010)

Georg Fahrenschon
Chairman
State Minister
Bavarian State Ministry of Finance
Munich

Gerd Haeusler
since 1 August 2009
First Deputy Chairman
since 7 September 2009
Director
RHJ International
Zurich

Dr. Siegfried Naser
until 31 July 2009
First Deputy Chairman
until 31 July 2009
Executive President of the
Association of
Bavarian Savings Banks
Munich

Siegmund Schiminski
since 1 May 2009
Second Deputy Chairman
since 7 September 2009
Chairman of the Board of
Directors of Sparkasse Bayreuth
Bayreuth

Joachim Herrmann
Second Deputy Chairman
until 31 July 2009
State Minister
Bavarian State Ministry of
the Interior
Munich

Hansjörg Christmann
until 31 July 2009
Third Deputy Chairman
until 31 July 2009
Chief District Administrator
Dachau

Dr. Michael Bauer
since 15 January 2010
Deputy Secretary
Bavarian State Ministry of Finance
Munich

Professor Dr. Georg Crezelius
since 1 August 2009
Professor
University of Bamberg
Bamberg

Dr. Dr. Axel Diekmann
since 1 August 2009
Shareholder of
Verlagsgruppe Passau GmbH
Passau

Alois Hagl
until 31 July 2009
Chairman of the Board of
Directors of Sparkasse
im Landkreis Schwandorf
Schwandorf

Diethard Irrgang
since 15 January 2009
Chairman of the
General Staff Council
BayernLB
Munich

Karl-Ludwig Kamprath
until 30 April 2009
Chairman of the Board of
Directors of Kreissparkasse
München-Starnberg
Munich

Dr. Klaus von Lindeiner-Wildau
since 1 August 2009
Member of the Executive Board
(retired) of
Wacker Chemie GmbH
Independent Consultant
Munich

Hans Schaidinger
Lord Mayor
Regensburg

Klaus Weigert
until 14 January 2010
Deputy Secretary
Bavarian State Ministry of Finance
Munich

Dr. Bernd Weiss
from 9 January 2009 to 31 July 2009
State Secretary
Bavarian State Ministry of
the Interior
Munich

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

Board of Management (including allocation of responsibilities from 1 January 2010)

Stefan Ermisch
Deputy Chairman
since 1 July 2009
Interim Chairman
since 15 December 2009
Corporate Center Central Area[1]
Group Risk Control Division
Financial Office Central Area
IT & Operations Central Area

Stefan W. Ropers
Corporates & Markets Business Area

Dr. Ralph Schmidt
Risk Office Central Area[2]
Restructuring Unit Central Area

Dr. Edgar Zoller
since 1 May 2009
Real Estate/Public Sector &
Savings Banks (Savings Banks Central Bank)
Business Area
Bayerische Landesbodenkreditanstalt[3]
Corporate Center Central Area[1]

Jan-Christian Dreesen
since 1 September 2009
Mittelstand & Retail Customers Business Area
Bayerische Landesbausparkasse[3]

Dr. Rudolf Hanisch
until 30 April 2009
Deputy Chairman

Theo Harnischmacher
until 30 June 2009
Deputy Chairman

Dr. Michael Kemmer
until 14 December 2009
Chairman

1 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.
2 Excluding Group Risk Control Division
3 Institutions of the Bank

(79) Related party disclosures

BayernLB Group maintains business relations with related companies and persons. Related companies are, in addition to the subsidiaries, joint ventures and associated companies, the Free State of Bavaria (indirect interests in BayernLB of 94 percent), the Zusatzversorgungskasse Saarland, Saarbrücken, Verlagsgruppe Passau, Passau, and RHJ International S.A., Zurich. Following changes to the shareholder structure, the Association of Bavarian Savings Banks ceased to be a related party on 1 August 2009 (see note 59).

A list of BayernLB's affiliated companies can be found in the inventory of shareholdings.

Related persons include the members of BayernLB's Board of Management and Board of Administration as well as close members of their families.

With the exception of the guarantee agreement with the Free State of Bavaria ("Umbrella"), business with related parties is transacted in the course of ordinary activities at standard market terms and conditions.

Loans and advances to/(contingent) liabilities to the Free State of Bavaria

EUR million	2009	2008
Receivables	**2,746**	**2,497**
• Free State of Bavaria	2,746	2,497
Assets held for trading	**2,319**	**1,841**
• Free State of Bavaria	2,319	1,841
Investments	**–**	**21**
• Free State of Bavaria	–	21
Liabilities	**439**	**972**
• Free State of Bavaria	439	913
• Association of Bavarian Savings Banks	–	59
Liabilities held for trading	**3**	**8**
• Free State of Bavaria	3	7
• Association of Bavarian Savings Banks	–	1
Liabilities held in trust	**5,989**	**6,105**
• Free State of Bavarian	5,989	6,105
Contingent liabilities	**2**	**3**
• Free State of Bavaria	2	1
• Association of Bavarian Savings Banks	–	2

Loans and advances to/(contingent) liabilities to affiliated companies

EUR million	2009	2008
Loans and advances to banks	**2,108**	**1,525**
• Joint ventures	–	118
• Associated companies	2,108	1,407
Loans and advances to customers	**240**	**732**
• Non-consolidated subsidiaries	236	297
• Joint ventures	–	56
• Associated companies	4	379
Risk provisions	**–**	**89**
• Non-consolidated subsidiaries	–	32
• Joint ventures	–	3
• Associated companies	–	54
Assets held for trading	**–**	**64**
• Non-consolidated subsidiaries	–	60
• Joint ventures	–	1
• Associated companies	–	3
Investments	**77**	**213**
• Non-consolidated subsidiaries	74	161
• Joint ventures	–	1
• Associated companies	3	51
Other assets	**11**	**46**
• Non-consolidated subsidiaries	11	31
• Associated companies	–	15
Liabilities to banks	**10,317**	**7,763**
• Associated companies	10,317	7,763
Liabilities to customers	**54**	**68**
• Non-consolidated subsidiaries	48	44
• Associated companies	6	24
Securitised liabilities	**4**	**5**
• Joint ventures	–	3
• Associated companies	4	2
Liabilities held for trading	**–**	**19**
• Non-consolidated subsidiaries	–	6
• Associated companies	–	13
Other liabilities	**8**	**6**
• Non-consolidated subsidiaries	4	4
• Associated companies	4	2
Contingent liabilities	**14**	**287**
• Non-consolidated subsidiaries	2	12
• Joint ventures	12	127
• Associated companies	–	148
Other liabilities	**17**	**44**
• Non-consolidated subsidiaries	17	43
• Associated companies	–	1

Loans and advances to/liabilities to other related parties

EUR million	2009
Loans and advances to customers	**34**
• Group of Verlagsgruppe Passau GmbH, Passau	34
Liabilities to customers	**38**
• Zusatzversorgungskasse Saarland, Saarbrücken	38
Subordinated capital	**1**
• Group of Verlagsgruppe Passau GmbH, Passau	1

Loans to members of the Board of Management and Board of Administration of BayernLB

Loans and advances to/liabilities assumed for the members of the Board of Management and Board of Administration as at the balance sheet date totalled:

in EUR '000	2009	2008
Members of the BayernLB Board of Management	240	773
Members of the BayernLB Board of Administration	426	430

Remunerations of members of BayernLB's Board of Management and Board of Administration

in EUR '000	2009	2008
Members of the BayernLB Board of Management	**4,754**	**6,069**
• Short-term benefits	4,317	4,913
• Post-employment benefits	437	1,156
– defined contribution plan costs	433	1,137
– other post-employment benefits	4	19
Members of the BayernLB Board of Administration	**382**	**423**
• Short-term benefits	382	423
Former members of the BayernLB Board of Management and their surviving dependents	**9,301**	**6,546**
Former members of the BayernLB Board of Administration and their surviving dependents	**22**	**–**
Pension provisions established for members of the BayernLB Board of Management	**4,348**	**10,116**
Pension provisions established for former members of the BayernLB Board of Management and their surviving dependants	**53,759**	**56,371**

With effect from 1 May 2009, the annual fixed salaries of the members of the Board of Management were reduced to EUR 500,000 in accordance with the Financial Market Stabilisation Act and Financial Market Stabilisation Fund Ordinance. The remunerations in the table relate to the whole of the reporting year.

(80) External auditors' fees

External auditors' fees recorded as expenses in the reporting year comprise:

EUR million	2009	2008
Financial statements audit	10	7
Other certification and valuation services	2	1
Tax consultancy services	–	–
Other services	2	3
Total	**14**	**11**

(81) Human resources

Average headcounts for the reporting year were:

	2009	2008
Full-time employees (not including trainees)	**10,285**	**17,782**
• Female	5,352	10,134
• Male	4,933	7,648
Part-time employees (not including trainees)[1]	**1,689**	**1,913**
• Female	1,401	1,603
• Male	288	310
Trainees	**157**	**235**
• Female	87	145
• Male	70	90
Total	**12,131**	**19,930**

1 Part-time staff numbers correspond to 967 (2008: 1,141) full-time equivalents.

(82) Significant events after the balance sheet date

After the Hypo Alpe-Adria-Bank International AG sub-group, Klagenfurt, was deconsolidated from the BayernLB Group, BayernLB submitted an updated business plan to the EU Commission as part of the state aid review process. Given the general requirements of the Commission, the business plan errs on the side of caution by factoring in an increase in the premium for the guarantee agreement of 19 December 2008 payable by BayernLB to the Free State of Bavaria. At present, the aid review process is expected to give a ruling in the second quarter of 2010.

Responsibility statement by the Board of Management

To the best of our knowledge and in accordance with the applicable principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Management Report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, 28 April 2010

Bayerische Landesbank
The Board of Management

Gerd Haeusler Stefan Ermisch Stefan W. Ropers

Dr. Edgar Zoller Jan-Christian Dreesen

Auditor's Report

We have audited the consolidated financial statements prepared by Bayerische Landesbank, Anstalt des öffentlichen Rechts, München, (BayernLB) comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) as well as the supplementary provisions of the Bayerische Landesbank Act ("Gesetz über die Bayerische Landesbank") and the articles of incorporation are the responsibility of BayernLB Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by BayernLB Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB as well as the supplementary provisions of the Bayerische Landesbank Act and the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 30 March 2010 / 29 April 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes
Wirtschaftsprüfer
(German Public Auditor)

Eberhard Feil
Wirtschaftsprüfer
(German Public Auditor)

[SECTION 5]

SEC. 5

Committees and advisory boards

General Meeting (from 1 January to 31 July 2009)

Dr. Siegfried Naser
Chairman
Executive President
Association of
Bavarian Savings Banks
Munich

Georg Fahrenschon
Deputy Chairman
State Minister
Bavarian State Ministry
of Finance
Munich

Dr. Michael Bauer
Deputy Secretary
Bavarian State Ministry
of Finance
Munich

Wolfgang Bayerl
First Lord Mayor
Neunburg v. Wald

Hansjörg Christmann
Chief District Administrator
Dachau

Erich Josef Gessner
until 31 March 2009
Chief District Administrator
Neu-Ulm

Martin Haf
until 31 March 2009
Chairman of the Board of
Directors of Sparkasse Allgäu
Kempten

Alois Hagl
Chairman of the Board of
Directors of Sparkasse im
Landkreis Schwandorf
Schwandorf

Johann Heckner
until 31 March 2009
Chairman of the Board of
Directors of Sparkasse Landshut
Landshut

Rudolf Heiler
First Lord Mayor
Grafing

Joachim Herrmann
State Minister
Bavarian State Ministry of
the Interior
Munich

Dr. Jürgen Hofmann
since 8 April 2009
Under Secretary
Bavarian State Ministry for
Economic Affairs, Infrastructure,
Transport and Technology
Munich

Josef Huber
since 17 February 2009
Deputy Secretary
Bavarian State Ministry
for Food, Agriculture and Forestry
Munich

Melanie Huml
since 17 February 2009
State Secretary
Bavarian State Ministry for the
Environment and Health

Norbert Kastner
until 31 March 2009
Lord Mayor
Coburg

Dominik Kazmaier
since 8 April 2009
Senior government official
Bavarian State Ministry
of Finance
Munich

Harald Leitherer
until 31 March 2009
Chief District Administrator
Schweinfurt

Matthias Nester
until 31 March 2009
Chairman of the Board of
Directors of Sparkasse
Mittelfranken-Süd
Roth

Heinrich Reichel
until 31 March 2009
Member of the Board of
Directors of Sparkasse
Aschaffenburg-Alzenau
Aschaffenburg

Georg Riedl
until 31 March 2009
First Lord Mayor
Pfarrkirchen

Dr. Walter Schön
Deputy Secretary
Bavarian State Chancellery
Munich

Markus Sackmann
since 17 February 2009
State Secretary
Bavarian State Ministry
of Employment and Social Order,
the Family and Women
Munich

Dieter Seehofer
until 31 March 2009
Chairman of the Board of
Directors of Sparkasse Ingolstadt
Ingolstadt

Klaus Jürgen Scherr
until 31 March 2009
Deputy Chairman of the Board of
Directors of Sparkasse
Kulmbach-Kronach
Kulmbach

Dr. Johann Schleicher
Deputy Secretary
Bavarian State Ministry of
Economic Affairs, Infrastructure,
Transport and Technology
Munich

Erwin Schneider
Chief District Administrator
Altötting

Wolf-Dietrich Schutz
since 8 April 2009
Assistant Secretary
Principal Planning Department
in the Bavarian State Ministry of
the Interior
Munich

Heinz Wölfl
until 31 March 2009
Chief District Administrator
Regen

Dr. Reinhard Wieczorek
until 31 March 2009
Councillor for the City of
Munich
Munich

Michael Ziegler
since 18 March 2009
Under Secretary
Bavarian State Ministry of
the Interior
Munich

General Meeting (from 1 August to 31 December 2009)

Free State of Bavaria

Dr. Michael Bauer
Principal
Deputy Secretary
Bavarian State Ministry of Finance
Munich

Harald Hübner
Deputy Principal
Under Secretary
Bavarian State Ministry of Finance
Munich

Dominik Kazmaier
Second Deputy Principal
Senior government official
Bavarian State Ministry of Finance
Munich

Association of Bavarian Savings Banks

Dr. Siegfried Naser
Principal
Executive President
Association of Bavarian Savings Banks
Munich

Dr. Ivo Holzinger
Deputy Principal
Lord Mayor
Memmingen

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

The General Meeting is chaired by the Chairman of the Board of Administration.

Board of Administration (from 1 January to 31 December 2009)

Georg Fahrenschon
Chairman
State Minister
Bavarian State Ministry
of Finance
Munich

Gerd Haeusler
since 1 August 2009
First Deputy Chairman
since 7 September 2009
Director
RHJ International
Zurich

Dr. Siegfried Naser
until 31 July 2009
First Deputy Chairman
until 31 July 2009
Executive President
Association of
Bavarian Savings Banks
Munich

Siegmund Schiminski
since 1 May 2009
Second Deputy Chairman
since 7 September 2009
Chairman of the Board of
Directors of Sparkasse Bayreuth
Bayreuth

Joachim Herrmann
Second Deputy Chairman
until 31 July 2009
State Minister
Bavarian State Ministry of
the Interior
Munich

Hansjörg Christmann
until 31 July 2009
Third Deputy Chairman
until 31 July 2009
Chief District Administrator
Dachau

Professor Dr. Georg Crezelius
since 1 August 2009
Professor
University of Bamberg
Bamberg

Dr. Dr. Axel Diekmann
since 1 August 2009
Shareholder of
Verlagsgruppe Passau GmbH
Passau

Alois Hagl
until 31 July 2009
Chairman of the Board of
Directors of Sparkasse
im Landkreis Schwandorf
Schwandorf

Diethard Irrgang
since 15 January 2009
Chairman of the
General Staff Council
BayernLB
Munich

Karl-Ludwig Kamprath
until 30 April 2009
Chairman of the Board of
Directors of Kreissparkasse
München-Starnberg
Munich

Dr. Klaus von Lindeiner-Wildau
since 1 August 2009
Member of the Executive Board
(retired)
Wacker Chemie GmbH
Independent Consultant
Munich

Hans Schaidinger
Lord Mayor
Regensburg

Klaus Weigert
Deputy Secretary
Bavarian State Ministry
of Finance
Munich

Dr. Bernd Weiss
from 9 January to 31 July 2009
State Secretary
Bavarian State Ministry of
the Interior
Munich

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

Financial Statements Audit Committee

(from 1 January 2009 to 31 July 2009)

Georg Fahrenschon
Chairman
since 1 February 2009
State Minister
Bavarian State Ministry
of Finance
Munich

Dr. Siegfried Naser
Deputy Chairman
Executive President
Association of
Bavarian Savings Banks
Munich

Hansjörg Christmann
Chief District Administrator
Dachau

Alois Hagl
Chairman of the Board of
Directors of Sparkasse
im Landkreis Schwandorf
Schwandorf

Karl-Ludwig Kamprath
until 30 April 2009
Chairman of the Board of
Directors of Kreissparkasse
München-Starnberg
Munich

Siegmund Schiminski
since 18 May 2009
Chairman of the Board of
Directors of Sparkasse Bayreuth
Bayreuth

Dr. Bernd Weiss
since 20 January 2009
State Secretary
Bavarian State Ministry of
the Interior
Munich

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

Audit Committee (elected on 8 December 2009)

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

Professor Dr. Georg Crezelius
Professor
University of Bamberg
Bamberg

Joachim Herrmann
State Minister
Bavarian State Ministry of
the Interior
Munich

Diethard Irrgang
Chairman of the
General Staff Council
BayernLB
Munich

Siegmund Schiminski
Chairman of the Board of
Directors of Sparkasse Bayreuth
Bayreuth

Risk Committee (elected on 8 December 2009)

Gerd Haeusler
Chairman
Director
RHJ International
Zurich

Dr. Dr. Axel Diekmann
Shareholder of
Verlagsgruppe Passau GmbH
Passau

Hans Schaidinger
Lord Mayor
Regensburg

Klaus Weigert
Deputy Secretary
Bavarian State Ministry
of Finance
Munich

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

Trustees

Herbert Scheidel
since 1 January 2009
Former Vice President

First Deputy
Norbert Schulz
Former Senior Assistant Secretary

Second Deputy
Dr. Manfred Seume
Former Senior Assistant Secretary

Savings Bank Advisory Council

Renate Braun
Savings Bank Director
Chairwoman of the Board of
Directors of Sparkasse Passau
Passau

Dr. Rudolf Gingele
Savings Banks Director
Member of the Board of
Directors of Sparkasse Regensburg
Regensburg

Willy Neupärtl
until 31 December 2009
Savings Banks Director
Chairman of the Board of
Directors of Sparkasse
Erding-Dorfen
Erding

Walter Pache
Savings Banks Director
Chairman of the Board of
Directors of Sparkasse
Günzburg-Krumbach
Günzburg

Johann Reiter
Savings Banks Director
Chairman of the Board of
Directors of Sparkasse
Landsberg-Dießen
Landsberg

Hans Schmittner
Savings Banks Director
Member of the Board of
Directors of Sparkasse
Miltenberg-Obernburg
Miltenberg

Hans Wölfel
Savings Banks Director
Chairman of the Board of
Directors of Sparkasse Fürth
Fürth

Dr Klaus-Jürgen Scherr
since 17 June 2009
Savings Banks Director
Chairman of the Board of
Directors of Sparkasse
Kulmbach-Kronach
Kulmbach

Prof. Rudolf Faltermeier
Vice President
Association of
Bavarian Savings Banks
Munich

Economic Advisory Council

Dr. Sebastian Anneser
until 30 September 2009
Canon
Archepiscopal Financial Director
Archdiocese of Munich
and Freising
Archepiscopal Diocesan Authorities
Munich

Willi Berchtold
Member of the Board of
Directors of ZF Friedrichshafen AG
Friedrichshafen

Dr. Manfred Bode
Managing Partner
Wegmann & Co
Unternehmens-Holding KG
Munich

Detlev Bremkamp
until 1 July 2009
Vice Chairman
Mondial Assistance SA, Paris
Munich

Gerd A. Bühler
Managing Partner
GAB Grundstücks-, Finanzierungs-,
Verwaltungs- und
Beteiligungs GmbH
Munich

Dr. Dr. Axel Diekmann
Shareholder of
Verlagsgruppe Passau
Passau

Georg Fahrenschon
State Minister
Bavarian State Ministry of Finance
Munich
(Curator)

Klaus-Peter Franzl
since 1 November 2009
Canon
Archepiscopal Financial Director
Archdiocese of Munich
and Freising
Archepiscopal Diocesan Authorities
Financial Department
Munich

Werner Frischholz
Member of the Board of
Directors of KRONES AG
Neutraubling

Stephan Gemkow
Member of the Board of
Directors of
Deutsche Lufthansa AG
Cologne

Dipl.-Ing. Peter Hamberger
Managing Partner
Hamberger Industriewerke GmbH
Rosenheim

Dr.-Ing. h.c. Martin Herrenknecht
Chairman of the Board of
Directors of Herrenknecht AG
Schwanau-Allmannsweier

Erwin Horak
President
Staatliche Lotterieverwaltung
Munich

Prof. Dr. h.c. Karlheinz Hornung
Member of the Board of
Directors of MAN Aktiengesellschaft
Munich

Dr. Dirk Ippen
Managing Director
Münchener Zeitungs-Verlag GmbH
& Co. KG
Munich

Hanswilli Jenke
Managing Director
Haslberger Finanzdienstleistungs-
und Beteiligungs GmbH
Freising

Dr. Hermann Jung
Member of the Group Board of
Directors of Voith AG
Heidenheim

Dr. Michael Kerkloh
Chairman of the Management of
Flughafen München GmbH
Munich

Dr.-Ing. Martin Komischke
Chairman of the Group's
Management of Hoerbiger
Holding AG
Zug

Dipl.-Kfm. Xaver Kroner
Director
Verband bayerischer Wohnungs-
unternehmen e.V.
Munich

Arnulf Lode
Vice President
ADAC Allgemeiner Deutscher
Automobil-Club e.V.
Munich

Klaus Lutz
Chairman of the Board of
Directors of BayWa AG
Munich

Dr. Klaus-Dieter Maubach
Chairman of the Board of
Directors of E.ON Energie AG
Munich

Hartmut Mehdorn
until 1 May 2009
Chairman of the Board of
Directors of Deutsche Bahn AG
Berlin

Dr. Klaus N. Naeve
since 1 April 2009
Chairman of the Board of
Directors of Schörghuber
Stiftung & Co. Holding KG
Munich

Dr. Siegfried Naser
until 1 September 2009
Executive President
Association of
Bavarian Savings Banks
Munich
(Curator)

Rainer Otto
since 1 April 2009
Managing Director
Wirtgen Beteiligungs GmbH
Windhagen

Lothar Panzer
Chairman of the Board of
Directors of Bayerische
Versorgungskammer
Munich

Dr. Helmut Platzer
Chairman of the Board of
Directors of AOK Bayern –
Die Gesundheitskasse
Munich

Dr. Wolfgang Plischke
Member of the Board of
Directors of Bayer AG
Leverkusen

Prof. Klaus Rauscher
Berlin

Heinz-Reiner Reiff
Managing Director
Stahlgruber Otto Gruber
GmbH & Co. KG
Poing

Angelique Renkhoff-Mücke
Chairwoman of the Board of
Directors of WAREMA Renkhoff
Holding AG
Marktheidenfeld

Andreas Renschler
Member of the Board of
Directors of Daimler AG
Stuttgart

Hans Peter Ring
Chief Financial Officer
EADS N.V.
Ottobrunn

Randolf Rodenstock
President
Vereinigung der Bayerischen
Wirtschaft e. V.
Munich

Dr. Christian Rödl
Managing Partner
Rödl & Partner
Nuremberg

Prof. Dr. Bernd Rudolph
Institute of Capital Market
Research and Finance
Ludwig-Maximilian University
Munich

Maria-Elisabeth Schaeffler
Partner
INA-HOLDING SCHAEFFLER KG
Herzogenaurach

Dipl.-Kfm. Peter Scherkamp
General Manager
Wittelsbacher Ausgleichsfonds
Munich

Siegmund Schiminski
since 1 September 2009
Chairman of the Board of
Directors of Sparkasse Bayreuth
Bayreuth

Manfred F. R. Schmidt
Chairman of the Board of
Directors of Stuttgarter
Lebensversicherung a. G.
Stuttgart

Dr. Jörg Schneider
Member of the Board of
Directors of Münchener
Rückversicherungs-Gesellschaft
Munich

Michael Schneider
Chairman of the Board of
Directors of LfA Förderbank Bayern
Munich

Dipl.-Kfm. Dieter Schön
Managing Director
Schön-Klinik Verwaltung GmbH
Prien

Friedrich Schubring-Giese
Chairman of the Board of
Directors of
Versicherungskammer Bayern
Munich

Dr-Ing. Dieter Soltmann
Honorary President
Chamber of Industry and
Commerce for Munich
and Upper Bavaria
Munich

Prof. Manfred Steiner
Professor, Department of Business
Management, Finance and Banking
at the University of Augsburg
Augsburg

Axel Strotbek
Member of the Board of
Directors of AUDI AG
Ingolstadt

Christoph Thomas
Managing Partner
HAMA GmbH & Co. KG
Monheim

Dr. Johannes Vöcking
Chairman of the Board of
Directors of Barmer Ersatzkasse
Wuppertal

Dr. Wolfgang Weiler
Spokesman of the Board of
Directors of HUK-Coburg
Coburg

Alexander Wiegand
Managing Partner
WIKA Alexander Wiegand
GmbH & Co. KG
Klingenberg

Manfred Wutzlhofer
Chairman of the Management of
Messe München GmbH
Munich

[SECTION 6]

SEC. 6

Locations and addresses

Locations and addresses

Germany

Head Office: Munich
BayernLB
Brienner Strasse 18
80333 Munich
Tel +49 89 2171-01
Fax +49 89 2171-23579
SWIFT BIC: BYLA DE MM
info@bayernlb.de
www.bayernlb.de

Nuremberg
BayernLB
Lorenzer Platz 27
90402 Nuremberg
Tel +49 911 2359-0
Fax +49 911 2359-212
SWIFT BIC: BYLA DE MM 77
nuernberg@bayernlb.de
www.bayernlb.de

BayernLabo
Brienner Strasse 22
80333 Munich
Tel +49 89 2171-08
Fax +49 89 2171-28015
bayernlabo@bayernlb.de
www.bayernlabo.de

LBS Bayerische Landesbausparkasse
Arnulfstrasse 50
80335 Munich
Tel +49 1803 114477*
Fax +49 89 2171-47000
info@lbs-bayern.de
www.lbs-bayern.de

14 sales offices of LBS Bayern with
111 advisory centres in Bavaria

** EUR .09/min. from German fixed-line phones*
max. EUR .42/min. from German mobile phones

Foreign entities/branches

Hong Kong
BayernLB
19th Floor, Standard Chartered Bank Building
4A Des Voeux Road, Central,
Hong Kong
Tel +852 29 78-83 33
Fax +852 28 77-38 17
SWIFT BIC: BYLA HK HH
hongkongbranch@bayernlb.de

London
BayernLB
Bavaria House
13/14 Appold Street
London EC2A 2NB
United Kingdom
Tel +44 20 72 47 00 56
Fax +44 20 79 55 5173
SWIFT BIC: BYLA GB 22
info.london@bayernlb.co.uk

Luxembourg
BayernLB
3, rue Jean Monnet
2180 Luxembourg
Luxembourg
Tel +352 43 3122-1
Fax + 352 43 3122-4599
SWIFT BIC: BYLA LU LB
Direction.nlblb@lblux.lu

Milan
BayernLB
Via Cordusio, 2
20123 Milan
Italy
Tel +39 02 86 39 01
Fax +39 02 86 42 16
SWIFT BIC: BYLA IT MM
info@bayernlb.it

New York
BayernLB
560 Lexington Avenue, 22nd Floor
New York, N.Y. 10022
USA
Tel +1 212 3 10-9800
Fax +1 212 3 10-9822
SWIFT BIC: BYLA US 33

Paris
BayernLB
Succursale de Paris
203, rue du Faubourg Saint-Honoré
75380 Paris Cedex 08
France
Tel +33 1 44 21 14 00
Fax +33 1 44 21 14 44

Shanghai
BayernLB
6/F., Tower 3, German Centre for Industry
and Trade Shanghai co. Ltd.
88 Ke Yuan Road
Zhangijang HiTech Park, Pudong
Shanghai 201 203
P.R. China
Tel +86 21 2898 6600
Fax +86 21 2898 6611
bayernlbshanghai@bayernlb.de

Representative offices

Moscow
BayernLB
CJSC Legion Development
Bolshaya Ordynka 40, Geb. 4
Moscow 119017
Russia
Tel +7 495 544 54 33
Fax +7 495 544 54 34
julia.blb@legion-post.ru

The Group's strategic subsidiaries

Banque LBLux
3, rue Jean Monnet
2180 Luxembourg
Luxembourg
Tel +352 42 434-1
Fax +352 42 434-5099
SWIFT BIC: BYLA LU LL
bank@lblux.lu
www.lblux.lu

Deutsche Kreditbank
Aktiengesellschaft
Taubenstraße 7–9
10117 Berlin
Tel +49 1803 120 300*
Swift BIC: BYLADEM 1001
info@dkb.de
www.dkb.de

Landesbank Saar
Ursulinenstraße 2
66111 Saarbrücken
Tel +49 681 383-01
Fax +49 681 383-1200
SWIFT BIC: SALA DE 55
service@saarlb.de
www.saarlb.de

MKB Bank Zrt
Váci útcá 38
1056 Budapest
Hungary
Tel +36 1 327-8600
Fax +36 1 327-8700
SWIFT BIC: MKKB HU HB
telebankar@mkb.hu
www.mkb.hu

** EUR .09/min. from German fixed-line phones*
max. EUR .42/min. from German mobile phones

BayernLB 2009 Annual Report and Accounts

Publisher
Bayerische Landesbank
Brienner Strasse 18
80333 Munich
Tel: +49 89 2171-21038
Fax: +49 89 2171-621038
Reuters Dealing BLAM, BLAS, BLAX
BIC/SWIFT code: BYLA DE MM
info@bayernlb.de
www.bayernlb.de

Text/Editorial staff/Production
BayernLB
Corporate Center Central Area
Corporate Communications Division

Concept and layout
dassel & schumacher werbeagentur gmbh, Munich

Printed by
Lipp GmbH, Graphische Betriebe, Munich

Photographs
Photos of staff: Christoph Gramann, Studio Gramann
Photos of Board of Management: Antje Meinen, Meinen Fotografie GmbH

We thank our employees for their dedication and support.

Editorial deadline: 30 April 2010

The Annual Report is printed on environmentally compatible elemental chlorine-free bleached paper. The CO_2 emissions which resulted from paper consumption at BayernLB in 2009 have been offset by the purchase and invalidation of emission certificates from a certified climate protection project.

The Annual Report can be downloaded as a pdf file from www.ar09.bayernlb.com.
It is also available in German.

Sparkassen-Finanzgruppe in Bavaria

Sparkassen-Finanzgruppe
Market leader in Bavaria

- **Aggregate total assets** (bank business): EUR 507 billion
- **Aggregate regulatory capital** (excl. BayernLB): EUR 14.4 billion
- **Aggregate premium volume** (insurance business): EUR 6.3 billion
- **Staff:** Approx. 66,000

BayernLB

Consolidated total assets:
EUR 339.1 billion

Staff:
Bank: 4,374
Group: 11,821

Bayerische Landesbausparkasse

Portfolio of 2.0 million home loan savings contracts with a volume of EUR 52.4 billion

Bayerische Landesbodenkreditanstalt

Loan volume: EUR 19.8 billion
Subsidised contracts: 12,827 residences

BayernLB Group companies include

- Deutsche Kreditbank AG, Berlin
- Landesbank Saar, Saarbrücken
- MKB Bank Zrt, Budapest
- Banque LBLux S. A., Luxembourg
- LB(Swiss) Privatbank AG, Zurich
- Hypo Group Alpe Adria, Austria

as well as many other subsidiaries which offer special services to savings banks

73 savings banks

Total assets: EUR 168 billion

Staff: 46,259
- Branches: 2,504
- Self-service branches: 345
- Advisory centres: 453

Customer loans: EUR 98 billion
Customer deposits: EUR 130 billion

Market share
- Approx. 40 percent of SMEs
- Two-thirds of trade businesses
- 50 percent of company start-ups

Sparkassen-Immobilien Vermittlungs GmbH & Co. KG
Volume of business brokered: EUR 1.35 billion

DekaBank
Share of Bavarian savings bank organisation: 9.4% including BayernLB share; consolidated total assets: EUR 133 billion

Landesbank Berlin
Share of Bavarian savings banks organisation incl. VKB share: 13.6%

Deutsche Leasing
Share of Bavarian savings banks: 12.44%
New business volume: EUR 8.3 billion

Versicherungskammer Bayern

Premium volume: EUR 6.3 billion
Staff: 8,402
Investment portfolio: EUR 35.6 billion

Germany's largest public-sector insurance provider

Market leader in Bavaria and the Palatinate

Entities within the Versicherungskammer Bayern Group
- Composite insurers
- Life insurers
- Health insurers
- Re-insurers

Sparkassenverband Bayern

- Association members: 73 Bavarian savings banks and their owners
- (Indirect) owner of the Versicherungskammer Bayern
- (Indirect) owner of BayernLB together with the Free State of Bavaria

Bayerische Landesbank
Brienner Strasse 18
80333 Munich
Germany

www.bayernlb.de

Bayern LB