

Germany
Credit Update

Bayerische Landesbank

Ratings

Security Class	Current Ratings
Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1+
Individual Rating	D/E
Support Rating	1
Support Rating Floor	A+
Guaranteed Long-Term Notes	AAA
Sovereign Risk	
Foreign Long-Term IDR	AAA
Local Long-Term IDR	AAA

Outlooks

Foreign Long-Term IDR	Stable
Sovereign Foreign Long-Term IDR	Stable
Sovereign Local Long-Term IDR	Stable

Financial Data

Bayerische Landesbank		
	31 Mar 09	31 Dec 08
Total assets (EURm)	426,554	421,666
Total equity (EURm)	18,294	10,720
Operating profit (EURm)	556.0	-5,079.0
Published net income (EURm)	281.0	-5,357.0
Comprehensive income (EURm)	281.0	-7,134.0
Operating ROAA (%)	0.5	-1.2
Operating ROAE (%)	15.54	-46.1
Comprehensive Income/AE (%)	7.9	-64.8
Eligible capital/weighted risks (%)	n.a.	5.3
Tier 1 ratio (%)	9.6	8.0

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Related Research

- [Credit Update on Landesbank Saar](#)

Rating Rationale

- The Issuer Default Ratings (IDRs) assigned to Bayerische Landesbank (BayernLB) reflect Fitch Ratings' expectation that the State of Bavaria (Bavaria, rated 'AAA'/Outlook Stable) will continue to support BayernLB.
- The Long-Term Ratings of the guaranteed obligations are based on the grandfathering of the Gewährträgerhaftung (guarantee) of its owners.
- BayernLB's Individual Rating reflects its vulnerability to the ongoing financial market crisis, which resulted in a recapitalisation, and to the deteriorating economic conditions in Germany and Central and Eastern Europe (CEE).
- BayernLB's EUR5.1bn operating loss in 2008 was largely due to write-downs and impairments on its ABS portfolio (EUR2.6bn) and credit counterparties such as Icelandic banks and Lehman Brothers (EUR1.4bn). Thanks to an upturn in its trading and financial investment results (driven by the protection of its ABS portfolio) Q109 was positive. BayernLB's restructuring measures include a focus on its core businesses in its home market and defined customer segments in selected regions. The reduction of approximately EUR70bn of risk-weighted assets (RWAs), around 5,600 staff and some EUR700m in costs should help to reduce its risk profile and increase efficiency. However, uncertainties remain with regard to the group's future structure and profitability, as the EC's final conditions for approving state aid are still pending.
- The proportion of non-prime RMBS (28%) within BayernLB group's EUR20.7bn non-customer-related structured credit securities portfolio, of which EUR19.6bn related to the bank at end-2008, is significant compared with peers'. Owing to a EUR6bn risk shield, EUR1.2bn of which was absorbed by the bank, BayernLB is protected from additional write-downs and impairments up to this amount.
- The quality of non-bank customer loans is likely to deteriorate given pressure on certain industry sectors and weakening asset quality in Eastern Europe, to which the bank is exposed through its subsidiaries Hypo Group Alpe Adria (HGAA, 67.1%-owned) and MKB Bank Nyrt (MKB, 89.6%).
- A EUR10bn capital injection by Bavaria improved BayernLB's Tier 1 ratio to a relatively comfortable 9.6% at end-Q109. The revaluation reserve stood at -EUR2.3bn at end-2008 after EUR3bn in relief from reclassification of securities as loans and receivables.

Support

- BayernLB is 100%-owned by a private law holding company, which, in turn, is owned by Bavaria (94%) and the association of Bavarian savings banks (6%). BayernLB's Support Rating factors in implicit support from its majority owner; Fitch considers that the probability of support remains extremely high.

Key Rating Drivers

- The Long-Term IDR has a Stable Outlook as Fitch does not expect a change in potential support as long as Bavaria holds a majority stake in the bank.
- Upside potential for the bank's Individual Rating would result from successful restructuring, including a sustainable return to profitability, reduced exposure to ABS and credit risk and adequate capitalisation throughout the crisis.

Profile

BayernLB is Germany's second-largest Landesbank by equity.

BAYERISCHE LANDESBANK

Income Statement

	31 Mar 2009 EURm Original	31 Dec 2008 EURm Original	31 Dec 2007 EURm Original	31 Dec 2006 EURm Original
Income Statement				
Interest Income on Loans	n.a.	13,581.0	10,778.0	n.a.
Other Interest Income	n.a.	8,577.0	8,988.0	15,168.0
Dividend Income	n.a.	n.a.	n.a.	n.a.
Gross Interest and Dividend Income	n.a.	22,158.0	19,766.0	15,168.0
Interest Expense on Customer Deposits	n.a.	n.a.	n.a.	n.a.
Preferred Dividends Paid & Declared	n.a.	n.a.	n.a.	n.a.
Other Interest Expense	n.a.	19,488.0	17,577.0	13,348.0
Total Interest Expense	n.a.	19,488.0	17,577.0	13,348.0
Net Interest Income	574.0	2,670.0	2,189.0	1,820.0
Net Gains (Losses) on Trading and Derivatives	n.a.	-2,101.0	-199.0	139.0
Net Gains (Losses) on Other Securities	303.0	-1,933.0	-466.0	0.0
Net Gains (Losses) on Assets at FV through Income Statement	166.0	-173.0	-31.0	35.0
Net Insurance Income	n.a.	n.a.	n.a.	n.a.
Net Fees and Commissions	115.0	584.0	380.0	404.0
Other Operating Income	89.0	141.0	136.0	n.a.
Total Non-Interest Operating Income	673.0	-3,482.0	-180.0	578.0
Personnel Expenses	n.a.	1,069.0	868.0	771.0
Other Operating Expenses	553.0	1,551.0	897.0	695.0
Total Non-Interest Expenses	553.0	2,620.0	1,765.0	1,466.0
At Equity Profit/ Loss - Operating	0.0	9.0	130.0	n.a.
Change in Fair Value of Own Debt	n.a.	n.a.	n.a.	n.a.
Pre-Impairment Operating Profit	694.0	-3,423.0	374.0	932.0
Loan Impairment Charge	138.0	1,656.0	115.0	182.0
Other Credit Impairment Charges	n.a.	n.a.	n.a.	n.a.
Operating Profit	556.0	-5,079.0	259.0	750.0
At Equity Profit/ Loss - Non-operating	n.a.	n.a.	n.a.	n.a.
Non-recurring Income	n.a.	n.a.	n.a.	482.0
Non-recurring Expense	226.0	87.0	4.0	n.a.
Change in Fair Value of Own Debt	n.a.	n.a.	n.a.	n.a.
Other Non-operating Income and Expenses	n.a.	n.a.	n.a.	100.0
Pre-tax Profit	330.0	-5,166.0	255.0	1,332.0
Taxes	49.0	191.0	80.0	343.0
Net Income	281.0	-5,357.0	175.0	989.0
Less: Allocation to Non-controlling Interests	n.a.	274.0	-83.0	11.0
Net Income after Allocation to Non-controlling Interests	281.0	-5,631.0	258.0	978.0
Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.	n.a.
Change in Value of AFS Investments	n.a.	-1,593.0	-1,002.0	329.0
Currency Translation Differences	n.a.	-184.0	36.0	7.0
Other OCI Gains/(losses)	n.a.	n.a.	n.a.	1.0
Fitch Comprehensive Income	281.0	-7,134.0	-791.0	1,326.0
Memo: Profit Allocation to Non-controlling Interests	12.0	274.0	-83.0	11.0
Memo: Net Income after Allocation to Non-controlling Interests	269.0	-5,631.0	258.0	978.0
Memo: Common Dividends Paid & Declared in respect to the Period	n.a.	126.0	122.0	n.a.

BAYERISCHE LANDESBANK

Assets & Off-Balance Sheet Items

	31 Mar 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006
	EURm	EURm	EURm	EURm
	Original	Original	Original	Original
A. Loans				
Residential Mortgage Loans	n.a.	n.a.	n.a.	n.a.
Other Consumer/ Retail Loans	n.a.	n.a.	n.a.	n.a.
Corporate & Commercial Loans	n.a.	n.a.	n.a.	n.a.
Other Loans	205,388.0	202,567.0	175,567.0	137,097.0
Less: Reserves for Impaired Loans/ NPLs	3,502.0	3,439.0	2,307.0	2,151.0
Total Loans	201,886.0	199,128.0	173,260.0	134,946.0
Memo: Gross Loans	205,388.0	202,567.0	175,567.0	137,097.0
Memo: Impaired Loans included above	n.a.	8,965.0	9,021.0	5,364.0
Memo: Loans at Fair Value included above	n.a.	n.a.	n.a.	n.a.
B. Other Earning Assets				
Loans and Advances to Banks	92,560.0	89,638.0	68,311.0	68,750.0
Trading Securities	47,714.0	47,349.0	84,812.0	48,528.0
Derivatives	4,542.0	3,929.0	1,944.0	13,487.0
Available for Sale Securities	61,494.0	25,175.0	65,603.0	67,333.0
Held to Maturity Securities	n.a.	40.0	41.0	n.a.
At-equity Investments	n.a.	106.0	125.0	105.0
Other Securities	n.a.	37,240.0	2,058.0	n.a.
Total Securities	113,750.0	113,839.0	154,583.0	129,453.0
Memo: Government Securities included Above	n.a.	n.a.	n.a.	n.a.
Investments in Property	3,656.0	3,517.0	3,375.0	2,571.0
Insurance Assets	n.a.	n.a.	n.a.	n.a.
Other Earning Assets	742.0	546.0	0.0	0.0
Total Earning Assets	412,594.0	406,668.0	399,529.0	335,720.0
C. Non-Earning Assets				
Cash and Due From Banks	1,808.0	3,796.0	4,207.0	1,856.0
Foreclosed Real Estate	n.a.	n.a.	n.a.	n.a.
Fixed Assets	1,871.0	1,951.0	1,786.0	717.0
Goodwill	n.a.	970.0	998.0	246.0
Other Intangibles	2,169.0	1,243.0	1,573.0	n.a.
Current Tax Assets	n.a.	269.0	362.0	314.0
Deferred Tax	4,510.0	4,390.0	5,034.0	4,552.0
Discontinued Operations	n.a.	n.a.	n.a.	n.a.
Other Assets	3,602.0	2,379.0	2,149.0	964.0
Total Assets	426,554.0	421,666.0	415,638.0	344,369.0
D. Off-Balance Sheet Items				
Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	n.a.	n.a.
Liquidity Lines to SPEs	n.a.	n.a.	n.a.	n.a.
Guarantees	n.a.	22,404.0	23,632.0	n.a.
Acceptances Reported Off-Balance Sheet	n.a.	n.a.	n.a.	n.a.
Committed Credit Lines	n.a.	44,080.0	60,031.0	n.a.
Other Contingent Liabilities	n.a.	633.0	391.0	n.a.
Total Business Volume	426,554.0	488,783.0	499,692.0	344,369.0
Memo: Total Weighted Risks	n.a.	197,700.0	188,888.0	163,849.0

BAYERISCHE LANDESBANK

Liabilities and Equity

	31 Mar 2009 EURm Original	31 Dec 2008 EURm Original	31 Dec 2007 EURm Original	31 Dec 2006 EURm Original
E. Interest-Bearing Liabilities				
Customer Deposits - Current	n.a.	n.a.	n.a.	n.a.
Customer Deposits - Savings	n.a.	n.a.	n.a.	n.a.
Customer Deposits - Term	102,742.0	91,307.0	92,617.0	76,704.0
Total Customer Deposits	102,742.0	91,307.0	92,617.0	76,704.0
Deposits from Banks	123,517.0	142,480.0	93,446.0	80,002.0
Other Deposits and Short-term Borrowings	n.a.	n.a.	n.a.	n.a.
Total Deposits, Money Market and Short-term Funding	226,259.0	233,787.0	186,063.0	156,706.0
Long-term Borrowing	n.a.	n.a.	n.a.	n.a.
Subordinated Borrowing	10,762.0	10,025.0	10,497.0	7,320.0
Other Funding	117,808.0	117,479.0	122,895.0	107,142.0
Total Long Term Funding	128,570.0	127,504.0	133,392.0	114,462.0
Derivatives	41,129.0	36,436.0	16,519.0	12,971.0
Trading Liabilities	n.a.	704.0	54,153.0	36,753.0
Total Interest Bearing Liabilities	395,958.0	398,431.0	390,127.0	320,892.0
F. Non-Interest Bearing Liabilities				
Fair Value Portion of Debt	n.a.	n.a.	n.a.	n.a.
Credit impairment reserves	n.a.	217.0	210.0	n.a.
Reserves for Pensions and Other	3,167.0	2,401.0	2,320.0	2,828.0
Current Tax Liabilities	n.a.	531.0	277.0	295.0
Deferred Taxes	4,831.0	4,371.0	4,915.0	4,719.0
Other Deferred Liabilities	n.a.	494.0	486.0	n.a.
Discontinued Operations	n.a.	n.a.	n.a.	n.a.
Insurance	n.a.	n.a.	n.a.	n.a.
Other Non-interest Bearing Liabilities	4,304.0	2,160.0	2,454.0	1,778.0
Total Liabilities	408,260.0	408,605.0	400,789.0	330,512.0
G. Hybrid Capital				
Pref. Shares and Hybrid Capital accounted for as Debt	n.a.	1,796.0	1,956.0	1,298.0
Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	545.0	621.0	581.0
H. Equity				
Common Equity	15,740.0	10,553.0	10,843.0	11,089.0
Non-controlling Interest	2,554.0	2,573.0	2,058.0	552.0
Securities Revaluation Reserves	n.a.	-2,265.0	-672.0	329.0
Other Accumulated OCI	n.a.	-141.0	43.0	8.0
Total Equity	18,294.0	10,720.0	12,272.0	11,978.0
Total Liabilities and Equity	426,554.0	421,666.0	415,638.0	344,369.0
Memo: Fitch Core Capital	18,294.0	9,504.0	10,618.0	11,307.0
Memo: Fitch Eligible Capital	18,294.0	10,488.0	12,793.0	12,869.0

BAYERISCHE LANDESBANK

Summary Analytics

	31 Mar 2009 EURm Original	31 Dec 2008 EURm Original	31 Dec 2007 EURm Original	31 Dec 2006 EURm Original
Interest Ratios				
Interest Income on Loans/ Average Net Loans	n.a.	7.2	6.9	n.a.
Interest Expense on Customer Deposits/ Average Customer Deposits	n.a.	n.a.	n.a.	n.a.
Interest Income/ Average Earning Assets	n.a.	5.5	5.4	n.a.
Interest Expense/ Average Interest-bearing Liabilities	n.a.	4.9	4.9	n.a.
Net Interest Revenue/ Average Earning Assets	0.6	0.7	0.6	n.a.
Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	0.4	0.3	0.6	n.a.
Other Operating Profitability Ratios				
Non-interest Income/ Gross Revenues	54.0	428.8	-9.0	24.1
Non-Interest Expense/ Gross Revenues	44.4	-322.7	87.9	61.1
Pre-impairment Op. Profit/ Average Equity	19.4	-31.1	3.1	n.a.
Pre-impairment Op. Profit/ Average Total Assets	0.7	-0.8	0.1	n.a.
Credit Impairment Charges/ Pre-impairment Op. Profit	19.9	-48.4	30.8	19.5
Operating Profit/ Average Equity	15.5	-46.1	2.1	n.a.
Operating Profit/ Average Total Assets	0.5	-1.2	0.1	n.a.
Taxes/ Pre-tax Profit	14.9	-3.7	31.4	25.8
Other Profitability Ratios				
Net Income/ Average Total Equity	7.9	-48.7	1.4	n.a.
Net Income/ Average Total Assets	0.3	-1.3	0.1	n.a.
Fitch Comprehensive Income/ Average Total Equity	7.9	-64.8	-6.5	n.a.
Fitch Comprehensive Income/ Average Total Assets	0.3	-1.7	-0.2	n.a.
Net Income/ Av. Total Assets plus Av. Managed Assets	n.a.	n.a.	n.a.	n.a.
Capitalization				
Fitch Eligible Capital/ Regulatory Weighted Risks	n.a.	5.3	6.8	7.9
Tangible Common Equity/ Tangible Assets	3.8	2.0	2.4	3.4
Tier 1 Regulatory Capital Ratio	9.6	8.0	6.4	7.7
Total Regulatory Capital Ratio	13.6	12.3	11.5	10.7
Fitch Eligible Capital/ Tier 1 Regulatory Capital	n.a.	66.4	106.6	120.3
Equity/ Total Assets	4.3	2.5	3.0	3.5
Cash Dividends Paid & Declared/ Net Income	n.a.	-2.4	69.7	n.a.
Cash Dividend Paid & Declared/ Fitch Comprehensive Income	n.a.	-1.8	-15.4	n.a.
Net Income - Cash Dividends/ Total Equity	n.a.	-51.2	0.4	n.a.
Loan Quality				
Growth of Total Assets	n.a.	1.5	20.7	n.a.
Growth of Gross Loans	n.a.	15.4	28.1	n.a.
Impaired Loans(NPLs)/ Gross Loans	n.a.	4.4	5.1	3.9
Loan Impairment Reserves/ Gross loans	1.7	1.7	1.3	1.6
Reserves for Impaired Loans/ Impaired Loans	n.a.	38.4	25.6	40.1
Impaired Loans less Reserves for Imp Loans/ Equity	n.a.	51.6	54.7	26.8
Loan Impairment Charges/ Average Gross Loans	0.3	0.9	0.1	n.a.
Net Charge-offs/ Average Gross Loans	n.a.	0.0	0.0	n.a.
Impaired Loans plus Foreclosed Assets/ Gross Loans plus Foreclosed Assets	n.a.	n.a.	n.a.	n.a.
Liquidity				
Loans/ Customer Deposits	199.9	221.9	189.6	178.7
Loans/ Deposits and Short-term Funding	90.8	86.7	94.4	87.5
Liquid Assets/ Total Assets	11.2	11.2	20.4	14.1
Liquid Assets/ Wholesale Funding	37.1	36.3	44.6	31.7
Wholesale Funding/ Total Funding and Capital	34.5	34.8	48.9	47.6