

# Pressrelease

10 November 2009

## **BayernLB posts operating income of EUR 613 million for the first nine months of the year**

- **Group earnings before taxes increase to EUR 367 million**
- **Core capital ratio rises to 10.7 percent**
- **Administrative costs cut by 12.3 percent**
- **Credit exposure in Germany climbs 7 percent**
- **Risk provisions on loans increase to EUR 1,292 million**
- **Capital injection for HGAA planned for the end of the year**
- **Consolidated net loss of well over EUR 1 billion expected at Group level**

**Munich** – BayernLB improved its results significantly in the first nine months of 2009, despite the tough market environment in the financial and real economies. Operating earnings surged to EUR 613 million compared to a loss of EUR 1,674 million in the year before period. Group earnings before taxes increased to EUR 367 million (year before period: EUR -1,740 million). BayernLB reported positive earnings in all three quarters of the current year due to the stable customer business and effective efficiency measures introduced as part of the restructuring programme. In the third quarter earnings before taxes amounted to EUR 16 million. The higher earnings in all business areas were offset by much higher risk provisions for loans as a result of the economic recession, in particular for activities at the Group strategic subsidiary Hypo Group Alpe Adria (HGAA) in Eastern and South Eastern Europe. The banking supervisory core capital ratio at 30 September climbed to

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10.7 percent and thus creates a strong foundation for the Bank to continue implementing its restructuring plans and new strategy.

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“BayernLB stood its ground well in the market in the first nine months of the year under tough economic conditions,” said Dr. Michael Kemmer, chairman of the BayernLB Board of Management. “In its home markets of Bavaria and Germany, BayernLB managed to grow its loans business moderately. The positive earnings posted again in the third quarter are a sign of the trust that customers and investors place in the Bank. The major reduction in administrative expenses underscores the effectiveness of the restructuring measures.”

Dr. Kemmer continued: “BayernLB is on the right track, as the customer business and the Bank’s more focused business model show. However, in addition to a further increase in risk provisions in the core business, results for the full year will be primarily marked by developments at HGAA. We therefore expect a loss for 2009. However, BayernLB’s solid capital base means it will be able to bear future strain without requiring additional capital.

## Earnings

**Net interest income** in the first nine months of the year was EUR 1,934 million, almost unchanged from the previous year period (EUR 1,949 million). The subsidiaries in the retail segment boosted their net interest income, partly because the refinancing structure improved due to new customer deposits. Declining net interest income at the core Bank can be attributed in particular to the costs of securing liquidity.

In the wake of the global economic crisis, **risk provisions for loans** rose by almost EUR 1 billion to EUR 1,292 million compared to the year before period. HGAA and MKB accounted for more than half of this. HGAA had to more than double its risk provisions and was solely responsible for around 44 percent of

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the BayernLB Group's provisions. Risk provisions in the other Group units on the whole were well below pro-rated estimates.

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**Net commission income** in the reporting period was EUR 325 million (year before period: EUR 452 million). The results were marked by a decline in commission income in the loans business and by fees paid to SoFFin, the German financial stabilisation fund for BayernLB's state-backed bond issue.

**Gains from fair value measurement** amounted to a positive EUR 754 million in the first nine months (previous year: EUR -1,017 million). This result can be broken down into **net trading income** of EUR 694 million (previous year: EUR -585 million) and **fair value option** gains totalling EUR 60 million (previous year: EUR -432 million). Net trading income mainly includes earnings from customer-related interest rate derivative and foreign exchange transactions and write ups in the credit portfolios affected by the financial market crisis.

**Gains on investments** increased to EUR 291 million (year before period: EUR -1,185 million). The positive impact of generally lower credit spreads in the available for sale securities category continued in the third quarter. This item also includes effects from the guarantee agreement with the Free State of Bavaria, which was established to offset losses from the ABS portfolio.

The measures introduced by BayernLB to increase efficiency significantly improved the cost base across the Group in the first nine months of 2009. **Administrative expenses** were cut by 12.3 percent to EUR 1,554 million. BayernLB accounted for around 70 percent of the savings, the Group strategic subsidiaries for 30 percent. This exceeds the targets of the "Hercules" restructuring programme. Staff reductions are progressing according to plan. More than 900 jobs were cut in the first nine months across the Group. Restructuring expenses for the full year 2009 (EUR -246 million) were mainly recognised in profit or loss for the first half of the year.

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## Net assets and financial position

In the course of implementing the restructuring and focusing its strategy, BayernLB continued to pull out of non-core activities in the third quarter. **Total assets** have declined by a total of EUR 26.8 billion since the end of 2008 to EUR 394.9 billion and thus sank below the EUR 400 billion mark for the first time since 2007. This can partly be ascribed to dissolving positions in inter-bank business. The Bank reduced its **risk positions** by 13.4 percent to EUR 171.3 billion.

**Credit volume** at BayernLB totalled EUR 297.7 billion at the end of the third quarter. The core markets of Bavaria and Germany accounted for customer receivables of EUR 114 billion, which was 7.0 percent more than at 31 December 2008. BayernLB rates this increase as proof of its customers' trust and of its strong position in the corporate finance market.

BayernLB's capital base has performed well so far this year. The controlled reduction in risk assets boosted the **core capital ratio** in the third quarter by 0.3 percentage points to 10.7 percent. At 31 December 2008 it was 8.0 percent. As a result of the capital measures by the Free State of Bavaria, **equity** grew by EUR 7.2 billion to EUR 18.4 billion since the start of the year.

## Segment reporting

As from 1 July 2009 the segments were reorganised to reflect the new strategy and resizing of the BayernLB Group. The Bank's positive operating performance in the first nine months is reflected in almost all of the newly defined segments.

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The three segments “**Corporates & Markets**”, “**Real Estate, Public Sector & Savings Banks**”, and “**Mittelstand & Retail Customers**” all reported operating profits that were satisfactory or good. Return on equity was between 7.2 and 16.0 percent.

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Although net interest income and net commission income rose, higher risk provisions led to a negative operating profit in the “**Eastern Europe**” segment. HGAA’s results were responsible for this. MKB’s operating profit in contrast was not only positive for the first nine months of 2009 but also higher than in the same period of the year before.

The “**Restructuring Unit**” founded on 1 July 2009 is also marked by high risk provisions, however it was able to report a satisfactory operating profit driven by good results from the fair value measurement and the investments items. In addition to the ABS portfolio, the Restructuring Unit also includes other loan and securities portfolios classified as non-core portfolios under the new strategy.

## Outlook for full year 2009

The BayernLB Board of Management expects solid customer business and stable operating income to continue in the fourth quarter. However, we expect risk provisions to increase further, which will impact the income statement and the future performance at HGAA.

HGAA’s credit portfolio is currently being examined as part of a so-called asset screening by an auditing firm. Based on indications from the screening so far and the resulting need to increase risk provisions, HGAA is expected to report a significant loss for the year. A capital injection will be unavoidable in order

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to ensure that the Bank's capital base is in line with market requirements and to force the pace of restructuring at the subsidiary.

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Based on the newly recognised need for additional risk provisions at HGAA and taking into account the forecast for the performance of the economy in its market area, a new long-term forecast for the institute will have to be produced. As it can be assumed that the value of HGAA derived from the revised forecast will be lower than its current carrying amount on the BayernLB Group's books, a goodwill impairment charge can be expected to be taken at the end of the year.

Increased risk provisions and the expected impairment at HGAA will weigh significantly on the BayernLB Group's earnings in the fourth quarter. It is not yet possible to quantify it exactly, but it can be expected that as a result of these effects, the Group will report a loss of well over EUR 1 billion. However, the Group's solid capital base means that the expected loss will not require any capital measures at BayernLB level. As things currently stand, the Bank's earnings for the full year are expected to be both good and higher-than-planned after adjusting for restructuring expenses and the negative impact from HGAA.

BayernLB is also expected to report an annual loss in its stand-alone accounts prepared under German accounting standards (HGB). The loss will result from the expected impairment of HGAA's carrying amount. Accordingly, no distribution can be made to equity instruments such as silent capital contributions and profit participation rights that require net retained profits under requirements that the European Commission is expected to impose. However, to the extent legally possible BayernLB intends to avoid distributing the losses to the equity instruments.

The quarterly report can be downloaded from [www.bayernlb.de](http://www.bayernlb.de).

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## Income statement

	1 Jan – 30 Sep 2009 EUR million	1 Jan – 30 Sep 2008 EUR million
Net interest income	1,934	1,949
Risk provisions for the credit business	-1,292	-333
Net commission income	325	452
Gain or losses on fair value measurement	754	-1,017
Gains or losses on hedge accounting	13	29
Gains or losses on investments	291	-1,185
Income from companies valued at equity	-8	7
Administrative expenses	-1,554	-1,773
Other income	151	197
<b>Operating profit/loss</b>	<b>613</b>	<b>-1,674</b>
Restructuring expenses	-246	-66
<b>Earnings before taxes</b>	<b>367</b>	<b>-1,740</b>

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## Other key figures

	<b>30 Sep 2009</b>	<b>31 Dec 2008</b>
Total assets in EUR billion	394.9	421.7
Equity in EUR billion	18.4	11.3
Risk positions in EUR billion	171.3	197.7
Core capital ratio in percent	10.7	8.0
Number of employees (FTE)	19,148	20,072