






2007

Annual Report and Accounts 2007 Individual Accounts

 Finanzgruppe Bayern

 Bayern LB

Sparkassen-Finanzgruppe Bayern

Sparkassen-Finanzgruppe Market leader in Bavaria		
<ul style="list-style-type: none"> • Aggregate total assets (bank business): EUR 576 billion • Aggregate regulatory capital for supervisory purposes (excl. BayernLB): EUR 13.6 billion • Aggregate premium volume (insurance business): EUR 5.7 billion • Staff: 73,000 		
		
BayernLB	75 savings banks	Versicherungskammer Bayern
<p>Consolidated total assets: EUR 416 billion</p> <p>Staff: Bank: 5,170 Group: 19,226</p>	<p>Total assets: EUR 160 billion</p> <p>Staff: approx. 47,197</p> <ul style="list-style-type: none"> • Branches: 2,579 • Self-service branches: 307 • Advisory centres: 360 <p>Tax charge: EUR 0.23 billion Customer loans: EUR 94 billion Customer deposits: EUR 124 billion</p>	<p>Premium volume: EUR 5.7 billion</p> <p>Staff: 6,479</p> <p>Investment portfolio: EUR 33 billion</p> <p>Germany's largest public-sector insurance provider</p> <p>Market leader in Bavaria and the Palatinate</p>
		
Bayerische Landesbausparkasse		
Portfolio of 2.0 million building-saving contracts with a volume of EUR 48.6 billion	<p>Market shares</p> <ul style="list-style-type: none"> • Approx. 40 percent of SMEs • Two thirds of trade businesses • 50 percent of company start-ups 	<p>Entities within the Versicherungskammer Bayern Group</p> <ul style="list-style-type: none"> • Composite insurers • Life insurers • Health insurers • Re-insurers
Bayerische Landesbodenkreditanstalt	<p>Sparkassen-Immobilien Vermittlungs GmbH & Co. KG Volume of business brokered: EUR 1.15 billion</p>	
Loan volume: EUR 16.1 billion Subsidised contracts: 13,575 flats	<p>DekaBank Share of Bavarian savings bank organisation: 9.6% including share of BayernLB; consolidated total assets: EUR 106 billion</p>	
<p>BayernLB Group companies include</p> <ul style="list-style-type: none"> • 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 participations which offer special services to savings banks	<p>Landesbank Berlin Share of Bavarian savings banks: 11.0%</p>	
	<p>Deutsche Leasing Share of Bavarian savings banks: 12.4% Leasing volume: EUR 57 billion</p>	
		
Sparkassenverband Bayern		
<ul style="list-style-type: none"> • Association members: 75 Bavarian savings banks and their owners • (Indirect) owner of BayernLB together with the Free State of Bavaria • Owner of the Versicherungskammer Bayern 		

BayernLB's financial statements at a glance

Performance (HGB)

EUR million	1. 1. – 31. 12. 2007	1. 1. – 31. 12. 2006	Change in %
Net interest income	1,885	1,318	43.0
Net commission income	245	305	-19.4
Administrative expenses	-913	-991	-7.9
Net result from financial transactions	-151	131	
Operating result	559	1,125	-50.3
Cost-income ratio	45.3 %	52.4 %	-13.5
Return on equity	4.0 %	15.7 % ¹	-74.5

Balance sheet figures (HGB)

EUR million	31. 12. 2007	31. 12. 2006	Change in %
Total assets	330,867	293,229	12.8
Credit volume ²	245,701	216,007	13.7
Total deposits	188,293	158,292	19.0
Securitised liabilities	106,612	102,467	4.0
Own funds reported	19,728	16,544	19.2

Key banking regulatory data under the German Banking Act (balance sheet figures)³

EUR million	31. 12. 2007	31. 12. 2006	Change in %
Own funds	17,625	15,787	11.6
Core capital ratio	10.0 %	9.3 %	7.5
Own funds ratio	14.6 %	12.4 %	17.7

Number of employees

	31. 12. 2007	31. 12. 2006	Change in %
BayernLB	5,170	5,149	0.4

¹ without positive special factor

² new definition: due from banks, due from customers, contingent liabilities from guarantees and indemnity agreements

³ figures are not directly comparable since 2007 figures are based on the Solvency Ordinance (SolvV) and 2006 figures on Principle I (KWG)





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Management report

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Overview

The economy

Germany's economy grew by 2.5 percent in 2007, significantly outperforming expectations at the start of the year. Exports and corporate investment were again strong drivers, but due to the higher tax burden on private households, particularly the hike in the standard VAT rate from 16 to 19 percent at the start of the year, private consumption failed to feed into the economic upturn. After turning the corner in 2006, labour market conditions continued to improve: nearly 600,000 more people were in work and the number of those registered unemployed fell by a similar amount. Events were increasingly dominated in the second half of the year by the financial market turmoil originating in the US real estate market. The fallout was heaviest on financial markets: both share prices and yields on safe haven government bonds plummeted. By November, for example, yields on 10-year German government bonds had sunk to 4.0 percent from just under 4.7 percent in July. As 2007 drew to a close and it appeared that the impact of the crisis on the US and German economies was limited, shares staged a recovery and 10-year Bund yields climbed back up to 4.35 percent. But the rally proved short-lived as the financial market crisis deepened during the first quarter of 2008, once again taking its toll on stock markets and pushing down government bond yields.

Business model and strategy

BayernLB focuses on core regions and positions itself in rapidly growing retail markets through the Group's strategic subsidiaries. It operates closely with the Bavarian savings banks and other partners of Sparkassen-Finanzgruppe Bayern. Key elements of its business model are:

- It functions as the central bank to the Bavarian savings banks and as a key member of Sparkassen-Finanzgruppe Bayern.
- Its business operations are focused on selected areas of Germany and promising markets in neighbouring European countries, particularly in Central and South Eastern Europe, and in North America and Asia. It is represented in selected financial centres with branches in Hong Kong, London, Luxembourg, Milan, New York, Paris and Shanghai as well as representative offices. Its presence abroad is also complemented by a dense network of partnerships with leading banks all over the world.
- The Group's strategic participations – Deutsche Kreditbank AG (DKB), Landesbank Saar (Saar LB), MKB Bank Zrt (MKB), Hypo Alpe-Adria-Bank International AG (HGAA), Banque LBLux S.A. and LB(Swiss) Privatbank AG – are an integral part of its business model. They complement its business activities, especially in rapidly growing retail markets.

In 2007, BayernLB pressed on with the implementation of its business model in several of its key strategic areas.

The retail banking segment received a major boost during the year when a majority stake was acquired in Hypo Alpe-Adria-Bank International AG, based in Klagenfurt, Austria. BayernLB Group thereby further strengthened its solid base in Central and South Eastern Europe allowing it to participate more fully in the growth of the region's emerging and dynamic markets and to significantly intensify the Group's retail business. BayernLB's strategic focus here is perfectly complemented by the activities of MKB in Hungary and its subsidiaries in Romania and Bulgaria. All in all its majority stake in HGAA will be a major aid in ensuring BayernLB achieves its financial goals.

Internet-based direct banking was further expanded by DKB during an extremely buoyant year. Despite fiercer competition, it pulled in a record 300,000 new customers.

BayernLB has deep roots in its native Bavarian market and is a driving force in serving corporate customers. In partnership with the savings banks, it offers customers an innovative and customised range of products and services, and focuses on providing them with advice specific to their situation. Researching corporate customer needs helped identify solutions even better suited to customers' needs. For example, a system was drawn up jointly with representatives from the Bavarian savings banks which significantly speeds up the loan decision-making process.

In 2007, partnership agreements were signed with the Standard Bank of South Africa, South Africa, and Banco Itaú Group, Brazil. A key focus here will be on providing support for large and medium-sized German enterprises operating abroad.

Group Boards have been established to improve the management and controlling process within the Group and to comply with legal requirements on the organisation of credit institutions contained in Section 25a of the German Banking Act (KWG). BayernLB Group has therefore met the conditions needed to significantly improve its management of the Group's legally independent strategic subsidiaries. One example of this is the renewable energy strategy jointly drawn up within BayernLB Group by the Group units and agreed in 2007. Coordinating group activities makes it considerably easier to establish a position in this growth segment and leverage the existing market potential.

Participations portfolio

Total direct shareholdings fell to 128 after 14 companies were eliminated from the portfolio and 13 new ones added. The strategically most important addition took place in October 2007 with the acquisition of Hypo Alpe-Adria-Bank International AG. BayernLB owned 57.31 percent of the company as at 31 December 2007. The acquisition of this strategic participation gives the Group access to the huge potential in the highly promising South Eastern European markets where it will focus on the retail business.

Human resources

As at 31 December 2007, BayernLB employed 5,170 staff, 21 more than the year before. Headcount fell by five within Germany and rose by 26 abroad.

Change in staff capacity within BayernLB

	2007	2006	Change	
			absolute	in %
Number of employees at year-end at BayernLB in Germany and abroad	5,170	5,149	+21	+0.4
of which				
• in Germany	4,604	4,609	-5	-0.1
• abroad	566	540	+26	+4.8
of which				
• BayernLB excluding BayernLabo and LBS Bayern	4,283	4,250	+33	+0.8
• BayernLabo	227	230	-3	-1.3
• LBS Bayern	660	669	-9	-1.3
of which				
• men	2,647	2,637	+10	+0.4
• women	2,523	2,512	+11	+0.4
of which				
• full-time employees	4,227	4,255	-28	-0.7
• part-time employees	943	894	+49	+5.5
Average length of service in the Bank (in years)	14.54	14.08	+0.46	+3.3
Average age (in years)	41.67	41.09	+0.58	+1.4

Junior staff numbers again increased due to the Bank's attractiveness as a centre of training. As at 31 December 2007, 186 members of staff were on some form of training programme, 104 to become bankers. BayernLB student numbers increased sharply at both the vocational academies of Heidenheim and Ravensburg and, since 2007, at Sparkassen-Finanzgruppe university. In addition, 34 university graduates were preparing for their future career at the Bank as trainees.

Change in junior staff

	2007	2006	Change	
			absolute	in %
Young talent at year-end at BayernLB in Germany and abroad	186	179	+7	3.9
of which				
banking trainees	104	112	-8	-7.1
students on a vocationally integrated course at a vocational academy	48	34	+14	41.2
graduate trainees	34	33	+1	3.0

In the reporting year, 943 staff or 18.2 percent of the workforce were employed part-time. The ratio has increased steadily since 2001 when it was at 12.4 percent, and is testimony to BayernLB's commitment towards creating a good work-life balance for its staff.

The staff turnover rate due to resignations both in Germany and abroad rose to 3.0 percent (2006: 2.5 percent).

Corporate responsibility

Corporate responsibility is an important component of BayernLB's public mandate. It carried out a whole host of projects throughout the year aimed at helping the community, improving sustainability management, supporting education and science, and promoting art and culture.

Helping the community

Most community work is aimed at helping disadvantaged children and young people as well as the disabled. BayernLB has been particularly involved in the "Sternstunden – we help children" benefit campaign. It has also exhibited works of art painted and designed by children from the Landesschule für Körperbehinderte (Bavarian state school for the disabled) at its gallery for many years. Money raised from their auction goes to both the school and the Sternstunden project. LBS has sponsored an internationally recognised violence prevention programme at Bavarian nurseries and schools since 2004. BayernLB also supports staff who work as volunteers in rescue teams and organisations serving the community.

Education and science

BayernLB supports education and science by helping budding new scientific talent and improving the job prospects of disadvantaged people. The Bank has a long tradition of awarding a Science Prize to young academics for dissertations and postdoctoral theses with a strong practical application, helping to reinforce Germany's attractiveness and competitiveness as a centre of science. It also organises a special competition and award for clinics, was actively involved in the "Finanzplatz München Initiative" (Financial Centre Munich) campaign, and continued to participate in the "Initiative Finanzstandort Deutschland" (Financial Centre Germany) campaign.

Art and culture

BayernLB is strongly committed to the arts and culture. The Bank has its own art gallery displaying the works of well-known artists and new talent. Patronage of the arts is focused on permanently loaning works of art to institutions within the region and on exhibiting contemporary art and the work of Bavarian artists. In addition to the visual arts, a number of projects in the musical sphere are also supported. BayernLB loans a 300-year-old Vollrath Stradivarius to the lead violinist of the Munich Philharmonic and sponsors the performance of renaissance music concerts at the Residenzwoche München event.

Sustainability management

Environmental management has been gradually transformed into sustainability management since it was first introduced in 1998. In 2007, the Board of Management approved a comprehensive policy on sustainability, highlighting more than ever the importance of this issue to BayernLB. In rigorously implementing the sustainability policy, BayernLB is not just meeting its corporate responsibilities, it is also leveraging the market potential together with its customers from the increasing range of sustainable financial products now on offer.

BayernLB has also been quick to recognise not only the major role the financial services sector can play in fighting against climate change but also the business options that the Bank and its customers have to protect the climate. BayernLB offers its customers a wide range of financial services related to climate protection by financing projects in the fields of renewable energy, trading in emissions and developing climate protection projects through its Energy & Commodity Services (ECS) subsidiary. BayernLB will be climate neutral at its Munich office by the end of 2008.

BayernLB aims to engage in a constructive dialogue with its partners in business, science, politics and civil society and to contribute its knowledge from different initiatives. At regional level, for example, BayernLB became a member of Munich's Klimabündnis (climate alliance) in 2007, and at national level, it became one of the founding banks of Finanzforum Klimawandel (Climate Change Finance Forum) in October 2007, created by the German government as part of the high-tech strategy for climate protection. On the international field, the Bank is a long standing member of the United Nations Environment Programme.

Management report

Earnings

BayernLB increased gross profit (sum of net interest income and net commission income) by 31.3 percent in 2007. Administrative expenses fell by 7.9 percent, primarily due to a shift in items reported. Operating profit was EUR 559 million (down 50.3 percent from the high 2006 result) owing to the financial market turmoil – which also contributed to the negative financial transactions result, a fall in Net of other operating expenses and income, and a negative revaluation result.

BayernLB maintained the dividend at 7 percent of nominal capital after transferring EUR 44 million to the revenue reserves (2006: EUR 236 million).

Net interest income was EUR 1,885 million, 43.0 percent higher than in 2006 (EUR 1,318 million), thanks in part to a EUR 300 million increase in dividends from investments in affiliates and a special dividend of EUR 120 million from an associated company. Due to the switch to IAS/IFRS accounting standards, interest expenses paid on accrued pension entitlements (EUR 70 million) were recognised for the first time under Net interest income instead of Personnel expenses.

Net commission income totalled EUR 245 million in 2007, virtually identical to the year-before amount (EUR 305 million) after adjusting for the EUR 58 million one-off item included in the 2006 results. Particularly satisfactory was the adjusted increase in commission income in the lending business. Lower sales and higher expenditure on securities management and custody resulted in a fall in commission income from the securities business, while higher commission expenses put pressure on the credit card business.

EUR million	BayernLB		
	1. 1. – 31. 12. 2007	1. 1. – 31. 12. 2006	Change in %
Net interest income	1,885	1,318	43.0
Net commission income	245	305	–19.4
Gross profit	2,130	1,623	31.3
Personnel expenses	–467	–545	–14.3
Operating expenses	–446	–446	–0.1
Administrative expenses	–913	–991	–7.9
Net income from financial transactions	–151	131	
Net of other operating expenses and income	37	138	–72.9
Risk provisions	–74	–104	–28.5
Revaluation result	–470	328	
Operating profit	559	1,125	–50.3
Extraordinary expenses	0	–401	
Income taxes	–182	–147	23.9
Partial profit transfer	–207	–219	–5.2
Net profit	170	358	–52.6
Transfers to revenue reserves	44	236	–81.4
Profit available for distribution	126	122	3.1

A shift in reporting interest expenses paid on accrued pension entitlements from personnel expenses to net interest income due to the change of IFRS reporting resulted in a EUR 70 million decrease in administrative expenses. In total, Administrative expenses fell EUR 78 million to EUR 913 million (2006: EUR 991 million), primarily due to this effect.

Personnel expenses fell EUR 78 million to EUR 467 million (2006: EUR 545 million), primarily as a result of the reconciliation of reported earnings to IAS 19. Operating expenses fell 0.1 percent to EUR 446 million. Higher building costs and a EUR 6 million increase in the Bavarian Reserve Fund to EUR 36 million were more than offset by lower consulting costs.

Income from financial transactions fell to EUR –151 million (2006: EUR 131 million) due to write-downs in the investment portfolio that were primarily the result of the financial market crisis and a loss incurred in the equity business. Excluding these special factors, results from day-to-day trading were positive, particularly in interest-rate derivatives, energy derivatives and foreign exchange products. Rising demand for energy and commodities products during 2007 resulted in an increase in the number and volume of transactions for customers. In the trading portfolio, hidden reserves – not recognised in the income statement under the HGB realisation principle – rose by EUR 83 million.

Net of other operating expenses and income was EUR 37 million due to the release of provisions no longer required. The previous year's figure of EUR 138 million was largely the result of income tax refunds, which are recognised under Tax expenses starting from financial year 2007.

The cost-income ratio (CIR)¹ fell to 45.3 percent (2006: 52.4 percent) due to higher net interest income and lower administrative expenses.

The change in Net risk provisions in the credit business (credit risk, country risk and general loan loss provisions) was positive, as in the previous two years. The valuation of loans in the specific purpose reserve led to an expense item which was offset by writing back a corresponding amount from the risk provisions pursuant to Sections 340f and 340g HGB. Risk provisions disclosed were EUR –74 million (2006: EUR –104 million) due to the write-downs in the liquidity securities portfolio arising from the financial market turmoil.

Disposals of non-strategic participations were also carried out in 2007, but the realised gains were outweighed by write-downs on structured securities resulting from the financial market crisis. The revaluation result was EUR –470 million, around EUR 800 million lower than in 2006. The high 2006 result of EUR 328 million was largely due to the disposal of the Bank's stake in Formula 1 motor racing.

Operating profit (after deducting risk provisions/revaluation) fell to EUR 559 million (2006: EUR 1,125 million) due to the impact of the financial market crisis and one-off positive factors from the previous year.

Return on equity (RoE)² fell to 4.0 percent (2006: 15.7 percent) due to lower operating profit.

Income tax expenses rose EUR 35 million to EUR 182 million. Under the 2008 corporate tax reforms, the corporate tax rate was cut to 15 percent at the start of this year. The resulting revaluation of the deferred taxes led to a reduced credit balance and a lower fiscal book value, which resulted in a significantly higher tax expense. The credit balance fell from EUR 416 million in 2006 to EUR 331 million at the end of 2007.

Capital contributions of silent partners fell after some of them became due, which also resulted in a 5.2 percent fall in the partial profit transfer to EUR 207 million.

Net profit was EUR 170 million, EUR 188 million lower than in 2006, of which EUR 44 million (2006: EUR 236 million) was allocated to the revenue reserves.

Profit available for distribution was EUR 126 million (2006: EUR 122 million) in financial year 2007, which amounts to an unchanged 7 percent dividend on nominal capital.

¹ Administrative expenses/operating profit

² RoE = operating profit – partial profit transfer + change in fund for general bank risks/average, relevant equity capital reported – profit available for distribution + average fund for general bank risks.

Net assets and financial position

Total assets were EUR 330.9 billion at the end of 2007, a year-on-year rise of 12.8 percent. The financial market crisis had a significant effect on this increase as it was particularly important to preserve and stockpile liquidity when the crisis broke in mid 2007. Thanks to these measures, BayernLB was always in a position to meet its obligations in full.

EUR billion	BayernLB		
	31. 12. 2007	31. 12. 2006	Change in %
Total assets	330.9	293.2	12.8
Business volume	408.1	375.9	8.6

Expansion of business volume (total assets plus liabilities from guarantees, indemnity agreements and irrevocable credit commitments) was slightly below total assets growth, rising 8.6 percent to EUR 408.1 billion.

Credit operations

EUR billion	BayernLB		
	31. 12. 2007	31. 12. 2006	Change in %
Due from banks	126.5	113.2	11.8
– of which savings banks	15.5	15.8	–1.3
Due from customers	97.0	85.8	13.0
Securities	85.3	76.7	11.2
Credit volume*	245.7	216.0	13.7

* Due from banks and customers plus contingent liabilities from guarantees and indemnity agreements

Due from banks totalled EUR 126.5 billion at the end of 2007, a year-on-year increase of 11.8 percent. Most funding was short term. Of the EUR 13.3 billion growth in loans to banks, EUR 9.7 billion was in loans payable on demand.

Due from customers rose EUR 11.2 billion to EUR 97.0 billion. Most of the rise was likewise in short term loans, with EUR 7.1 billion of the increase occurring in loans with maturities of up to three months.

The securities portfolio, which is largely composed of bonds and *Schuldscheine*, grew EUR 8.6 billion to EUR 85.3 billion. Much of this rise was due to the purchase of securities from bank-internal conduits with a nominal value of EUR 4.5 billion and the purchase of ABCP issued by the conduits (nominal value EUR 1.8 billion). Equities and investment units fell from EUR 4.8 billion to EUR 1.0 billion. Securities in the liquidity reserve with a carrying amount of EUR 37.5 billion were classified to the Held for investment portfolio on 1 January 2007. BayernLB now intends to hold these securities

long term. The portfolio is measured using the modified lower-of-cost-or-market principle. Fluctuations in value were not rated as long term; it is assumed that securities are repaid in full when they mature. Impairments arising from changes in credit risk were written down accordingly. From financial year 2007, the entire securities investment portfolio is measured using the modified lower-of-cost-or-market principle to ensure consistency.

As at the balance sheet date, bonds and other fixed-interest securities were carried at EUR 47.4 billion (2006: EUR 4.8 billion) based on the modified lower-of-cost-or-market principle, while the fair value of these holdings was EUR 46.3 billion (2006: EUR 4.7 billion).

Investments in affiliated companies were carried at EUR 5.4 billion, most of the EUR 2.8 billion increase coming from the acquisition of a majority stake in Hypo Alpe-Adria-Bank International AG (HGAA). BayernLB held a 57.31 percent stake in the subsidiary as per 31 December 2007 after increasing its stake under a capital increase in the same month.

Derivative transactions fell 5.9 percent in nominal volume to EUR 1,321 billion. Interest rate derivatives were hit hard as were currency, equity and index derivatives, albeit to a lesser extent. Credit derivatives rose on both protection seller and buyer sides.

Funding

EUR billion	BayernLB		
	31. 12. 2007	31. 12. 2006	Change in %
Due to banks	128.0	101.4	26.2
– of which savings banks	14.9	9.3	61.2
Due to customers	60.3	56.8	6.0
Securitised liabilities	106.6	102.5	4.0

All major forms of funding shown in the table increased in the year under review. Due to banks saw the biggest growth, rising EUR 26.6 billion. Liabilities to the sub-category of affiliated savings banks increased by 61.2 percent or EUR 5.6 billion, highlighting the strong cohesion of the Sparkassen-Finanzgruppe.

Most of the growth in due to banks, which rose by 26.2 percent to EUR 128.0 billion, took place in loans with maturities of up to three months. Liabilities of between three months and one year fell by EUR 4.4 billion while liabilities of over one year rose by EUR 2.7 billion.

Due to customers rose 6 percent to EUR 60.3 billion. Domestic institutional investors and companies increased deposits by EUR 2.1 billion; public sector deposits in Germany rose by EUR 1.4 billion.

BayernLB's public Pfandbriefe and mortgage-backed Pfandbriefe retained their triple A status from rating agencies Standard & Poor's, Moody's and Fitch. In 2007, BayernLabo issued its debut EUR 750 million bond, co-lead managed by BayernLB. A wide range of bonus certificates and other innovative and customised investment products have also been issued under the BayernLB Select brand. Securitised liabilities rose by 4 percent or EUR 4.1 billion to EUR 106.6 billion.

Regulatory capital had to be increased as a result of the growth. Subordinated liabilities increased by EUR 3.1 billion to EUR 7.3 billion, of which USD 850 million was in the form of a hybrid capital transaction to raise core capital at Group level.

Capital adequacy remains strong

Reported equity fell slightly to EUR 9.6 billion. Capital contributions of silent partners fell by EUR 184 million after some of them became due, while EUR 44 million was allocated to the revenue reserves.

Banking supervisory ratios* under the German Banking Act (KWG)

Risk positions were calculated on the basis of the Solvency Ordinance (SolvV) as at 31 December 2007. The corresponding core capital ratio was 10.0 percent (2006: 9.3 percent) and the own funds ratio 14.6 percent (2006: 12.4 percent). The increase in capital ratios was due to the new method of calculation under SolvV which led to a fall in risk positions. The figures given are therefore not directly comparable.

EUR billion	BayernLB	
	31. 12. 2007	31. 12. 2006
Risk positions as per Principle I (2006) or Solvency Ordinance (2007)	121.2	127.3
Own funds	17.6	15.8
– of which core capital	9.3	9.6
Own funds ratio	14.6 %	12.4 %
Core capital ratio	10.0 %	9.3 %

* Based on the annual financial statements prepared

Outlook

The forecasts set out in the following report relating to BayernLB's performance in 2008 and 2009 may deviate substantially from the actual outcome should one of the following uncertain factors or other uncertainties occur, or should the assumptions underlying our forecasts prove incorrect. BayernLB is under no obligation to update its forecasts in light of new information or future events taking place in the forecast period.

Economic environment

Events in 2008 will be driven largely by the financial market crisis that began in the US real estate market and spread rapidly to Europe last summer, directly infecting asset-backed securities and a whole range of other asset classes and markets. It is still too early to say what its impact on industry has been, but the turmoil on capital markets has generally affected the real economy less than the banking sector. Germany's industrial sector remains buoyant thanks in part to its internationally competitive product range – for example, in machine and plant manufacturing – and strong position in rapidly growing regions. The highest visible export growth rates are now found in countries benefiting the most from the commodities market boom and not the US and other traditional industrialised nations. Although this is a stabilising factor, a deep US recession would negatively impact the European and German economies. The risk of a credit crunch would be particularly acute in the case of a prolonged financial market crisis causing banks to significantly tighten lending standards and expand margins markedly. But the signs in early 2008 suggest that the effects of the crisis on the European and especially the export-driven German economy will remain limited. US consumers will however tighten their belts, taking much of the wind out of the economy's sails, at least in the first half of the year.

Germany's economy will expand by a good 1.5 percent in 2008. This is significantly below last year's 2.5 percent and largely due to the flagging export growth and falling corporate investment that is forecast. But consumer spending will be lifted if an expected 3 percent increase in disposable incomes materialises and may well even boost the economy more than it did last year if consumers' purchasing power is not eroded by sharply rising inflation. The labour market remains buoyant and will lift economic growth. In 2009, after the US moves out of recession and the financial markets settle down, growth might again be as strong as it was in 2006/2007.

Capital markets will continue to be plagued by the financial market turmoil for much of 2008. Recession fears, interest rate cuts and a flight to quality could lead to relatively low or, in some cases, falling government bond yields and plunging share prices. But if it is confirmed that the slowdown in the German and Western European economies was only a blip, yields might begin rising later in the year and the stock markets resume the growth of recent years, albeit at a less dynamic rate.

Earnings and liquidity position

The events on domestic and international financial markets will have a major impact on group profitability in 2008. Difficult as it is to make reliable forecasts about these external conditions, the first few months of this year do point to a continuation or even worsening of the turmoil that originated in the second half of 2007.

Higher refinancing costs mean lower net interest income and therefore lower overall profits for 2008. Uncovered funding spread premiums are expected to be considerably wider in 2008, particularly for issue sales through the MTN programmes or the benchmark issue segment. While IT-management systems are taking account of the higher costs of acquiring liquidity when calculating prices for loans, they are not expected to be passed on in full.

BayernLB forecasts fair values of assets within the Group's ABS portfolio will continue falling until the third quarter when they should begin to stabilise. But on the positive side, a significant portion of the portfolio should be repaid as much of it is in AAA tranches; around a third of the portfolio is expected to be paid back over the next three years as it comes due or through amortisation.

Changes in the future value of BayernLB's ABS investments cannot be predicted reliably due to market volatility, but the Bank would be significantly affected if market prices were to continue falling sharply. BayernLB is proactively working on a solution to counteract at least some of the effects of the turmoil on the ABS market and resulting impact on the Bank's equity and income statement.

Normal conditions and rising profits are expected to return in 2009. Administrative expenses will rise in 2008 as strategic initiatives aimed at further developing the business model are implemented and the Financial Markets Business Area is refocused. But efficiency measures will push down costs and administrative expenses in 2009. Credit risk provisions are set to improve in 2008 and 2009 due to further write-backs of specific loan loss provisions and other provisions so that net credit risk provisions remain significantly below standard risk costs.

Future performance of BayernLB

Major factors contributing to uncertainty in the forecast period are the state of the US economy and the US mortgage market. Germany's banking sector is affected indirectly by their impact on global growth and directly by their impact on the securitisation market and other market segments.

Weaknesses in certain parts of the securitisation market provoked a crisis of confidence in the financial markets and the fallout has hit the entire banking industry. The key question for the Landesbanks and BayernLB will therefore continue to be: how should they develop or adapt their business model to ensure they remain profitable and competitive in future.

The decision by the Bank's owners, after an in-depth examination and intensive consultation with BayernLB, not to involve BayernLB in any Landesbank consolidation for the time being should be seen against this background. BayernLB intends to further improve its already successful business model. Discussions on the company's core strategic direction will take place as soon as the financial markets return to normality.

Based on current trends, BayernLB expects to see moderate business growth in 2008 and 2009. It intends to build on its activities in its business areas and the Group's strategic participations to further increase market penetration and competitiveness. BayernLB's excellent market position in its core areas, strong regional presence and global reach will enable it to grow in its preferred regions and product areas. The Bank sees significant growth and earnings potential in

- continuing to step up cooperation with the Bavarian savings banks,
- expanding its subsidiaries' operations in Central and Eastern Europe (CEE),
- strengthening the retail business through further dynamic expansion of DKB's direct banking services,
- expanding the SME business,
- creating centres of expertise within the Group,
- refocusing the Financial Markets Business Area and
- undertaking targeted acquisitions by BayernLB Group

HGAA's customer structure and business activities, particularly in the SME segment, will contribute to the expansion of BayernLB's retail business. In future, BayernLB will be able to offer both its customers and those of the Bavarian savings banks another strong, reliable partner with a wide range of banking products in one of the world's most important growth regions. BayernLB will further expand its product range based on Hypo Group Alpe-Adria-Leasing's expertise in creating innovative and customised financing plans for retail, corporate and institutional customers.

The Bank sees good earnings potential in the corporates, public sector and real estate businesses in 2008 and 2009. It will focus here on further strengthening its long-term customer relationships and widely respected expertise built up over many years. A German Centre in Delhi/Gurgaon, India, will also be opened up in partnership with LBBW this year. The centre will help provide rapid, efficient and cheap access for BayernLB and Bavarian savings bank customers – particularly in the SME segment – looking to tap another foreign growth market.

The Bank will continue to focus on building up its wholesale base as well as its retail business activities, and DKB will remain an important vehicle for achieving retail growth in Germany. Internet-based direct banking services will be expanded to open up additional market potential and earnings opportunities for BayernLB. DKB will also step up its customer acquisition rates in 2008 and 2009 and plans to extend its operations to all other German-speaking countries.

Events of special significance that might have an impact on results and financial position after the close of financial year 2007 remain the unresolved financial market crisis and its negative impact. An overview on this is given in the Earnings and liquidity position section within Outlook.

Based on the current outlook for the economy, BayernLB is confident that its business model and strategy, growth momentum and more disciplined cost and risk management have created the conditions for it to be as successful in 2008 and 2009 as it has been in recent years, particularly in its customer business. Continuing turmoil on the international financial markets would, however, have a significant negative effect on BayernLB's results.

Risk report

Organisation

Structural and procedural organisation of risk management within BayernLB is the responsibility of the Board of Management. Operational implementation of risk management and monitoring is the task of the Risk Office Support Operations. The Risk Office's main function is to manage individual counterparty risk and to manage and monitor counterparty, market, liquidity and operational risks at portfolio level. The Chief Risk Officer is a member of the Board of Management and responsible, among other things, for monitoring risk absorption capacity and managing economic risk capital requirements.

Procedures are in place to ensure the Board of Management and committees receive timely and objective reports on all significant risks. Information is passed on through a number of channels including the credit and country risk report, market and liquidity risk report, the risk absorption capacity report and the operational risk report.

The Audit Division audits BayernLB's business operations and reports directly to the Chairman of the Board of Management under Section 22 (3) of BayernLB's Statutes. Its auditing activities are based on a risk-oriented auditing approach and extend to all activities and processes that take place within BayernLB or are outsourced. It carries out its assigned tasks independently of the activities, processes and functions to be audited, taking account of applicable legal and supervisory requirements.

Risk management and monitoring

BayernLB manages and monitors its risks across all business areas to optimise its risk/return profile and to safeguard its risk absorption capacity at all times.

It applies the following key principles in managing risk overall:

- Risk strategy is set by the Board of Management in line with business strategy and specified in policies and business objectives for each type of risk. The Board of Management is also responsible for, and monitors, its implementation.
- Clearly defined processes and organisational structures are in place for all types of risk, around which all written process descriptions (Tasks, Competencies and Responsibilities) are arranged.
- Sales and Risk Office activities and trading and settlement/monitoring units are organisationally separate to avoid conflicts of interest.
- Suitable compatible procedures are defined and implemented to identify, measure, group, manage and monitor the various types of risk.
- Appropriate limits are set on all key types of risk and actively monitored.

Regulatory capital adequacy (solvency) and economic capital (risk absorption capacity)

Based on Internal Capital Adequacy Assessment Process (ICAAP) requirements, each business area is allocated economic risk capital and regulatory capital in the form of required reported equity.

BayernLB has in place processes dealing with equity planning, business area allocation and monitoring to ensure business areas have adequate reported equity and economic capital.

Each business area is constantly monitored to check it is complying with the agreed internal regulatory limits on risk asset and market risk positions. Regular updates on the regulatory capital ratios and the significant effects on these ratios are sent to the Board of Management, which decides on the appropriate measures to be taken if they vary from plan.

The regulatory requirement to hold capital equal to at least 8 percent of all risk exposures was complied with at all times in the reporting year. Based on the balance sheet as at 31 December 2007, the ratio was 14.6 percent (2006: 12.4 percent).

In addition to complying with regulatory capital requirements, another key component of BayernLB's risk management is safeguarding economic risk absorption capacity.

Risk cover funds are defined according to the classification system below:

Composition of risk cover funds

Tier I	Short-term reserves and forecast profit <ul style="list-style-type: none"> • planned allocation to revenue reserves • hidden reserves in the securities/derivatives portfolios (minus hidden charges) • fund for general banking risks under Section 340g HGB • provisioning under Section 340f HGB • planned dividend distribution
Tier II	Long-term reserves <ul style="list-style-type: none"> • hidden reserves in the participations portfolio (minus hidden charges and hidden reserves of the Group's strategic subsidiaries)
Tier III	Equity capital (strict definition) <ul style="list-style-type: none"> • nominal capital • capital and revenue reserves • undated capital contributions of (indirect) silent partners • reserve fund for Bayerische Landesbausparkasse • less book values of the Group's strategic subsidiaries
Tier IV	Equity capital equivalents <ul style="list-style-type: none"> • dated capital contributions of (indirect) silent partners • capital contributions of other silent partners • profit participation rights • subordinated liabilities • less own subordinated liabilities and profit participation rights held in the portfolio

The risk cover funds indicate the level at which unexpected losses arising from risks undertaken can actually be covered. They follow a system of tiers modelled on the balance sheet and income statement where the components of capital are categorised by their availability (liquidity) and their external impact should they alter (capital market effects). The risk cover funds are used to determine a maximum loss limit and therefore available risk capital. The maximum loss limit is determined by the sum of capital components under Tiers I to III. Tier IV of the risk cover funds is used to give depositors and senior creditors additional protection in the event of insolvency and is therefore not allocated to the Bank's business activities.

Risk capital provided to cover the maximum loss limit is then allocated to different risk types as well as to BayernLB's business areas, support operations and institutions in line with the Board of Management's strategic and operational objectives.

In its risk absorption capacity reports that form part of the economic risk capital management, BayernLB monitors the risk profile of the portfolio and ensures risk absorption capacity is always adequate by comparing risk capital with risk capital requirements.

Risk types relevant for calculating risk capital requirements include credit, country, market, investment and operational risks as well as other risks (building savings risk). Risk capital requirements for each risk type are calculated using the Value at Risk (VaR) method based on a confidence level of 99.96 percent and one-year holding period.

BayernLB's allocated risk capital and risk capital requirement as at 31.12.2007

EUR million	Whole Bank			
	31.12.2007		31.12.2006	
	Target	Actual	Target	Actual
Risk capital	7,994	6,319	7,463	7,672
Risk capital requirement	6,319	4,376	7,463	3,346
from normal risk situations	5,251	3,308	6,851	3,108
– of which credit risk	1,857	1,082	4,061	1,564
– of which country risk	1,689	1,101	1,430	903
– of which market risk	1,000	656	671	179
– of which operational risk	365	234	289	245
– of which investment risk	232	139	400	218
– of which other risk	108	96	—	—
from heightened risk situations (scenarios)	1,068	1,068	612	238
Available risk capital	1,675	1,943	0	4,326

The impact of the global financial market crisis in 2007 can be seen in the increased risk capital requirements. This rise was particularly acute in the case of market risk and the stress scenarios. At the same time, available risk capital fell, particularly as a result of a rise in unrealised losses, as did free risk capital, although sufficient levels are still available.

Risk capital requirements for credit risks fell due to better diversification of the credit portfolio after concentrations were reduced.

Along with the VaR results for normal risk situations, a number of scenarios involving heightened risk situations were analysed. Scenarios are consciously defined on the basis of exceptional or improbable but plausible events.

Early warning indicators of risk absorption capacity were developed to assess the relevance of these scenarios, enabling counter-measures to be taken in good time. As with the scenarios themselves, early warning indicators are subject to annual review and are adjusted where necessary to take account of current conditions.

Credit risk (counterparty risk)

Credit risks are the biggest risk for BayernLB in terms of amount.

Credit risks (counterparty risks) arise from transactions or positions 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 for the Bank equal to the amount due but not paid less the value of the realised collateral and reduced by the recovery rate. The definition covers not only debtor and guarantee risks from the credit business but also issuer, replacement and settlement risks from the trading business. Country risk and investment risk, which are other types of counterparty risk, are measured, managed and monitored separately within BayernLB.

Based on business policy and risk absorption capacity, the Board of Management sets parameters for the credit business through the credit risk strategy, itself part of the risk strategy covering all types of risk. These also form the basis for the target portfolio, which is revised at least once a year.

The Credit Policy sets out the risk strategy in detail. It specifies the organisational structure of the Bank in the credit business and for risk management procedures and is complemented by instructions and policies such as "Principles governing the identification, classification and loan loss provisioning for problem loans."

Credit decisions are taken by the Board of Administration, Board of Management, Credit Committee, or competent officers in Sales or the Risk Office analysis units in accordance with competence regulations laid down by the Board of Management and Board of Administration and depending on the amount and rating involved.

The Credit Committee is a permanent body of BayernLB and the most senior credit authority below the Board of Management. It is also responsible for all operational and methodological matters related to credit risks unless their importance is such that a decision by the Board of Management is required.

Credit risk is measured at portfolio level by the Creditrisk+ model, which takes account, inter alia, of concentrations and correlations of sectors and business partners with each other. Besides expected loss, it is particularly used to calculate unexpected loss and risk capital requirements in the risk absorption capacity calculation described. Risk and earnings ratios (particularly RORAC) are summarised in the risk absorption capacity report.

In corporate customer credit analysis, BayernLB's Global Format balance sheet analysis system provides the key quantitative input factors for determining credit ratings across an interface, thereby supporting the credit analysis workflow and the integrity of the rating factor data. It also can be used to compare peer groups and sectors and was supplemented by a planning component in 2007.

BayernLB uses multiple statistically-based rating procedures to analyse and assess the creditworthiness of each borrower. Borrowers are assigned to the appropriate rating category in a 25-tier master rating system based on the probability of default.

All rating procedures are subject to annual validation. The validation process is a requirement under SolvV (Solvency Ordinance) and involves both quantitative and qualitative analyses. Based on statistical and qualitative analyses and user feedback, it assesses rating factors, selectiveness and calibration of procedures, data quality and model design.

To ensure the models correctly determine default probabilities in the respective customer/financing segments, further refinements are carried out both by BayernLB itself and in cooperation with RSU Rating Service Unit GmbH & Co. KG and Sparkassen Rating und Risikosysteme GmbH. More precise default parameters (loss given default values) were introduced in the reporting year for operative credit risk management.

On 1 January 2007, BayernLB obtained regulatory approval to use the Internal Ratings-Based (IRB) approach to measure capital requirements for credit risks under the foundation IRB approach.

Counterparty risks at individual customer level are monitored daily within the Risk Office by Risk Operations using a bank-wide limit-setting system. In this system, limits for each borrower or borrower unit are entered and monitored for compliance. The analysis units also form part of this process. In establishing the limits, a distinction is made between borrower, issuer, guarantee, replacement and settlement risks. The timing of default risk is managed by subdividing the limits into different maturity bands. Significant breaches of the limits are reported to the Board of Management.

Large risks are managed Group-wide in line with the regulatory framework on large exposures.

Risk concentration management – where economically-oriented limits are placed on borrower units – is carried out to ensure the credit portfolio is sufficiently granular. This involves setting uniform limits – based on rating categories and taking account of the Bank's equity situation – which no borrower unit may exceed.

Risk concentration is limited at portfolio level using a target portfolio in which limits are set by rating category, sector and country. Based on the risk absorption capacity calculation, target portfolio planning is carried out over several years, reviewed annually and adapted if conditions change.

Another important way in which risks can be limited is by accepting and holding eligible forms of collateral.

In reaching a decision on appropriate collateral, particular account is taken of the type of financing, borrower's assets, their valuation and liquidity and a reasonable cost/benefit ratio (acceptance costs and ongoing valuation).

Collateral is processed and valued in line with the collateral policy, an instruction that sets out in particular valuation procedures and discounts, and frequency for measuring the individual types of collateral. Net risk positions are calculated on the basis of the liquidation value of the collateral.

A specialist unit has central responsibility for all documentation related to collateral, and for carrying out administration and continuous monitoring. In the case of 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 associated with individual trading partners to an agreed maximum and authorising the call for additional collateral should this limit be exceeded.

The Federal Financial Supervisory Authority (BaFin) has given its approval to reduce capital requirements through real estate liens, guarantees, cash collateral and derivatives under the Internal Ratings Based Approach.

All exposures are constantly monitored in terms of their financial situation, collateral, compliance with limits, contractual obligations and internal and external agreements. Exposures with heightened risks are detected early on using defined early warning indicators that form part of the early risk detection process. Problem exposures are defined in terms of a sliding scale of risk (special mention, substandard, doubtful and loss) and, if necessary, handled using an appropriate form of support (intensive support or problem loan handling) and risk monitoring.

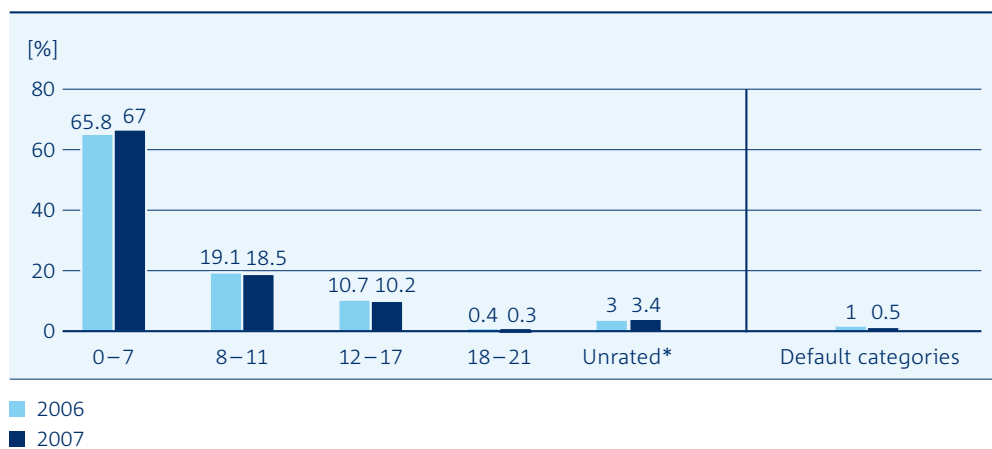
The principle underlying all activities is to minimise potential defaults for BayernLB, or avoid them completely by instigating appropriate measures early on through the provision of intensive support or problem loan handling, thereby restoring a business partner to the normal level of support where possible. A review is carried out regularly to assess the effectiveness of measures taken.

Risk Operations monitors limit compliance, portfolio structure and risk absorption capacity and regularly provides the Board of Management and Board of Administration with risk reports.

The credit portfolio charts shown below are based on the risk reports to the Board of Management.

BayernLB's gross credit exposure including its BayernLabo and LBS Bayern dependent institutions increased markedly during the reporting year, rising by around EUR 11 billion or 3.2 percent.

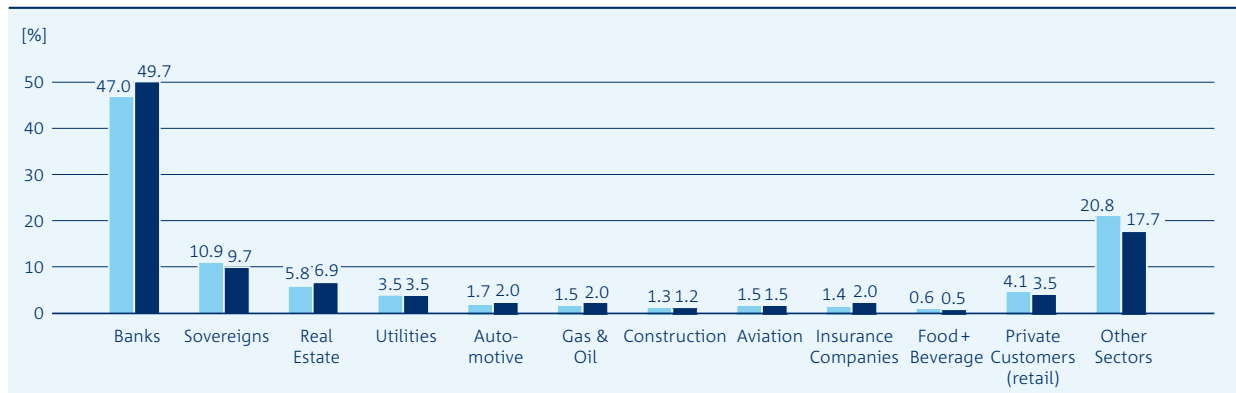
Gross exposure by rating category



At present, 88 percent of gross exposure is in the investment-grade range (rating categories 0 to 11).

An independent coding system is used for the purposes of economic management and strategic alignment of the portfolio at sector level, breaking exposure down into 32 sector groups and focusing on the value-added chain and risk.

Gross exposure by sector group



■ 2006

■ 2007

The Banks segment is BayernLB's largest sector by volume. A sub-portfolio with a very high credit quality, it includes traditional banks as well as financing vehicles for securitisations and others.

The significant growth in the Real Estate segment was largely due to an increase in commercial structured real estate financing by the foreign entities.

BayernLB's corporates portfolio – including other sectors – continues to be well-diversified and does not contain any sector-related risk concentration.

Securitisation exposures and the financial market crisis

The volume of BayernLB's securitisation transactions – for which it has counterparty risk through both balance sheet portfolios and off-balance sheet liabilities – were EUR 32.8 billion as at 31 December 2007.

Based on the Bank's business approach, it is broken down into the following segments:

- Structuring securitisation transactions for BayernLB customers (customer transactions) as part of its credit business with corporate customers and financial institutions (EUR 7.9 billion)
- Investments in asset-backed securities (ABSs) to diversify the total portfolio and generate long-term stable returns (EUR 24.9 billion)

BayernLB's securitisation business includes asset-backed commercial paper programmes which it uses particularly to structure customer transactions. As at 31 December 2007, it operated two of its own ABCP programmes which it established itself – Giro Lion Funding Ltd. und Giro Balanced Funding Corp. A third ABCP programme – Giro Funding US – was used specifically for ABS investments. In the fourth quarter of 2007, the decision was taken to wind up this programme, and the conduit's assets were purchased by the Bank.

Customer transactions are usually not officially rated by an agency. Based on BayernLB's internal rating procedures, 28 percent of customer transactions are rated AAA and AA and 71 per cent as equivalent to A. Most structured customer transactions involved the securitisation of receivables from individual or commercial borrowers.

Of the ABS investments, 97 percent are rated AAA or AA, of which 83 percent are AAA. Individual ABS investments averaged EUR 15 million. Most of the portfolio consists of residential and commercial mortgage-backed securities and collateralised debt obligations.

ABS investments relating to the US subprime and Alt-A market segments comprise RMBS subprime (EUR 3.8 billion), CDO subprime (EUR 0.3 billion) and RMBS Alt-A (EUR 2.9 billion).

Risk provisions in the ABS portfolio comprise EUR 563 million in write-downs related to creditworthiness (including EUR 4.6 million in provisions on guarantees) and EUR 94.9 million in fair value-related write-downs relating to ABSs in the liquidity reserve. Impairments on ABS instruments in the amount of EUR 24 million held in the trading portfolio are included under Net income or net expenses from financial transactions.

The fallout from the crisis on the US mortgage market was not simply confined to structured securities directly related to this market. Other ABS segments also suffered losses as a result of the market turmoil, because risk premiums on structured securities have risen and, in particular, as the crisis in confidence and liquidity continues to dominate the international financial markets. BayernLB currently forecasts no permanent impairment in the value of ABS investments not directly linked to the US mortgage market.

In its continuing assessment of the credit quality of an ABS transaction, BayernLB focuses on the long-term value of the underlying pool of securitised receivables and on the suitability of the available hedged structural elements. Based on the distribution of credit rating within the underlying portfolio, BayernLB generally uses structural elements (credit enhancement) to protect itself from any negative events in the underlying portfolio. Credit enhancements are continually assessed for suitability – irrespective of the external rating of the ABS transaction – by means of stress tests and based on up-to-date market information. Asset class and market-related stress testing procedures are employed. These are largely based on BayernLB's assumptions and projections relating to future delinquency, default and realisation rates in the portfolios underlying the ABS investments. The input parameters are continually checked for plausibility in line with market information. Account is also taken of the effect of structural factors and the impact of other parties involved at individual transaction level.

In the current market situation, BayernLB uses indicative prices to measure ABS investments. These prices are based on information from market data providers, quotes from counterparties and brokers, and spreads and pricing data from investment banks.

BayernLB's Risk Office units validate prices by comparing them with those of other sources; individual cases are analysed in the event of variations. If only one price is available, it is checked for consistency with the results from the assessment of credit quality.

Individual risk provisions

Under the early risk detection process, exposures with warning signals are classified according to the size of risk and given the appropriate form of support. This is based on objective evidence of impairment, which includes:

- A rating of 22 or below on the 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
- Creditworthiness-related restructuring or reorganisation
- Standstill agreements
- Excessive debt or insufficient cover
- Country-specific evidence of impairment

All exposures that are classified as substandard or lower based on these criteria are assessed for the impact on future cash flows as required but at least once quarterly. If there is evidence of impairment, individual risk provisions are established, taking account of credit and country risks. Loan loss provisions are calculated for each business partner or financing project by offsetting the carrying amount of the receivable against the net present value of the estimated cash flow discounted at the original effective interest rate.

When establishing risk provisions, a distinction is made between specific loan loss provisions for existing loans, utilisations of financial guarantees, irrevocable credit commitments and other off-balance sheet liabilities. If impairment occurs and it is determined that there are no prospects of recovery, the loan is either written off against an existing single loan loss provision or directly written off against earnings if the impairment had not been previously identified. Particular criteria for write-downs are cessation of business activities related to creditworthiness and interest or capital repayment waivers.

Non-performing and in default classifications

Default criteria form part of the rating system within the rating process. They correspond to the definitions in the Solvency Ordinance under which “loans in default” fall within rating class 22 and “non-performing loans” within rating classes 23 and 24.

BayernLB’s individual borrowers are also classed as “in default” or “non-performing” if they meet any of the default criteria of any subsidiary belonging to the BayernLB Group.

Sufficient risk provisions were established for all identified risks in the credit business. General loan loss provisions are established for potential risks.

Provisions for counterparty and country risks*

EUR million	BayernLB					
	2007	2006	2005	2004	2003	2002
As at 1 January	1,054	1,874	3,384	4,249	4,055	2,438
Write-backs	-219	-289	-625	-471	-389	-341
Utilisation	-236	-674	-1,260	-720	-664	-325
Allocations	102	155	322	379	1,448	2,418
Other changes**	-9	-12	53	-53	-201	-135
As at 31 December	692	1,054	1,874	3,384	4,249	4,055

* Specific loan loss provisions, provisions in credit business and country portfolio loan loss provisions

** Exchange rate changes and account transfers

In the year under review, EUR 117 million worth of net provisions for counterparty and country risks were written back (2006: EUR 134 million). The EUR 39 million change in cash value of future expected cash flows over the period was included in the EUR 219 million of write-backs and shown under Interest income. Direct write-offs of receivables amounted to EUR 26 million (2006: EUR 20 million).

Investment risk

Risks may arise not only from counterparties but also from participations (shareholder risk). They include anticipated losses on equity provided, liability risks (e.g. letters of comfort) or risks from profit and loss transfer agreements (loss transfers).

To achieve its corporate goals, BayernLB makes selected investments to broaden its range of business, provide services for the Bank or purely as a financial investment.

The Bank's participation policy and risk strategy stipulate how investment risks are to be handled. Classification procedures with clear guidelines on the early detection of risks are implemented for all participations to assess and monitor risks.

Country risk

Country risk is the risk of either a business partner based in that country or the country itself failing to meet its obligations in time or at all due to sovereign acts, macro-economic problems or political problems.

Country risk can arise from a potential deterioration in macro-economic conditions, political or social upheaval, nationalisation or expropriation of assets, non-recognition by a government of international liabilities, currency control measures, currency depreciation or devaluation, payment or delivery bans, moratoria, embargos, war, revolution or a coup d'état in the country in question.

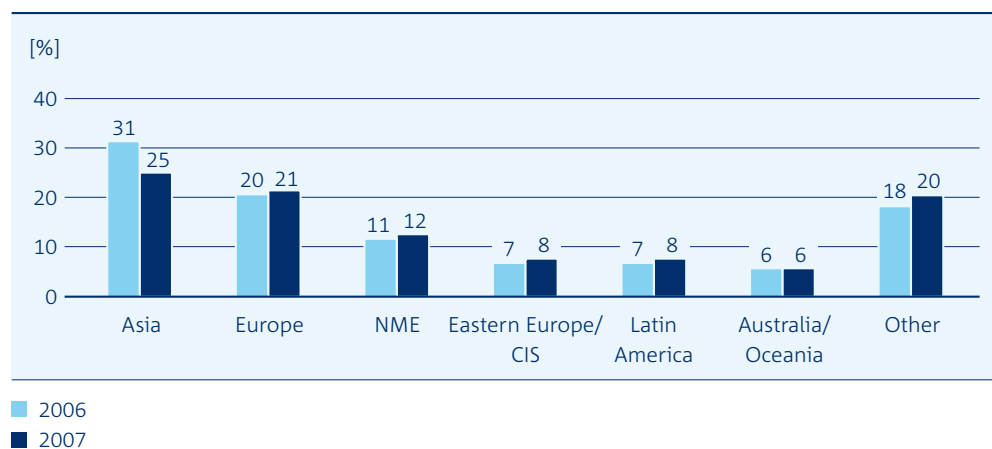
BayernLB supports customers seeking to enter rapidly growing foreign markets to tap new potential sources of income. Specific strategies are created for each country and region, for example, the expansion into Eastern Europe. BayernLB therefore consciously accepts a limited amount of country risk in the course of its business activities.

The country risk policy lays down uniform and binding criteria for defining and handling country risks. In particular, it regulates the need for each transaction to be assigned a country rating, the measurement of country risks, limit-setting, competencies and monitoring, including escalation levels when limits are exceeded.

Country ratings are a key tool for measuring country risk. A 25-tier rating scale is used. Country ratings are calculated centrally by an independent analysis unit in the Economics division, revised at least annually and modified where necessary. Country risk is assessed by analysing the economic and political situation in each country, particularly its ability to service its debt, using quantitative and qualitative data. Ratings of key emerging markets and politically unstable countries are also continually monitored. Country ratings are used by BayernLB to determine credit risk in the IRB approach under Basel II.

Of BayernLB's aggregate foreign exposure, 76 percent was in countries with no significant country risk, largely members of the European Economic and Monetary Union, the United Kingdom and the US. Risk-relevant countries account for the remaining 24 percent. Exposure to these countries increased by 17 percent to EUR 31.4 billion year-on-year. Of the risk-relevant foreign exposure, 93 percent was in rating categories 1 to 11, the remainder in other categories.

Net exposure in risk-rated countries by region



BayernLB has set aside adequate risk provisions to cover country risk. Country risk provisions rose from EUR 12 million to almost EUR 30 million in the individual accounts under HGB, largely as a result of the switch to a new methodology for determining country risk provisions after IFRS was introduced for the consolidated financial statements.

Change in country risk provisions*

EUR million	BayernLB					
	2007	2006	2005	2004	2003	2002
Net exposure**	22,245	22	65	66	163	177
Country risk provisions	30	12	38	50	95	110

* Based on management approach

** Sum of individual country-related exposures for which provisions were made. In 2007, a new procedure for calculating country provisions was introduced. To reflect country risks (transfer risk and general political risk), portfolio provisions are now set up based on country-specific probabilities of default and loss rates unless the risks have already been taken into account through specific loan loss provisions. Net exposure within country risk provisions increased sharply as all countries are now taken into account.

Market price risk

Market price risk relates to potential losses from changes in market prices. BayernLB breaks market price risks down by risk factor: interest rate risk, currency risk, share price risk, commodity risk, volatility risk and alternative investment risk.

Market price risks may arise from securities (or quasi-securities products), money market or foreign-exchange products, commodities, derivatives, currency or earnings hedging, quasi-equity funds or asset/liability management.

The risk strategy lays down the strategic principles for dealing with market price risks. These may only be assumed within approved limits and are constantly measured and monitored. Market risks are entered into – even in closed positions – on the basis of a product introduction process for the underlying products.

As part of its daily monitoring, BayernLB measures market risk using a VaR method based on a one-day holding period and confidence level of 99 percent. To determine the risk capital requirement for the risk absorption capacity calculation, the figures are input at a uniform confidence level of 99.96 percent, assuming a linear liquidation timeframe of 20 days.

The models – mainly Monte Carlo simulations, historical simulations and delta-gamma methods – calculate potential losses taking account of historic market fluctuations (volatility) and market correlations.

The reliability of the market risk measuring procedures is reviewed regularly with respect to the quality of the individual risk procedures. In the backtesting process, the risk forecast is compared with the actual results (profit or loss). Forecasting quality of the risk model is considered good if forecast risk at Bank level was not exceeded by negative daily performance on any one trading day. Unusual market price movements in sub-segments resulted in exceptions at the down-stream trading units that fell within statistically expected limits.

In addition to VaR – used to assess potential losses under normal market conditions for monitoring purposes – forward-looking analyses are carried out based on extreme market conditions. This involves exposing market positions to atypical market price fluctuations, crises and worst-case scenarios in a series of stress tests and then analysing the simulated results to identify any hazardous risk potential. Stress scenarios are reported, continuously monitored and modified where necessary as part of the monthly reporting to the Board of Management.

A new series of stress scenarios were carried out in the year under review as part of a study by the Deutsche Bundesbank. These included interest rate increases of up to 150 basis points, 15 percent appreciation/depreciation of the euro and 30 percent fall in share prices. BayernLB would have had sufficient capital to continue operating under all scenarios – internally and externally stipulated scenarios – at all times.

The Bank currently does not use its own internal risk models for regulatory purposes. Instead standard methods are used.

Like all market risks within BayernLB, interest rate risk from bank book portfolios is calculated as net present value risk and integrated into the daily risk monitoring by Market Risk Controlling using VaR. Limits are assigned on the basis of risk absorption capacity calculated for each risk factor and are monitored for compliance.

Contractual or legal termination rights are modelled as options and incorporated into the risk calculation. All undated deposits are considered to be due on a daily basis. Specific-purpose funds are incorporated where applicable into the risk calculation in accordance with the principle of transparency.

A 200 basis-point interest-rate shock scenario is additionally calculated for interest rate risk in the bank book. Starting from December 2007, a +130/–190 basis point scenario is also used in line with the criteria set by the German Federal Financial Supervisory Authority. The calculated changes in present value are significantly below the outlier criterion in relation to the Bank's liable capital, i.e. the loss in liable capital from an interest rate shock is 2.8 percent as at 31 December 2007, considerably lower than the outlier limit of 20 percent of capital.

The maximum loss from assuming market risk is limited by allocating market risk capital. Market risk capital is allocated to each market risk factor (interest rate, currency, share price, commodity, volatility and alternative investments) by establishing risk factor limits. A risk capital reserve is made available to cover the risk capital and limit requirements over the course of the year. Risk factor limits are also differentiated according to defined sub-portfolios.

All market risks are monitored independently of trading by the Risk Office.

BayernLB's market price risk averaged EUR 88.4 million (VaR) in the trading and bank books in 2007. It fluctuated between EUR 53.8 million and EUR 160.7 million over the course of the year. The VaR limit within BayernLB was raised from EUR 235.1 million to EUR 255.5 million during the year. Average limit utilisation was 39 percent; utilisation rose from 28.8 percent to 69.5 percent by the end of 2007 as risks had increased sharply and limits only moderately.

Risk rose significantly in 2007 due to the events on the ABS and bond markets where price volatility considerably increased and spreads widened. Specific interest rate risk increased its share of total risk markedly. Specific interest rate risk comprises basis risk and issuer-related spread risk.

Total risk for BayernLB

EUR million	VaR 2007 Average	VaR 2007 Minimum	VaR 2007 Maximum	VaR 28.12.2007	VaR 31.12.2006
Interest rate risk	74.29	42.46	145.29	138.56	37.00
Share price risk	5.36	1.26	25.64	3.52	6.04
Currency risk	9.05	4.37	22.49	15.22	6.73
Commodity risk	1.50	0.40	2.76	1.15	1.65
Volatility risk	2.96	1.39	4.57	3.46	2.03
Alternative investments	7.19	3.44	8.92	8.53	N/A
Total risk	88.39	53.83	160.73	155.76	46.288

Total market risk rose considerably due to the year-on-year increase in specific interest rate risk as credit spreads widened.

Share price risk largely resulted from fund investments with an equity component in the bank book. Most of these had been sold by the end of 2007. The high maximum value under share price risk was due to a special position resulting from a loss event; the position was closed at short notice.

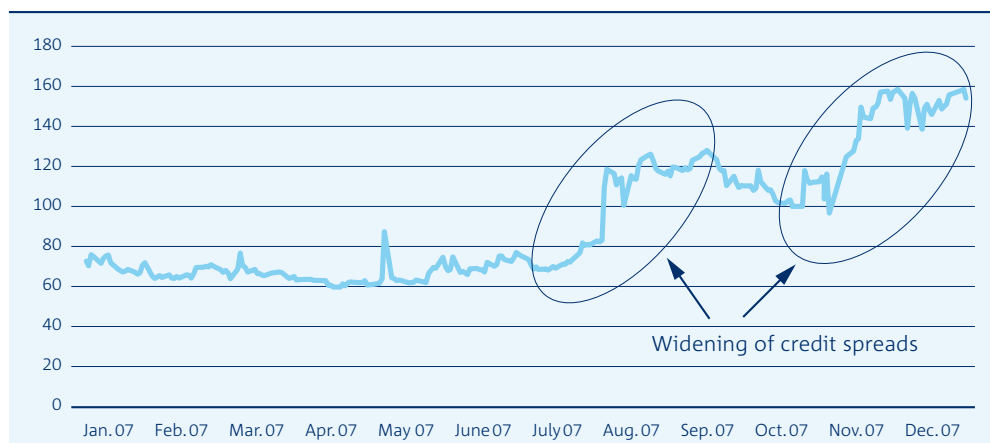
Currency risk mainly rose as a result of an increase in a USD position, primarily due to the difference in value between the mark to market value of assets in USD and related refinancing transactions in USD.

Commodity risk is of secondary importance in relation to total market risk. Volatility risk, which is also low, was largely the result of customers' termination rights in the credit business.

Risks from investments in hedge funds were treated separately in the reporting year to improve transparency.

Total market risk during the course of the year

VaR in EUR million



Some trading units violated VaR limits on the downside due to events on the financial markets during the reporting year. The situation was corrected by reallocating limits. The rise in risk from July was due to market conditions and not changes in positions and reflects increased volatility, particularly in credit spreads.

BayernLB uses derivative instruments to reduce market risk and counterparty risk and to make a profit from proprietary trading in line with its business policy and strategy. Counterparties in the derivatives business are primarily banks and public-sector customers and therefore customer groups with excellent ratings. Derivative instruments are integrated into the management systems for the market and counterparty risks described above. Borrower risks are a subset of counterparty risk and entered separately from market risk. The same applies to counterparty risk from derivatives transactions. Correlations are calculated for market risk and accordingly taken into account.

BayernLB acts as both protection seller and protection buyer for credit default swaps (CDSs). CDSs are valued at an individual transaction level (daily, monthly and on the balance sheet day) and monitored. Profit and loss positions are calculated daily on this basis.

Total return swaps (TRSs) are used by BayernLB for a number of business purposes, primarily to collateralise receivables and provide liquidity.

A small number of derivative OTC transactions have been concluded that contractually require collateral to be provided or increased in the event of a downgrade of one of BayernLB's external ratings.

Liquidity risk

BayernLB defines liquidity risk as the risk of being unable to meet its payment obligations in full or on time. Liquidity risk also encompasses the risk that, in the event of a liquidity crisis, funding can only be obtained at elevated market rates, or that assets can only be sold at a discount to market rates.

The strategic principles for dealing with liquidity risk are set out in the risk strategy. Liquidity risk management's prime goal is to ensure payment obligations can be met and refinancing obtained at all times. A liquidity policy sets out the content and organisational framework of liquidity risk controlling and management.

Liquidity management and liquidity risk management was the responsibility of the Financial Office Support Operations' Group Treasury division during the reporting year, which managed the Bank's overall structural and situational liquidity. Situational liquidity mismatches on the market are neutralised by the Financial Markets Business Area via money market trades.

Risk Operations, forming part of the Risk Office Support Operations, compiles liquidity overviews and carries out risk controlling of liquidity risks.

BayernLB has a written liquidity protection plan defining which processes and management tools or hedging instruments are needed to avert or deal with potential short-term crises. In the event of a liquidity crisis, the primary objectives are to remain solvent at all times and to avoid reputational damage.

The key method applied in the BayernLB Group to measure, analyse, monitor and report on liquidity risk is the liquidity overview. It compares liquidity gaps from deterministic and modelled future cash flows with the realisable potential liquidity coverage in specifically defined maturity bands (starting with a daily maturity band for the first 180 days).

Potential liquidity coverage measures in terms of volume and timing BayernLB's ability to obtain cash in the shortest possible time at market rates. It shows the Bank's ability to cover liquidity gaps and therefore all liquidity risks arising from cash flow. The most important components of potential liquidity coverage are free access to central bank deposits, availability of additional collateral eligible for refinancing at the central bank and issue potential in the register of cover.

A significant effect of the financial market crisis has been the tight liquidity supply on the money and capital markets. A key challenge for the Bank has therefore been to monitor and maintain its own liquidity.

BayernLB monitors and manages its liquidity based on a variety of scenarios. In addition to the basic scenario, risk measurement is supplemented by other scenario analyses under stress conditions. The following liquidity stress scenarios are regularly calculated:

- Rating downgrade to A-
- Rating downgrade to BBB+
- Market liquidity crisis

The market liquidity crisis scenario was first calculated at the end of June 2007. As a result of the financial market crisis, this scenario became more detailed throughout the second half of 2007. In addition to showing the current situation, the latest market figures were included to take complete account of factors that could potentially influence BayernLB's liquidity.

Using the liquidity overview, key figures are calculated for each scenario so a concise evaluation of the liquidity situation can be made. The liquidity situation is evaluated primarily by calculating the maximum utilisation of the potential liquidity coverage for the first 180 days. Particular weighting is given to utilisation over the first 10 trading days. Coverage ratios – showing the relationship between liquid reserves and cash, and near-term payment obligations – are also regularly calculated for management purposes.

Regular analyses and monitoring of diversification within liquidity risk are also carried out. No significant liquidity-relevant risk concentration existed during the reporting year.

A cash-flow balance for the following 180 days is also calculated regularly for the public Pfandbrief register and the mortgage register and communicated 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.

To remain solvent even in times of crisis, BayernLB has a suitable portfolio of securities eligible for refinancing at central banks (European Central Bank (ECB) and Federal Reserve System (Fed)). Under the new regulations on the eligibility of industrial loans, an additional EUR 1 billion in collateral eligible for tender was generated since 31 December 2006.

An adequate facility with the ECB ensures that any unexpected payment obligations can be covered on the same day. Liquidity of the non-European foreign entities in New York and Hong Kong is maintained through local liquidity reserves and by including them in the central liquidity pooling in Munich.

Structural liquidity is managed over a 30-year simulation period. Suitable instruments are employed by the Group to create a balanced funding structure so it can safeguard its solvency and ability to refinance in the medium and long term. Collateral Management ensures ongoing issue capability for the Pfandbrief market and maintenance of a high-quality register of cover.

Situational liquidity management also serves to ensure supervisory liquidity regulations (previously Principle II) are complied with. A special forecast and management system is employed to ensure internal and regulatory minimum limits are complied with at all times. In the year under review, the liquidity ratio was between 1.11 and 1.55, thereby ensuring that minimum regulatory requirements (ratio constantly higher than 1.0) were complied with at all times.

Liquidity risks are monitored primarily on the basis of the ratios for maximum utilisation of potential liquidity coverage for the first 180 days/first 10 trading days.

To ensure liquidity gaps can be sealed on demand at any time by mobilising liquidity coverage potential, utilisation levels must always be below 100 percent in all scenario analyses classed as relevant. Measures to reduce identified liquidity risks are initiated as soon as set thresholds are reached.

The liquidity overview and other relevant ratios form part of the risk reports sent regularly to the Board of Management and the responsible controlling units. Potential liquidity coverage was sufficient to cover liquidity needs even during periods of higher utilisation for all scenarios classed as relevant in the reporting period.

BayernLB had sufficient assets to cover reported liabilities at all times, as indicated in the liquidity overview of financial liquidity risk management and monitoring. Cumulative liquidity gaps arising from balance sheet items, commitments and guarantees, termination rights and derivatives are deducted from the realisable liquidity coverage potential in each maturity band to calculate the liquidity surplus. This is why cash flows expected from an economic perspective in relation to non-deterministic products are represented partly on the basis of modelling assumptions.

The liquidity situation as at 31 December 2007 is given below:

EUR million	up to 1 month	up to 3 months	up to 1 year	up to 5 years
Liquidity surplus	33,202	25,367	19,096	26,676
Liquidity coverage potential	53,628	55,706	54,996	34,775
Liquidity gap from balance sheet items	11,236	16,728	20,246	2,229
Liquidity gap from commitments + guarantees	9,318	13,781	16,553	6,431
Liquidity gap from termination rights	-44	-51	-785	-401
Liquidity gap from derivatives	-85	-119	-115	-160

Cumulative figures

As can be seen from the liquidity overview, BayernLB has sufficient liquid resources for all maturities.

BayernLB responded to the significantly tighter liquidity conditions on major markets resulting from the financial market crisis by implementing measures in line with its liquidity safeguarding planning to maintain solvency at all times. For example, collateral to cover central bank facilities (ECB and Fed) was raised significantly to ensure payment obligations could be met independently of other sources of refinancing. In a worst case assumption within the market liquidity crisis scenario, full account was taken of the need to refinance conduits set up and supported by the Bank.

Contrary to the worst case assumptions taken into account in the scenario-based liquidity planning, no net withdrawals of customer funds were registered; deposits from affiliated savings banks even increased in the second half of 2007. BayernLB was also able to place significant volumes of issues (secured and unsecured) on the capital markets in a much more critical market setting.

Ongoing liquidity analyses show that BayernLB is able to meet its refinancing needs even if the liquidity situation on the financial markets continues to deteriorate (assuming increased drawdowns on ABS facilities, increased withdrawals of current account and call deposits, and higher securities transaction discounts). Extensive liquidity reserves (mainly unutilised central bank facilities and issue potential in the registers of cover) ensure that the Bank can continue to fund itself, if required, on a secured basis in the long term using suitable instruments.

Liquidity risk management is of increasing importance for banks not only because of the significantly tighter liquidity supply on key markets resulting from the financial market crisis, but also because of a new regulatory framework (e.g. MaRisk and liquidity regulations). BayernLB is well-prepared for these new developments.

Operational risk

BayernLB 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 legal risks.

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

BayernLB undertakes to perform efficient operational risk management to protect the Bank, its employees and its customers from financial losses, a loss of confidence and damage to its public image.

Rules and procedures for dealing with operational risk are set out in the OpRisk strategy, operating instructions and an OpRisk manual.

The legal division takes account of legal risks by recording damages and carrying out regular assessments of the OpRisk potential from legal risks. It also has central responsibility for identifying and managing legal risks for BayernLB.

BayernLB adopted the standardised approach (STA) to calculate capital requirements for operational risk for reporting under the Solvency Ordinance/Basel II on 1 January 2007.

BayernLB uses a VaR model based on a loss distribution approach to measure operational risk internally and economically. The model factors in internal and external loss data and enables expected and unexpected losses to be calculated. An improved model that is capable of taking account of both loss data and scenarios was introduced on 31 December 2007.

Business areas and support operations continually collect data on OpRisk events within an institutionalised reporting system (loss database) to build up baseline data. Additional information is collected through self-assessments and risk inventories. Specific key risk indicators are used to detect risks early on.

BayernLB founded the OpRiskdata consortium (DakOR) back in 2006 in partnership with eight other banks and the service provider VÖB Service as trustee. Joint data is used to make comparisons and has been employed since 2007 to measure OpRisk in BayernLB's internal VaR model.

BayernLB has a central OpRisk controlling unit entrusted with issuing guidelines on all methods, processes and systems relating to OpRisk controlling and management. Management of these risks is the responsibility of the local OpRisk management units of the business areas and support operations. Incentives are created to reduce these risks by allocating risk capital.

Processes which tend to have higher OpRisk are identified and checked by systematically monitoring the risk inventories, self assessments and key risk indicators employed.

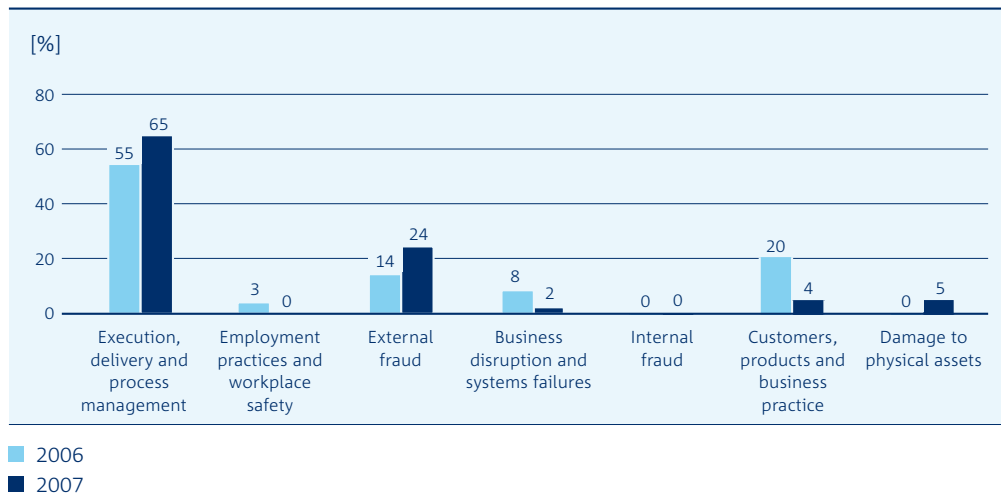
Business Continuity Management (BCM) comprises all measures and processes used within BayernLB to maintain important business activities. Its primary objective is to shield the Bank from any threats to its existence. BCM ranges from the adoption of preventative protection measures to the resumption of business operations after an emergency.

Threat scenarios are taken into account, for example, non-availability of staff, loss of access to buildings or outage of support systems. To ensure business continuity during an emergency, emergency scenarios relevant to key business processes are examined and used to draw up suitable protection measures.

BayernLB’s operational risk and OpRisk management activities are regularly reported to the Board of Management.

Unexpected losses (excluding BayernLabo and LBS Bayern) in 2007 averaged EUR 169 million (2006: EUR 206 million), peaking at EUR 198 million (2006: EUR 238 million). Losses (excluding credit card losses) were EUR 47.4 million, a significant increase on the previous year’s figure of EUR 5.2 million. This was the result of a one-off loss of EUR 44.6 million in the trading business (in loss event category execution, delivery and process management), which has been excluded from the chart below to give a clearer illustration of the normal distribution of losses in loss event categories under Basel and the Solvency Ordinance. Losses at bank level increased to EUR 48.5 million (2006: EUR 6.1 million).

Distribution of OpRisk losses by loss event category



At the end of the year under review, there was no significant potential OpRisk arising from legal risks.

Summary and outlook

BayernLB has an effective and forward-looking risk management and controlling system that is continually modified to meet internal and external needs and new refinements in methodology.

In 2007, the Bank worked on improving its methodology, particularly in relation to credit risk measurement. It has also been working with other banks managing Rating Service Unit GmbH on improving operational credit risk management by using far more precise parameters in order to be able to manage individual customer risks more effectively.

In the area of market risk, BayernLB focused on implementing broader-based sensitivity analyses, while in the operational risk area, an expanded risk model with a comprehensive range of internal and external data was implemented. In 2008, default risk management and capital efficiency will be further improved by using and registering other rating procedures for making regulatory capital reports.

BayernLB believes that its existing risk management and controlling system together with the prioritised steps to upgrade them are factors in its success and competitive advantages that enable it to generate long-term value for owners, investors and staff alike.

The image features a large, light blue number '2' positioned on the left side. The background is composed of several overlapping geometric shapes in shades of light blue and white, creating a modern, abstract design. The top half of the image is a solid light blue, while the bottom half is a mix of white and light blue shapes, including a large white triangle pointing downwards and a light blue triangle pointing upwards, meeting at a diagonal line.

2



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Balance sheet and profit and loss account

Balance sheet – Bayerische Landesbank

as at 31 December 2007

Assets				2007	2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1. Cash reserves					
a) Cash			13,800		12,816
b) Balances with central banks			557,425		251,750
<i>of which:</i>					
<i>with Bundesbank</i>	437,418				244,129
c) Balances in postal giro accounts			—		—
				571,225	264,566
2. Debt certificates issued by public entities and bills of exchange eligible for refinancing with central banks					
a) Treasury bills and Treasury discount paper and similar debt certificates issued by public entities			1,372,379		910,117
<i>of which:</i>					
<i>eligible for refinancing at Bundesbank</i>	—				—
b) Bills of exchange			—		—
<i>of which:</i>					
<i>eligible for refinancing at Bundesbank</i>	—				—
				1,372,379	910,117
3. Due from banks					
a) Payable on demand			15,215,115		5,535,894
b) Other receivables			111,308,588		107,634,139
<i>of which building loans of Bausparkasse:</i>					
• <i>building saving loans</i>	6,404				8,221
• <i>preliminary and interim financing loans</i>	—				—
• <i>other building loans</i>	—				—
				126,523,703	113,170,033
4. Due from customers				97,023,956	85,847,798
<i>of which:</i>					
• <i>secured by mortgage</i>	16,711,272				17,064,788
• <i>municipal loans</i>	26,736,945				26,820,326
• <i>building loans of Bausparkasse:</i>					
– <i>from allotments (building saving loans)</i>	1,790,851				1,792,906
– <i>preliminary and interim financing</i>	2,611,224				2,551,636
– <i>other building loans</i>	2,206				3,780
<i>of which:</i>					
<i>secured by mortgage</i>	3,530,534				3,498,911
carried forward				225,491,263	200,192,514

Liabilities				2007	2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1. Due to banks					
a) Payable on demand			9,238,841		10,298,463
b) With agreed maturity or period of notice			118,779,475		91,116,952
c) Building-savers' deposits			24,192		27,615
of which:					
• on terminated contracts	—				—
• on allotted contracts	305				7,153
				128,042,508	101,443,030
2. Due to customers					
a) Savings deposits					
aa) with agreed period of notice of three months		—			—
ab) with agreed period of notice of more than three months		—			—
ac) Building-savers' deposits with Bausparkasse		8,085,509			7,754,854
of which:					
• on terminated contracts	88,848				64,960
• on allotted contracts	203,657				203,488
			8,085,509		7,754,854
b) Other liabilities					
ba) payable on demand		5,265,134			8,727,011
bb) with agreed maturity or period of notice		46,899,524			40,367,565
			52,164,658		49,094,576
				60,250,167	56,849,430
3. Securitised liabilities					
a) Bonds issued			98,967,622		98,527,052
b) Other securitised liabilities			7,644,043		3,940,293
of which:					
• money market instruments	7,152,849				3,521,597
• own acceptances and promissory notes outstanding	—				—
				106,611,665	102,467,345
4. Liabilities held in trust				7,102,771	7,398,329
of which:					
loans on a trust basis		7,102,771			7,398,329
5. Other liabilities				5,227,289	4,593,397
6. Deferred income				1,042,127	1,051,229
carried forward				308,276,527	273,802,760

Balance sheet – Bayerische Landesbank

as at 31 December 2007 (continued)

Assets				2007	2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
carried forward				225,491,263	200,192,514
5. Bonds and other fixed-interest securities					
a) Money market instruments					
aa) issued by public-sector borrowers		—			—
<i>of which:</i>					
<i>eligible as collateral at Bundesbank</i>	—				—
ab) issued by other borrowers		2,633,558			490,066
<i>of which:</i>					
<i>eligible as collateral at Bundesbank</i>	584,036				79,260
			2,633,558		490,066
b) Bonds and other debt securities					
ba) issued by public-sector borrowers		5,448,556			7,486,057
<i>of which:</i>					
<i>eligible as collateral at Bundesbank</i>	3,142,001				4,236,392
bb) issued by other borrowers		64,461,915			52,356,184
<i>of which:</i>					
<i>eligible as collateral at Bundesbank</i>	32,962,337				28,997,338
			69,910,471		59,842,241
c) Own debt securities			11,731,381		11,612,580
<i>nominal value</i>	11,676,535				11,543,326
				84,275,410	71,944,887
6. Shares and other non fixed-interest securities				1,022,378	4,794,945
7. Investments				481,228	431,806
<i>of which:</i>					
• <i>in banks</i>	208,338				188,328
• <i>in financial service providers</i>	—				—
8. Shares in affiliated companies				5,414,838	2,573,856
<i>of which:</i>					
• <i>in banks</i>	4,481,332				2,402,723
• <i>in financial service providers</i>	—				—
9. Assets held in trust				7,102,771	7,398,329
<i>of which:</i>					
<i>loans on a trust basis</i>	7,102,771				7,398,329
10. Equalisation claims on public authorities including bonds originating from the conversion of such claims				—	—
11. Intangible assets				21,509	24,440
12. Tangible assets				518,818	551,641
13. Other assets				5,357,802	3,975,913
14. Deferred taxes				331,434	416,230
15. Deferred expenses				849,581	923,995
Total assets				330,867,032	293,228,556

Liabilities				2007	2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
carried forward				308,372,440	273,802,760
7. Provisions					
a) For pensions and similar obligations			1,734,391		1,689,350
b) For taxes			177,614		251,740
c) Other provisions			<u>804,320</u>	2,716,325	<u>800,908</u>
					2,741,998
7a. Reserve fund for Bausparkasse				20,285	17,780
8. Special reserve				—	—
9. Subordinated liabilities				7,260,827	4,184,109
10. Profit-participation certificates				2,546,392	2,217,675
<i>of which:</i>					
<i>due in less than two years</i>	1,215,414				608,136
11. Fund for general bank risks				454,000	535,000
12. Equity					
a) Subscribed capital					
aa) statutory nominal capital	1,800,000				1,800,000
uncalled nominal capital	<u>—</u>				<u>—</u>
		1,800,000			1,800,000
ab) capital contributions of silent partners		<u>2,518,526</u>			<u>2,702,846</u>
			4,318,526		4,502,846
b) Specific-purpose capital			612,016		612,016
c) Capital reserve			476,134		476,134
<i>of which:</i>					
<i>specific-purpose reserve</i>	—				—
d) Revenue reserves					
da) statutory reserves		1,268,000			1,268,000
db) other reserves		<u>2,792,000</u>			<u>2,748,000</u>
			4,060,000		4,016,000
e) Profit available for distribution			<u>126,000</u>		<u>122,238</u>
				9,592,676	9,729,234
Total liabilities				330,867,032	293,228,556
1. Contingent liabilities					
a) Contingent liabilities from the endorsement of bills rediscounted			—		—
b) Contingent liabilities from guarantees and indemnity agreements (see the Notes for further reference)			22,153,751		16,989,553
c) Contingent liabilities from collateral furnished for third-party obligations			<u>—</u>		<u>—</u>
				22,153,751	16,989,553
2. Other obligations					
a) Repurchase obligations from non-genuine sale and repurchase agreements			—		—
b) Underwriting and issuance facilities			—		—
c) Irrevocable loan commitments			<u>55,108,652</u>		<u>65,639,671</u>
				55,108,652	65,639,671

Profit and Loss Account – Bayerische Landesbank
for the period from 1 January to 31 December 2007

				2007	2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1. Interest income from					
a) Credit and money market transactions		9,528,304			8,140,350
<i>of which interest income of Bausparkasse:</i>					
• from building-saving loans	81,932				87,228
• from preliminary and interim financing loans	124,242				122,408
• from other building loans	128				184
b) Fixed-interest securities and debt-register claims		<u>3,428,638</u>			<u>2,314,154</u>
			12,956,942		10,454,504
2. Interest expenses			11,925,354		9,491,785
<i>of which:</i>					
for building-savers' deposits	185,000				<u>181,817</u>
				1,031,588	962,719
3. Current income from					
a) Shares and other non-fixed interest securities			165,126		133,307
b) Investments			160,756		24,205
c) Shares in affiliated companies			<u>491,792</u>		<u>190,720</u>
				817,674	348,232
4. Income from profit-pooling agreements, profit transfer agreements and partial profit transfer agreements				35,620	7,526
5. Commission income			605,676		655,671
<i>of which commission income of Bausparkasse:</i>					
• from concluding and procuring contracts	55,457				54,869
• from allotted contracts	6,706				9,310
• from providing and processing preliminary and interim financing loans	—				—
6. Commission expenses			360,266		351,134
<i>of which:</i>					
for concluding and procuring contracts on behalf of Bausparkasse	84,144				<u>83,453</u>
				245,410	304,537
7. Net income or net expenses from financial transactions				-151,393	130,845
8. Other operating income				78,160	170,491
9. Income from write-back of special reserve				—	—
10. General administrative expenses					
a) Personnel expenses					
aa) salaries and wages		377,003			370,878
ab) social security contributions, pensions and other employee benefits		<u>89,684</u>			<u>173,972</u>
			466,687		544,850
<i>of which:</i>					
pensions	43,134				115,742
b) Other administrative expenses			<u>412,679</u>		<u>409,523</u>
				879,366	954,373
carried forward				1,177,693	969,977

				2007	2006
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
carried forward				1,177,693	969,977
11. Depreciation and valuation adjustments on intangible assets and tangible assets				33,405	36,795
12. Other operating expenses				34,872	27,861
13. Write-downs of and valuation adjustments on receivables and certain securities, and additions to provisions in credit business			74,320		103,910
<i>of which:</i>					
<i>withdrawal from the fund for general bank risks</i>	81,000				—
<i>allocation to the fund for general bank risks</i>	—				485,000
14. Income from reversals of write-downs of receivables and certain securities, and from write-backs of provisions in credit business			—	74,320	—
15. Write-downs of and valuation adjustments on investments, shares in affiliated companies and securities treated as fixed assets			461,500		—
16. Income from reversals of write-downs of investments, shares in affiliated companies and securities treated as fixed assets			—	461,500	337,449
					337,449
17. Expenses from loss transfers				8,766	9,696
18. Allocation to special reserve				—	—
19. Result from ordinary activities				564,830	1,129,164
20. Extraordinary income			—		—
21. Extraordinary expenses			—		401,118
22. Extraordinary result			—		401,118
23. Taxes on income and earnings			181,989		146,916
24. Other taxes, unless disclosed under position 12			5,796	187,785	4,521
					151,437
25. Profits transferred under partial profit transfer agreement				207,045	218,371
26. Net income for the year				170,000	358,238
27. Withdrawals from revenue reserves					
a) From the statutory reserve			—		—
b) From other revenue reserves			—		—
				—	—
28. Allocation to revenue reserves					
a) To the statutory reserve			—		—
b) To other revenue reserves			44,000		236,000
				44,000	236,000
29. Profit available for distribution				126,000	122,238

Notes

The annual financial statements of Bayerische Landesbank (BayernLB), Munich, have been prepared in accordance with the provisions of the German Commercial Code (HGB), the Ordinance Regulating the Accounting Requirements for Financial Institutions and Financial Service Providers (RechKredV), and the provisions of the Pfandbrief Act (PfandBG). The layout of the balance sheet and profit and loss account corresponds to the forms pursuant to the RechKredV Ordinance and also includes the items stipulated for building societies (Bausparkassen).

All figures are generally shown in millions of euros.

Accounting policies

The valuation of assets and liabilities adheres to the general valuation provisions of Sections 252 ff. HGB, taking account of the special provisions applicable to banks (Sections 340e ff. HGB).

Receivables are reported at the nominal amount or at cost. Low-interest or non-interest bearing receivables are discounted, if necessary. All recognisable risks have been taken into account through the setting up of specific loan loss provisions. With effect from financial year 2007, risk provisions are calculated in accordance with the consolidated accounts pursuant to IFRS. Specific loan loss provisions are measured on the difference between the carrying amount of the receivables and the cash value of future expected cash flows; the cash value is calculated using the original effective interest rate of the cash flows. Changes in expected payments lead to an allocation to risk provisions or a write-back of risk provisions. Payments received on receivables for which specific loan loss provisions have been set up will reduce the receivables. The change in cash value of future expected cash flows over the period is reported in interest income. Moreover, hidden credit risks are covered by general loan loss provisions. To provide for general bank risks, reserves have been built up pursuant to Section 340f and 340g HGB. All value adjustments and contingency reserves have been netted against the corresponding items on the assets side, with the exception of reserves that have been set up pursuant to Section 340g HGB. To cover country risks, portfolio provisions are established for risks that have not been taken into account through specific loan loss provisions. In financial year 2007, the method used to calculate country risk provisions was adjusted to match the method used in the IFRS consolidated accounts. This method is based on the Basel II system as implemented in the Solvency Ordinance.

Liabilities are generally reported at their repayment amount. Bonds issued at a discount and similar liabilities are reported at their present values.

Premiums and discounts on receivables and liabilities are included in deferred expenses and income and amortised on a pro rata basis.

The securities portfolios of the liquidity reserve and the trading book have been valued according to the stringent principle of lower of cost or market by observing the requirement of reinstating original values. Investment securities are valued according to the modified principle of lower of cost or market. In some cases, securities have been combined with their price hedging instruments to form separately documented valuation units. Depending on how effective the hedging relationship is, valuation gains will either be netted against the corresponding valuation losses (compensational valuation taking account of the imparity principle), or there will be no valuation at all (full negative correlation).

Investments and shares in affiliated companies have been valued in accordance with the rules applying to fixed assets at historical cost or, in the case of an anticipated permanent impairment, at the lower of cost or market as per the balance sheet date.

Intangible assets and tangible assets have been valued at historical cost or cost of production or, if subject to depreciation, reduced by scheduled depreciation reflecting their useful lives. Depreciation has been generally based on the permissible tax rates. Assets of low value are fully depreciated in the year of acquisition.

Tax deferrals are reported in accordance with Section 274 HGB. Deferred tax assets and liabilities are netted.

In financial years 2005 and 2006, extraordinary allocations were made relating to the alignment of the amount of pension provisions with the calculation method pursuant to IAS 19; since financial year 2007 the projected unit credit method has been applied. Under this method actuarial reports are drawn up based on biometric assumptions (2005 G guidelines (Richttafeln)) and expected future salary and pension increases. Discounting is carried out using the market rate, at matching maturities, for prime fixed-rate German corporate bonds. The requirements of the IDW statement HFA 2/1988 are therefore fulfilled; the fiscal going concern value pursuant to Section 6a EStG is exceeded. Pursuant to Section 6a EStG there is no shortage of cover for indirect pension obligations.

Derivative financial transactions (forward transactions, swaps, options, credit derivatives) are allocated to a hedging or trading portfolio depending on their intended use. As forward transactions, they are never disclosed in the balance sheet. Option premiums paid or received as well as premiums relating to credit derivatives and price fluctuation settlement payments from total return swaps during the term are shown under Other assets or Other liabilities. Premium payments for interest rate caps, floors and collars and upfront payments for swaps are disclosed under deferred items.

Structured products of the trading portfolio and the liquidity reserve are recorded as a uniform financial instrument because they are valued at the strict principle of lower of cost or market. Embedded credit default swaps from securitised ABS instruments that are measured as fixed assets, are disclosed as a guarantee under contingent liabilities.

The fair value of derivative financial instruments is calculated using stock market prices. If independent market prices are not available, fair value is calculated by comparing the instrument with publicly available transaction prices of similar instruments. Fair values are also calculated using recognised valuation models based solely on publicly available market data. Valuation models cover the present value method, option price models and other procedures.

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	Garman-Kohlhagen
Share price derivatives	Black-Scholes, Roll-Geske-Whaley
Credit derivatives	Hazard rate model

The valuation is based on yield curves with matching currencies and maturities and on risk-adequate spreads. In addition, the following factors are also taken into account for products with option features: constant risk-free interest rates, price volatilities and dividend forecasts, and other relevant parameters. Credit derivatives are valued using the hazard rate model on the basis of current credit spreads.

Hedging transactions and underlying transactions are combined to form valuation units and treated pursuant to the principles of the hedged transaction. The hedging transaction results are therefore disclosed in the same manner as the results of the underlying transaction. The revaluation of trading transactions is performed individually by applying the imparity and realisation principle.

Unrealised profits and losses are netted within trading portfolios which have been combined to adequately reflect risks. Profit balances are not taken into account; loss balances are covered by setting up provisions for contingent losses from forward transactions.

As a rule, profits from trading transactions are disclosed under net income from financial transactions. Current (interest) payments on securities and derivatives of the trading portfolio are recorded in interest income.

Currency translation

Currency translation has been based on the principles of Section 340h HGB and the statement of the BFA (banking committee) 3/95. Assets which are denominated in foreign currencies and treated as fixed assets, and not hedged in the same currency, are translated at historical exchange rates. Other assets and liabilities denominated in foreign currencies and outstanding spot deals are translated at year-end spot rates, while outstanding forwards are translated at the year-end forward rates. When forward exchange transactions serve to hedge balance sheet items generating interest, the swap amounts are accrued pro rata temporis. The spot price differences resulting from the translation of these hedged balance sheet items are disclosed as a balance under Other assets or Other liabilities. Pursuant to Section 340h (2), Sentence 2 HGB, the on-balance sheet transactions and forward transactions denominated in foreign currencies are generally treated and evaluated as items with particular hedging in each currency. Accordingly, these gains and losses resulting from currency translation are recorded in the income statement pursuant to Section 340h (2), Sentences 1 and 2 HGB. Unrealised gains from forward transactions are disclosed up to the amount of any losses from spot transactions in the same currency. Due to the short-term nature of the foreign exchange items, there were no gains to report as at the closing date.

Disclosures relating to the balance sheet (excluding accrued interest, unless otherwise stated)

Assets

Due from banks

EUR million	2007	2006
This item includes:		
• Other receivables with a residual maturity of		
– up to three months (including accrued interest)	44,168	35,021
– over three months up to one year	23,530	26,117
– over one year up to five years	26,320	26,118
– over five years	17,291	20,378
• Due from affiliated companies	10,063	11,756
• Due from companies in which investments are held	162	207
• Due from affiliated savings banks	15,632	15,845
• Subordinated receivables	964	909
Committed but not yet disbursed building loans of the building societies		
• from allotment	112	110

Due from customers

EUR million	2007	2006
This item includes:		
• Receivables with a residual maturity of		
– up to three months (including accrued interest)	18,951	11,820
– over three months up to one year	10,811	8,330
– over one year up to five years	28,012	26,775
– over five years	38,080	37,463
• Receivables without a fixed date of maturity	1,170	1,460
• Due from affiliated companies	1,039	437
• Due from companies in which investments are held	615	596
• Receivables from leasing transactions	332	389
• Subordinated receivables	20	21
• Overdue interest and redemption payments from building loans of the building societies	5	5
Committed but not yet disbursed building loans of the building societies		
• from allotment	391	379
• for preliminary and interim financing purposes	76	86

Bonds and other fixed-interest securities

EUR million	2007	2006
This item includes:		
• Amounts falling due in the following year (including accrued interest)	7,750	4,449
• Securitised receivables from affiliated companies	3,560	3,770
• Subordinated securities	210	145
• Marketable securities, of which		
– listed	58,505	53,261
– unlisted	25,086	18,105

In 2007, securities in the liquidity reserve with a carrying amount of EUR 37,521 million were reallocated to the “securities measured as fixed assets” (investment) portfolio. The Bank now intends to hold these securities for the long term. This portfolio is measured at the modified lower-of-cost-or-market principle since current fluctuations in value are not rated as long term; it is assumed that securities are repaid in full when they mature. Impairments arising from changes in credit risk are written down accordingly. With effect from the financial year, the entire investment portfolio is measured using the modified lower-of-cost-or-market principle to ensure consistency.

As at the balance sheet date, bonds and other fixed-interest securities were carried at EUR 47,406 million (2006: EUR 4,750 million) based on the modified lower-of-cost-or-market principle, while the fair value of these holdings was EUR 46,294 million (2006: EUR 4,667 million).

Shares and other non fixed-interest securities

EUR million	2007	2006
This item includes:		
• Subordinated securities	15	7
• Marketable securities, of which		
– listed	176	1,228
– unlisted	168	186

As at 31 December 2007, shares and other non-fixed interest securities were disclosed at a carrying amount of EUR 387 million based on the modified lower-of-cost-or-market principle, while the fair value of these holdings was EUR 381 million. In 2006, the instruments were valued at the stringent lower-of-cost-or-market principle.

Investments

EUR million	2007	2006
This item includes:		
• Marketable securities, of which		
– listed	117	117
– unlisted	57	63

Shares in affiliated companies

EUR million	2007	2006
This item includes:		
• Marketable securities, of which		
– listed	702	—
– unlisted	4,213	1,961

Assets held in trust

EUR million	2007	2006
This item mainly includes housing loans granted by Bayerische Landesbodenkreditanstalt and breaks down as follows:		
• Due from banks	180	202
• Due from customers	6,923	7,196

Tangible assets

EUR million	2007	2006
This item includes:		
• Land and buildings used for own operations	370	374
• Office furniture and equipment	41	47

Other assets

EUR million	2007	2006
This item includes:		
• Premium claims from credit derivatives	2,008	1,422
• Premiums from credit derivatives not yet received	1,390	1,080
• Option premiums paid	517	535
• Offsetting item for foreign currency translation	712	156
• Shares in companies	7	9

Deferred taxes

The deferred taxes are largely due to the increased allocation to pension provisions in the financial statements (HGB) and the non-recognition for tax purposes of provisions for anticipated unrealised losses. The change in deferred taxes is mainly due to the EUR 71 million impact resulting from the tax cut under the 2008 corporate tax reform.

Deferred expenses

EUR million	2007	2006
This item includes:		
• Premium on receivables	91	133
• Discount on liabilities	234	266

Changes in fixed assets

EUR million	Purchase/ manufacturing costs	Additions	Disposals	Transfers	Appreciation	Depreciation/ write-downs (cumulative)	Net book value 31.12.2007	Net book value 31.12.2006	Depreciation/ write-downs for financial year
			Changes +/- *						
Investments			+ 49				481	432	
Shares in affiliated companies			+2,841				5,415	2,574	
Investment securities			+38,609				47,793	9,184	
Intangible assets	108	7	4	—	—	89	22	25	9
Tangible assets	814	13	42	—	—	266	519	552	24
Other fixed assets	16	—	—	—	—	4	12	12	—

* The aggregation option pursuant to Section 34 (3) RechKredV was utilised.

Genuine sale and repurchase agreements

EUR million	2007	2006
This item includes:		
Book values of assets transferred under sale and repurchase agreements	10,894	7,895

Assets in foreign currency

EUR million	2007	2006
This item includes:		
Total amount of assets denominated in foreign currency	85,835	71,329

Assets held as cover

EUR million	2007	2006
• Covered bonds (Pfandbriefe) and Landesbodenbriefe	5,472	4,577
Cover assets contained in:		
– Due from banks	71	78
– Due from customers	6,113	5,533
– Bonds and other fixed-interest securities	382	522
– Additional cover	100	90
Excess cover	1,194	1,646
• Public-debt bonds	53,897	50,808
Cover assets contained in:		
– Due from banks	21,394	25,091
– Due from customers	23,020	22,832
– Bonds and other fixed-interest securities	11,024	6,188
– Additional cover	3,471	2,029
Excess cover	5,012	5,332

*Liabilities***Due to banks**

EUR million	2007	2006
This item includes:		
• Term liabilities with a residual maturity of		
– up to three months (including accrued interest)	71,380	41,974
– over three months up to one year	15,135	19,550
– over one year up to five years	13,797	12,440
– over five years	18,468	17,153
• Due to affiliated companies	1,176	821
• Due to companies in which investments are held	83	50
• Due to affiliated savings banks	14,930	9,262

Due to customers

EUR million	2007	2006
This item includes:		
• Other term liabilities with a residual maturity of		
– up to three months (including accrued interest)	17,018	12,058
– over three months up to one year	4,728	3,760
– over one year up to five years	8,430	8,354
– over five years	16,723	16,196
• Due to affiliated companies	210	764
• Due to companies in which investments are held	282	208

Securitised liabilities

EUR million	2007	2006
This item includes:		
• Bonds issued		
– amounts falling due in the following year	18,463	14,454
• Other securitised liabilities with a residual maturity of		
– up to three months (including accrued interest)	4,656	2,982
– over three months up to one year	2,688	783
– over one year up to five years	112	135
– over five years	188	40
• Due to affiliated companies	544	436
• Due to companies in which investments are held	12	6

Liabilities held in trust

EUR million	2007	2006
This item breaks down as follows:		
• Due to banks	29	36
• Due to customers	7,074	7,362

Other liabilities

EUR million	2007	2006
This item includes:		
• Premium liabilities from credit derivatives	1,876	1,379
• Premiums from credit derivatives not yet paid	1,518	1,116
• Covering obligation resulting from the sale of securities borrowed	939	976
• Option premiums received	541	605

Deferred income

EUR million	2007	2006
This item includes:		
• Discount on receivables	87	103

Subordinated liabilities

EUR million	2007	2006
In the year under review interest expenses amounted to:	280	171

Subordinated liabilities are issued under the following terms: In the case of the Bank's insolvency or liquidation, repayment shall not take place until all non-subordinated creditors have been satisfied. An obligation to make premature repayment at the creditor's request does not exist. The prerequisites under which these subordinated liabilities can be counted as liable capital pursuant to Section 10 (5a) KWG and Section 10 (7) KWG are fulfilled.

The following borrowings exceed 10 percent of the total amount of subordinated liabilities:

EUR million	Amount	Interest rate	Due date	
	1,000	5.75 %	23.10.2017	Bond
	750	4.50 %	07.02.2019	Bond

The terms and conditions for subordinated bonds apply. There is no contractual regulation providing for a conversion into equity or another debt instrument.

Liable capital

EUR million	2007	2006
Unrealised reserves inherent in securities under Section 10 (2b), Sentence 1 No. 7 KWG	—	61

Liabilities in foreign currency

EUR million	2007	2006
Total amount of liabilities denominated in foreign currency	68,962	68,091

Contingent liabilities and Other liabilities

Neither of these items, disclosed below the bottom line of the balance sheet, contains any individual amounts which have a significant bearing on the Bank's overall activities.

Assignment of collateral for the Bank's own liabilities

EUR million	2007	2006
Assets have been assigned as collateral in the case of the following own liabilities in the amounts shown below:		
• Due to banks	32,698	19,093
• Due to customers	6	453
• Contingent liabilities	31	17

The provision of collateral for the Bank's own liabilities predominantly concerns open market transactions with the European System of Central Banks.

Additionally, securities with a nominal value of EUR 3,567 million have been deposited as collateral in connection with transactions on futures and options exchanges, and other stock exchange and clearing systems.

Disclosures relating to the profit and loss account

Interest income

Disclosure of interest income on provisioned receivables was adjusted to match IFRS accounting in the consolidated financial statements; this resulted in a transfer of EUR 17 million from interest income to the result from risk provisions.

Interest expenses

As the method for calculating pension provisions has been adjusted to match IAS 19 rules, expenses from the compounding of interest for pension provisions are disclosed under Interest expenses. In 2007 these expenses totalled EUR 70 million. In 2006, they were included in Personnel expenses and Extraordinary expenses.

Other operating income and expenses

Other operating income includes primarily income from the write-back of other provisions in the amount of EUR 48 million (2006: EUR 17 million). In 2006, this item included tax refunds amounting to EUR 98 million. These refunds are shown under Taxes on income and earnings and Other taxes with effect from 2007.

Personnel expenses

Since financial year 2007, expenses from the compounding of interest for pension provisions have been reported under Interest expenses instead of under Personnel expenses.

Extraordinary expenses

Any changes from 2006 are due to the fact that there was no extraordinary allocation to pension provisions in 2007 (2006: EUR 398 million). The allocations in 2006 were due to switching to the IAS 19 calculation methods.

Taxes on income and earnings

Taxes disclosed on income and earnings relate to the result from ordinary business. The tax item also includes changes in deferred taxes. In 2007, this item also included tax refunds worth EUR 20 million. In the years before, these amounts had been shown under Other operational income.

Services rendered to third parties

The services rendered to third parties mainly include the management of custody accounts, asset management and administration of trust loans, as well as brokerage for insurance and real estate.

Geographical markets

EUR million	2007	2006
The total amount of income disclosed in items 1, 3, 5, 7 and 8 of the profit and loss account breaks down into the following geographical markets:		
• Germany	11,541	9,541
• Europe (excl. Germany)	1,129	880
• America	1,330	1,092
• Asia	307	247

Derivatives transactions

The table below shows interest rate-related and foreign currency-related forward transactions as well as other forward transactions and credit derivatives not yet settled as per the balance sheet date. Most of the deals were concluded to hedge fluctuations in interest rates, exchange rates or market prices and to conduct trading on behalf of customers.

Derivatives transactions – presentation of volumes

EUR million	Nominal values		Positive market values ¹	Negative market values ¹
	2007	2006	2007	2007
Interest rate risks				
• Interest rate swaps	833,470	785,870	11,344	10,512
• FRAs	121,392	21,526	28	31
• Interest rate options	35,454	65,215	299	762
– purchases	12,582	29,774	299	—
– sales	22,872	35,441	—	762
• Caps, floors	29,932	29,942	129	281
• Exchange-traded contracts	26,975	266,788	—	—
• Other forward transactions	3,905	1,232	1	3
Interest rate risks - total	1,051,128	1,170,573	11,801	11,589
Currency risks				
• Forward exchange transactions	81,065	72,548	1,564	1,388
• Currency swaps/cross currency swaps	40,564	52,604	1,828	1,315
• Foreign exchange options	5,901	3,437	173	84
– purchases	2,968	1,798	173	—
– sales	2,933	1,639	—	84
• Exchange-traded contracts	—	—	—	—
• Other forward transactions	—	122	7	2
Currency risks - total	127,530	128,711	3,572	2,789
Share and other price risks				
• Forward share transactions	—	13	—	—
• Share/index options	5,883	7,755	121	70
– purchases	5,724	4,648	121	—
– sales	159	3,107	—	70
• Exchange-traded contracts	1,279	284	36	36
• Other forward transactions	376	1,013	125	129
Share and other price risks - total	7,538	9,065	282	235
Risks from credit derivatives				
• Protection buyer	65,615	49,411	1,393	180
• Protection seller	69,667	46,469	161	935
Risks from credit derivatives - total	135,282	95,880	1,554	1,115
Total	1,321,478	1,404,229	17,209	15,728

Derivatives transactions – maturities structure

EUR million	Nominal values							
	Interest rate risks		Currency risks		Share and other price risks		Risks from credit derivatives	
	2007	2006	2007	2006	2007	2006	2007	2006
Residual terms								
• up to three months	125,758	64,896	53,569	48,260	6,059	3,157	5,225	6,431
• up to one year	269,331	402,023	27,588	28,835	1,223	4,402	15,532	5,577
• up to five years	349,800	404,606	28,728	34,868	236	1,485	70,555	56,000
• more than five years	306,239	299,048	17,645	16,748	20	21	43,970	27,872
Total	1,051,128	1,170,573	127,530	128,711	7,538	9,065	135,282	95,880

Derivatives transactions – counterparty structure

EUR million	Nominal values		Positive market values ¹	Negative market values ¹
	2007	2006	2007	2007
	OECD banks	685,324	900,084	9,070
Non-OECD banks	525,592	7,210	4,871	4,593
Public-sector entities within the OECD	6,267	5,865	100	69
Other counterparties*	104,295	491,070	3,168	3,792
Total	1,321,478	1,404,229	17,209	15,728

* including exchange-traded contracts

Derivatives transactions – trading transactions²

EUR million	Nominal values		Positive market values ¹	Negative market values ¹
	2007	2006	2007	2007
	Interest rate-based contracts	975,839	1,116,953	10,049
Currency-based contracts	127,360	125,826	3,566	2,780
Share-based contracts	7,538	7,553	282	235
Credit derivatives contracts	135,262	67,044	1,554	1,114
Total	1,245,999	1,317,376	15,451	14,137

Comments:

¹ Calculation of market values: see accounting methods – derivative financial instruments

² Trading transactions in derivative instruments include transactions carried out within the framework of the Bank's business strategies and limits by the competent trading units with the aim of achieving income from proprietary trading.

Changes in the portfolio of building-saving contracts and contract amounts of LBS Bayerische Landesbausparkasse

	Not allotted		Allotted		Total	
	No. of contracts	Contract amounts EUR million	No. of contracts	Contract amounts EUR million	No. of contracts	Contract amounts EUR million
A. Portfolio as at 31. 12. 2006	1,709,458	39,674	319,891	7,292	2,029,349	46,966
B. Additions in financial year through						
• New contracts (effective)	224,257	6,471	—	—	224,257	6,471
• Transfers	11,956	271	2,151	55	14,107	325
• Waivers and revocations of allotment	7,785	135	—	—	7,785	135
• Splits	1,433	—	66	—	1,499	—
• Allotments	—	—	97,791	2,027	97,791	2,027
• Other	24,714	735	442	12	25,156	747
Total	270,145	7,612	100,450	2,094	370,595	9,705
C. Reductions in financial year through						
• Allotments	97,791	2,027	—	—	97,791	2,027
• Reductions	—	441	—	7	—	447
• Terminations	122,480	2,061	48,611	778	171,091	2,839
• Transfers	11,956	270	2,151	55	14,107	325
• Consolidations	—	—	4,152	—	4,152	—
• Contract expiries	6,109	59	59,217	1,292	65,326	1,351
• Waivers and revocations of allotment	—	—	7,785	135	7,785	135
• Other	23,857	970	667	21	24,524	991
Total	262,193	5,828	122,583	2,288	384,776	8,115
D. Net additions/reductions	7,952	1,784	-22,133	-194	-14,181	1,590
E. Portfolio as at 31. 12. 2007	1,717,410	41,458	297,758	7,098	2,015,168	48,556
Of which: building savers outside the Federal Republic of Germany	5,100	122	554	17	5,654	139
			No. of contracts		Contract amounts EUR million	
Portfolio of contracts not yet effective						
• Concluded prior to 1. 1. 2007				7,626		277
• Concluded in 2007 financial year				66,268		1,776

As far as changes within the individual tariff categories are concerned, please refer to the annual report of LBS Bayerische Landesbausparkasse.

Changes in the volume of the allotment fund of LBS Bayerische Landesbausparkasse

EUR million	2007
A. Additions	
Brought forward from previous year (surplus):	
Amounts not yet disbursed	5,947
Additions in financial year	
• Building savers' deposits (incl. building saving premiums)	1,703
• Redemption amounts ¹ (incl. building saving premiums)	573
• Interest on building savers' deposits	185
• Reserve fund for Bausparkasse	3
Total additions	8,411
B. Reductions	
Reductions in financial year	
• Allotted amounts, if disbursed	
a) Building savers' deposits	1,018
b) Building loans	567
• Repayment of building savers' deposits on building saving contracts not yet allotted	554
Additions surplus (amounts not yet disbursed) at end of financial year²	6,272
Total reductions	8,411

Comments:

1 Redemption amounts are the proportions of the redemption amounts which are purely used for redemptions.

2 The additions surplus includes, among other items:

a) Building savers' deposits not yet disbursed relating to allotted building saving contracts: EUR 204 million

b) Building loans not yet disbursed relating to allotments: EUR 503 million

Information provided pursuant to Section 28 Pfandbrief Act (PfandBG)

Covered bonds (Pfandbriefe) outstanding and cover funds

EUR million	Nominal value		Present value		Risk-related present value	
	2007	2006	2007	2006	2007	2006
• Mortgage Pfandbriefe	5,472	4,576	5,566	4,721	5,255	4,482
Cover funds ¹	6,665	6,220	6,753	6,400	6,246	5,929
of which: derivatives	—	—	—	—	—	—
Excess cover	1,193	1,644	1,187	1,679	991	1,447
• Public-sector Pfandbriefe	53,897	50,808	54,327	51,867	50,725	56,873
Cover funds ^{1,2}	60,120	57,189	59,559	57,468	55,520	61,783
of which: derivatives	—	—	5	—	15	—
Excess cover	6,223	6,381	5,232	5,601	4,795	4,910

1 including additional cover assets pursuant to Sections 19 (1) and 20 (2) PfandBG

2 including discount for BayernLabo's receivables at below-market interest rates

Maturities structure of covered bonds (Pfandbriefe) outstanding and interest rate lock-in periods (Zinsbindungsfristen) of cover funds

EUR million	Mortgage Pfandbriefe		Cover funds ¹		Public-sector Pfandbriefe		Cover funds ^{1,2}	
	2007	2006	2007	2006	2007	2006	2007	2006
Residual maturities and interest rate lock-in periods								
• up to one year	1,528	1,189	1,668	1,343	12,213	8,729	13,896	14,966
• over one year up to five years	3,001	2,972	2,174	2,347	28,751	28,560	18,026	19,585
• over five years up to ten years	880	367	2,357	2,245	9,957	10,983	24,171	19,620
• over ten years	63	48	457	285	2,976	2,536	4,027	3,018
Total	5,472	4,576	6,656	6,220	53,897	50,808	60,120	57,189

¹ including additional cover assets pursuant to Sections 19 (1) and 20 (2) PfandBG

² including discount for BayernLabo's receivables at below-market interest rates

Receivables serving as cover for mortgage Pfandbriefe, according to size category

EUR million	Mortgages serving as cover	
	2007	2006
up to EUR 300,000	2,201	2,312
over EUR 300,000 up to EUR 5 million	1,069	1,052
over EUR 5 million	2,914	2,244
Total	6,184	5,608

Receivables serving as cover for mortgage Pfandbriefe, according to country where the real estate collateral is located, and according to type of use

EUR million	Mortgages serving as cover			
	commercial		residential	
	2007	2006	2007	2006
• Germany	3,041	2,595	2,672	2,853
– flats	—	—	1,177	1,226
– single-family homes	—	—	948	990
– multi-family homes	—	—	522	621
– office buildings	1,369	1,245	—	—
– retail/wholesale buildings	1,034	797	—	—
– industrial buildings	36	25	—	—
– other commercial buildings	530	473	—	—
– unfinished new buildings not yet generating income	27	21	13	7
– plots of land	45	34	12	9
• Austria	25	10	—	—
– retail/wholesale buildings	8	9	—	—
– plots of land	1	1	—	—
– office buildings	16	—	—	—
• Great Britain and Northern Ireland	336	140	—	—
– office buildings	271	140	—	—
– retail/wholesale buildings	55	—	—	—
– other commercial buildings	10	—	—	—
• Poland	11	—	—	—
– office buildings	11	—	—	—
• Switzerland	70	10	—	—
– unfinished new buildings not yet generating income	—	10	—	—
– office buildings	39	—	—	—
– retail/wholesale buildings	31	—	—	—
• USA	29	—	—	—
– office buildings	29	—	—	—
Total	3,512	2,755	2,672	2,853

Total payments on mortgage receivables past due for 90 days and more, according to country where the real estate collateral is located

EUR million	2007	2006
Germany	4	3
Total	4	3

Additional information on mortgage receivables pursuant to Section 28 (2) No. 3 PfandBG

As at 31 December 2007, there were no (2006: 13) commercial and no (2006: 149) residential properties that were subject to foreclosure sale proceedings, and no (2006: 16) commercial and 92 (2006: 145) residential properties that were subject to administrative receivership.

Moreover, in the year under review there were no (2006: 2) commercial properties and 8 (2006: 19) residential properties that were sold under a forced sale.

EUR million	Type of use			
	commercial		residential	
	2007	2006	2007	2006
Overdue interest payable on mortgage debt	1	—	1	2
Repayments of mortgages				
• by amortisation	206	166	105	101
• other	322	672	292	175

Receivables serving as cover for public-sector Pfandbriefe, according to debtor, and according to guarantor and its domicile

EUR million	Cover assets	
	2007	2006
• Germany	51,433	50,898
– national government	1,185	1,093
– regional authorities	12,610	12,934
– local authorities	6,700	6,191
– other debtors	30,938	30,680
• Austria	57	38
– national government	7	—
– regional authorities	—	38
– other debtors	50	—
• Belgium	5	3
– national government	5	3
• Canada	138	65
– regional authorities	69	65
– local authorities	69	—
• Cyprus	2	4
– regional authorities	—	4
– national government	2	—
• Czech Republic	7	8
– national government	7	8
• Denmark	68	—
– other debtors	68	—
• European Union	105	105
– other debtors	105	105

EUR million	Cover assets	
	2007	2006
• Finland	—	16
– national government	—	16
• France, including Monaco	70	—
– other debtors	70	—
• Great Britain and Northern Ireland	755	5
– national government	4	5
– regional authorities	751	—
• Greece	31	11
– national government	4	11
– other debtors	27	—
• Hungary	316	246
– national government	316	246
• Iceland	2	8
– regional authorities	2	8
• Italy	55	100
– national government	5	100
– other debtors	50	—
• Luxembourg	200	200
– other debtors	200	200
• Poland	90	25
– national government	30	25
– other debtors	60	—
• Romania	10	—
– national government	10	—
• Spain	454	554
– regional authorities	454	554
• Sweden	6	9
– national government	6	9
• Switzerland	2,731	2,820
– national government	59	73
– regional authorities	1,474	1,811
– other debtors	1,198	936
• The Netherlands	90	—
– other debtors	90	—
• Turkey	14	29
– national government	14	29
• USA	11	16
– national government	11	16
Total	56,650	55,160

Total payments on public-sector receivables overdue for 90 days and more, and their regional distribution

EUR million	2007	2006
Germany		
– national government	—	1
– regional authorities	3	4
Total	3	5

Supplementary information

Shareholdings

The complete inventory of shareholdings pursuant to Sections 285, Sentence 1 No. 11 HGB and 340a (4) No. 2 HGB is shown separately in the electronic Federal Gazette.

As at 31 December 2007, the Bank was an unlimited partner of the following companies:

- GbR Datenkonsortium OpRisk, Bonn
- GbR der Altgesellschafter der Deutsche Leasing AG, Bad Homburg
- GLB GmbH & Co. OHG, Frankfurt/Main
- Groupement d'Intérêt Economique (GIE) Spring Rain, Paris
- SCI du 203 Faubourg Saint Honoré, Paris
- Vulcain Energie, Paris

Letter of comfort

Proportionate to the size of its equity interest and with the exception of cases of political risk, the Bank shall ensure that the companies listed below are in a position to fulfil their contractual obligations.

- Banque LBLux S.A., Luxembourg
- Deutsche Kreditbank Aktiengesellschaft, Berlin
- Landesbank Saar, Saarbrücken
- LB(Swiss) Privatbank AG, Zurich

Other financial obligations

Other financial obligations notably arise from rental, use, service and maintenance contracts, and from consulting and marketing agreements.

As at 31 December 2007, there were call commitments for capital not fully paid up of EUR 113 million. There were uncalled liabilities from limited partnership shares of EUR 31 million. Moreover, there were additional funding obligations amounting to EUR 50 million as well as a directly enforceable guarantee for the funding obligation of shareholders of the Frankfurt/Main-based Liquiditäts-Konsortialbank GmbH, who are members of the German Savings Bank Association. Amounts due to affiliated companies totalled EUR 76 million.

On the balance sheet date, BayernLB's liability as a member of the guarantee fund of the Landesbanks came to EUR 179 million. There is a call commitment for the reserve fund of the Association of Bavarian Savings Banks (Bavarian reserve fund) amounting to EUR 175 million and an additional funding obligation worth EUR 482 million.

Under the terms of the statutes of the deposit insurance fund run by the Association of German Public-Law Banks (VÖB), 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.

Administrative bodies

Board of Administration

Dr Siegfried Naser

Chairman
Executive President
Association of Bavarian Savings Banks
Munich

Prof Dr Kurt Falthäuser

until 16 October 2007
First Deputy Chairman
in his position as State Minister
Bavarian State Ministry of Finance
Munich

Erwin Huber

First Deputy Chairman
since 16 October 2007
in his position as State Minister
Bavarian State Ministry of Finance
Munich
until 16 October 2007
in his position as State Minister
Bavarian State Ministry
of Economic Affairs, Infrastructure,
Transport and Technology
Munich

Hansjörg Christmann

Second Deputy Chairman
Chief District Administrator
Dachau

Dr Günther Beckstein

until 9 October 2007
Third Deputy Chairman
in his position as State Minister
Bavarian State Ministry of the Interior
Munich

Joachim Herrmann

since 16 October 2007
Third Deputy Chairman
State Minister
Bavarian State Ministry of the Interior
Munich

Alois Hagl

Chairman of the Board of Directors of
Sparkasse im Landkreis Schwandorf
Schwandorf

Jürgen W. Heike

since 1 December 2007
Permanent Secretary
Bavarian State Ministry of the Interior
Munich

Karl-Ludwig Kamprath

Chairman of the Board of Directors of
Kreissparkasse München-Starnberg
Munich

Emilia Müller

since 22 October 2007
State Minister
Bavarian State Ministry
of Economic Affairs, Infrastructure,
Transport and Technology
Munich

Hans Schaidinger

Lord Mayor
Regensburg

Georg Schmid

until 16 October 2007
in his position as State Minister
Bavarian State Ministry of the Interior
Munich

Klaus Weigert

Deputy Secretary
Bavarian State Ministry of Finance
Munich

*Board of Management**

Werner Schmidt

Chairman
Corporate Center Support Operations

Dr Rudolf Hanisch

Deputy Chairman
Real Estate Business Area
Financial Institutions & Sovereigns Business Area
Bayerische Landesbodenkreditanstalt

Theo Harnischmacher

Deputy Chairman
Savings Banks and
Bavarian Market Business Area
Bayerische Landesbausparkasse

Dieter Burgmer

until 28 June 2007
Financial Markets Business Area

Stefan W. Ropers

Corporates Business Area

Dr Gerhard Gribkowsky

Risk Office Support Operations

Dr Ralph Schmidt

Corporate Services Support Operations
until 30 June 2007
Financial Markets Business Area
since 1 July 2007

Dr Michael Kemmer

Financial Office Support Operations

In February 2008, Werner Schmidt announced his resignation with effect from 1 March 2008. Dr Michael Kemmer was appointed to succeed him as Chairman of the Board of Management with effect from the same date.

** This information is valid for the period from 1 January to 31 December 2007.*

Remunerations of the administrative bodies

EUR '000	2007	2007	2006	2006
Total remunerations of the financial year:				
• Members of the Board of Management		5,728		5,266
– Chairman of the Board of Management	1,465		1,288	
<i>Fixed salary</i>	1,226		1,138	
<i>Variable compensation</i>				
<i>(incl. compensation for previous years)</i>	239		150	
– Deputy Chairmen of the Board of Management	1,274		1,189	
<i>Fixed salary</i>	1,044		994	
<i>Variable compensation</i>	230		195	
– Full members of the Board of Management	2,718		2,442	
<i>Fixed salary</i>	2,223		2,106	
<i>Variable compensation</i>	495		336	
– Ancillary remuneration (non-cash compensation)	271		347	
• Members of the Board of Administration		324		317
• Former members of the Board of Management and their surviving dependants		4,736		4,862
Pension provisions set up for former members of the Board of Management and their surviving dependants		54,466		53,973*

* 2006 figure adjusted in accordance with the IFRS calculation methods

Loans to the administrative bodies

EUR '000	2007	2006
Total amount of advances, loans and guarantees granted to members of the Board of Management and the Board of Administration:		
• Members of the Board of Management	2,389	2,417
• Members of the Board of Administration	563	593

Mandates held by legal representatives or by other employees*

Name	Mandates held in supervisory bodies to be constituted under the respective laws for major incorporated companies (including all credit institutions)
Board of Management Werner Schmidt	Banque LBLux S.A., Luxembourg DekaBank Deutsche Girozentrale, Frankfurt/Main Deutsche Kreditbank Aktiengesellschaft, Berlin Deutsche Lufthansa AG, Cologne Drees & Sommer AG, Stuttgart Herrenknecht AG, Schwanau HYPO ALPE-ADRIA-BANK International AG, Klagenfurt Landesbank Saar, Saarbrücken LB(Swiss) Privatbank AG, Zurich MKB Bank Zrt, Budapest Sparkassen Informatik GmbH & Co. KG, Frankfurt/Main Wieland-Werke AG, Ulm
Dr Rudolf Hanisch	Banque LBLux S.A., Luxembourg BayernInvest Kapitalanlagegesellschaft mbH, Munich Deutsche Kreditbank Aktiengesellschaft, Berlin DKB Immobilien AG, Berlin E.ON Energie AG, Munich GBWAG Bayerische Wohnungs-AG, Munich HYPO ALPE-ADRIA-BANK International AG, Klagenfurt Landesbank Saar, Saarbrücken
Theo Harnischmacher	Deutsche Kreditbank Aktiengesellschaft, Berlin GBWAG Bayerische Wohnungs-AG, Munich Landesbank Saar, Saarbrücken
Stefan W. Ropers	Banque LBLux S.A., Luxembourg BayernInvest Kapitalanlagegesellschaft mbH, Munich Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen MAN AG, Munich
Dr Gerhard Gribkowsky	Delta Topco Ltd., Jersey Deutsche Kreditbank Aktiengesellschaft, Berlin MKB Bank Zrt, Budapest MKB Romexterra Bank S.A., Targu Mures Strabag SE, Vienna CB Unionbank AD, Sofia
Dr Ralph Schmidt	BayernInvest Kapitalanlagegesellschaft mbH, Munich Deutsche WertpapierService Bank AG, Frankfurt/Main MKB Bank Zrt, Budapest MKB Romexterra Bank S.A., Targu Mures
Dr Michael Kemmer	BayernInvest Kapitalanlagegesellschaft mbH, Munich cash.life AG, Pullach Deutsche Kreditbank Aktiengesellschaft, Berlin GBWAG Bayerische Wohnungs-AG, Munich Thiel Logistik AG, Grevenmacher

* This information is valid as per 31 December 2007.

Name	Mandates held in supervisory bodies to be constituted under the respective laws for major incorporated companies (including all banks)
Staff	
Ernst Holland	GEWOFAG Gemeinnützige Wohnungsfürsorge AG, Munich
Georg Jewgrafow	LB Immo Invest GmbH, Hamburg
Thomas Neher	BayernInvest Kapitalanlagegesellschaft mbH, Munich
Andreas Nerantzakidis	Haupt Pharma AG, Berlin

External auditors' fees

EUR '000	2007	2006
Fees recorded as expenses in the financial year for		
• the financial statements audit	6,472	4,123
• other certification and valuation services	734	209
• tax consultancy services	135	156
• other services	1,931	2,908
Total	9,272	7,396

Number of employees

(annual average)

	2007	2006
Women	2,424	2,397
Men	2,560	2,539
Total	4,984	4,936

The total includes 931 (2006: 874) part-time employees, whose working hours correspond to those of 586 (2006: 548) full-time employees. The Bank's 136 trainees (2006: 129 trainees) are not included.

Responsibility statement by the Board of Management

To the best of our knowledge, and in accordance with the applicable reporting principles for the preparation of the annual financial statements, the Bank's financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Bayerische Landesbank, Munich, and the management report includes a fair review of the development and performance of the business and the position of Bayerische Landesbank, together with a description of the principal opportunities and risks associated with the expected development of Bayerische Landesbank.

Munich, 26 March 2008

Bayerische Landesbank
The Board of Management

Dr Michael Kemmer

Dr Rudolf Hanisch

Theo Harnischmacher

Stefan W. Ropers

Dr Gerhard Gribkowsky

Dr Ralph Schmidt

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Bayerische Landesbank, Anstalt des öffentlichen Rechts, München (BayernLB), for the business year from January 1 to December 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and 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 annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") 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 annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of BayernLB 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by BayernLB Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements and 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 BayernLB in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of BayernLB position and suitably presents the opportunities and risks of future development.

Munich, March 26, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes
Wirtschaftsprüfer
(German Public Auditor)

Eberhard Feil
Wirtschaftsprüfer
(German Public Auditor)

3



Report by the Board of Administration

Report by the Board of Administration

It has been an extremely challenging and at many times difficult year for the banking and financial sector worldwide. After initially performing well, the sector found itself completely caught up in the US sub-prime crisis during the second half of the year. Even the experts were wrong-footed not only by the impact of the crisis on the once highly liquid securitisation market but also its effect on other segments.

In addition to devoting considerable attention over the course of the year to this markedly changed business environment, BayernLB's Board of Administration also took key decisions on the future direction and development of the Group.

Key strategic decisions on BayernLB's business model

► **Securing of a majority stake in Hypo Alpe-Adria-Bank International AG another milestone for the BayernLB Group**

After carrying out extensive consultations in May 2007, the go-ahead was given to acquire Hypo Alpe-Adria-Bank International AG, based in Klagenfurt, Austria. The process was completed within the space of just a few months. Ownership of Hypo Group Alpe Adria (HGAA) gives BayernLB access to promising new markets right on its doorstep and expands its existing presence in the rapidly growing and closely inter-linked economies of Central and South Eastern Europe. The acquisition is also another step in the Group's efforts to build a strong base in the retail and SME segments.

BayernLB will certainly need to strengthen its position in promising foreign markets if it is to continue to be successful in future years, particularly in view of constantly rising competitive pressure that is most pronounced in its domestic German market.

It was in connection with this issue that detailed discussions were held by the Board of Management and Board of Administration during the course of the year on the Bank's future in view of the developments taking place in the German Landesbank environment. After thoroughly weighing up the arguments on both sides, the Bank's owners agreed to keep BayernLB independent and out of any Landesbank consolidation in Germany. Both owners remain firmly committed to BayernLB as shareholders and will continue to provide constructive support in refining the Bank's "stand-alone" model further.

The Board of Administration also ensured that the Board of Management was constantly advised and monitored in line with its responsibilities under the law and the Bank's Statutes. For example, both Boards engaged in detailed discussions over the course of the year on the planned business policy, strategic priorities and all facets of BayernLB's business model and initiated measures to refine it further. Measures agreed in the previous years were reviewed and amended as required.

The Board of Administration believes that the business model will need to be continually revised to ensure it always meets the rapidly changing demands of the market. This will be a particular focus of the Board of Management and Board of Administration in the first half of 2008.

Legal, statutory and supervisory requirements

The Board of Management provided the Board of Administration with regular, comprehensive, and up-to-date information on the Bank's performance, especially regarding the Bank's earnings, expenditures and risk status, HR planning and development, legal and business relations with associated companies, and material events and business transactions, particularly in the case of associated companies. The supervisory requirements governing Board of Management reporting of incongruities detected by Internal Auditing were fulfilled.

To remain successful in an ever faster changing environment, it was also necessary to increase response times by improving credit policy and competence regulations, i. e. accelerate the decision-making process without compromising on quality. More decision-making authority was transferred to the Credit Committee and the Board of Management, for example. In its role as watchdog, the Board of Administration is now focused on strategy and portfolio monitoring and on risk absorption capacity.

During its 12 meetings in 2007, the Board of Administration passed formal resolutions required by law and the Bank's Statutes. Some of these meetings were attended by representatives from the Federal Financial Supervisory Authority and/or the Deutsche Bundesbank.

The Board of Administration regularly addressed the statutory and supervisory requirements that the Bank must deal with. Both it and the Board of Management discussed BayernLB's business and risk strategy in detail. The Board of Management provided updates on the Bank's risk situation and risk management. Credit portfolio performance was monitored by the Board of Administration by means of a constantly refined risk and portfolio reporting. The Board of Administration also received regular reports on the US sub-prime crisis and the ensuing loss of confidence and liquidity on global financial markets. Reports by the Board of Management also covered the impact of the crisis on BayernLB's ABS exposures.

► Legal and supervisory requirements fulfilled

Corporate governance

BayernLB's Corporate Governance Principles summarise the corporate management and control regulations that the Bank has either set for itself or are binding under law.

In its meeting on 22 January 2008, the Board of Administration discussed BayernLB's compliance with its Corporate Governance Principles in 2007 and determined, in consultation with the Board of Management, that there were no grounds to believe that the Bank was not in compliance with these Principles. The General Meeting also passed a resolution to the same effect.

Board members

Major changes to the composition of the Board of Administration took place as a result of the Bavarian state government reshuffle in 2007.

Dr Günther Beckstein stepped down after being elected Minister-President of Bavaria on 9 October, followed on 16 October by Prof. Kurt Faltlhauser and Georg Schmid after a new cabinet for the state of Bavaria was formed. The Board of Administration would like to extend a special thank you to all of them for their many years of invaluable and fruitful service to the Bank.

Joachim Herrmann, Bavarian State Minister of the Interior, was appointed to the Board of Administration on 16 October, followed by Emilia Müller, Bavarian State Minister for Economic Affairs, Infrastructure, Transport and Technology, and Jürgen W. Heike, Permanent Secretary, Bavarian State Ministry of the Interior, on 22 October and 1 December respectively. Erwin Huber, Bavarian State Minister of Finance, became First Deputy Chairman of the Board of Administration on 16 October.

► Personnel changes within BayernLB's Board of Management

BayernLB's Board of Management also saw some changes in 2007. Dieter Burgmer resigned from the Board in June 2007. Dr Ralph Schmidt took over the Financial Markets Business Area with effect from 1 July, and the Corporate Services Support Operations units – which he was in charge of until 30 June – were transferred to Corporate Center Support Operations, under Werner Schmidt, and to Financial Office Support Operations, under Dr Michael Kemmer.

Other changes to the Board of Management's composition took place in the first and second quarters of the current financial year. Werner Schmidt announced his resignation as Chairman of the Board of Management with effect from 1 March 2008, and the Board of Administration appointed Dr Michael Kemmer to succeed him with effect from the same date. Moreover, Dr Gerhard Gribkowsky left BayernLB's Board of Management with effect from 3 April 2008. He was replaced as Chief Risk Officer by Dr Ralph Schmidt. Stefan W Ropers took over Dr Ralph Schmidt's former role as head of the Financial Markets Business Area while remaining in charge of the Corporates Business Area.

Auditing and approval of the 2007 annual financial statements

The audit of the Bank's financial statements, consolidated financial statements, management report and group management report was conducted by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. The audit of the financial statements and management reports of BayernLabo and LBS Bayern, as legally dependent institutions of the Bank, was undertaken by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. The Board of Administration of BayernLB duly verified the independence of the auditors before recommending their approval by the General Meeting.

Unqualified audit certificates were granted upon completion of the auditing process. The auditors' reports were discussed thoroughly in both the meeting of the Board of Administration and the meeting of the BoA's Financial Statements Audit Committee on 25 April 2008. 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 results, and on the recommendation of the Financial Statements Audit Committee, the Board of Administration approved the results of the external audits.

In its meeting on 25 April 2008, the Board of Administration adopted the annual financial statements of the Bank, as submitted by the Board of Management, and approved the management report, consolidated financial statements and Group management report. The Board of Administration then recommended to the General Meeting that the disclosed profit available for distribution in the amount of EUR 126,000,000.00 be transferred to BayernLB Holding AG, which holds 100 percent of the nominal capital of the Bank. This represents a return of 7 percent on the paid-in capital of the Bank.

The Board of Administration also proposed to the General Meeting that the members serving on the Board of Management as at 31 December 2007 be discharged. The General Meeting today gave its approval to these proposals.

Thanks to the Board of Management and staff

The Board of Administration wishes to thank the members of the Board of Management and the employees of BayernLB for all their hard work over the past year, and for their huge personal contribution, in particular during the difficult capital market environment in the second half of the year.

It also wishes them every success in tackling the key tasks facing them in 2008, especially in relation to the integration of HGAA and the refinements that need to be made to the BayernLB business model. The Board of Administration is confident that BayernLB will consolidate and expand its strong position in the fiercely competitive and tough market environment.

Munich, 25 April 2008

The Board of Administration

Dr Siegfried Naser
Chairman

► **Board of Administration adopts BayernLB's annual financial statements and approves management report, consolidated financial statements and Group management report**

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Committees and advisory boards

General Meeting	88
Board of Administration	90
Financial Statements Audit Committee	91
Trustees	92
Savings Bank Advisory Council	93
Economic Advisory Council	94

General Meeting*

Prof Dr Kurt Faltlhauser

Chairman
until 16 October 2007 in his position
as State Minister
Bavarian State Ministry of Finance
Munich

Erwin Huber

Chairman
since 16 October 2007 in his position
as State Minister
Bavarian State Ministry of Finance
Munich

Dr Siegfried Naser

Deputy Chairman
Executive President
Association of Bavarian Savings Banks
Munich

Wolfgang Bayerl

First Lord Mayor
Neunburg v. Wald

Dr Günther Beckstein

until 9 October 2007 in his position
as State Minister
Bavarian State Ministry of the Interior
Munich

Ludwig Bronold

Savings Bank Director
Chairman of the Board of Directors of
Kreissparkasse Mühldorf
Mühldorf

Hansjörg Christmann

Chief District Administrator
First President of the Association of
Bavarian Savings Banks
Dachau

Heinrich Frey

Chief District Administrator
Starnberg

Martin Haf

Savings Bank Director
Chairman of the Board of Directors of
Sparkasse Allgäu
Kempton

Alois Hagl

Savings Bank Director
Chairman of the Board of Directors of
Sparkasse im Landkreis Schwandorf
Chief Representative of the Bavarian
Savings Banks
Schwandorf

Johann Heckner

since 31 August 2007
Savings Bank Director
Chairman of the Board of Directors of
Sparkasse Landshut
Landshut

Rudolf Heiler

First Lord Mayor
Grafing

Joachim Herrmann

since 16 October 2007
State Minister
Bavarian State Ministry of the Interior
Munich

Dr Jörg Jung

Under-Secretary
Bavarian State Ministry of the Interior
Munich

Gebhard Kaiser

Chief District Administrator
Sonthofen

Norbert Kastner

Lord Mayor
Coburg

Wolfgang Kelsch

First Lord Mayor
Wendelstein

Dr Joachim Kormann

until 30 April 2007 in his position
as Deputy Secretary
Bavarian State Ministry of
Economic Affairs, Infrastructure,
Transport and Technology
Munich

Harald Leitherer

Chief District Administrator
Schweinfurt

Franz Meyer

until 16 October 2007 in his position
as State Secretary
Bavarian State Ministry of Finance
Munich

Josef Miller

State Minister
Bavarian State Ministry of
Agriculture and Forestry
Munich

Matthias Nester

Savings Bank Director
Chairman of the Board of Directors of
Sparkasse Mittelfranken-Süd
Roth

Helmut Reich

Chief District Administrator
Lauf a. d. Pegnitz

Heinrich Reichel

Savings Bank Director
Member of the Board of Directors of
Sparkasse Aschaffenburg-Alzenau
Aschaffenburg

Georg Riedl

First Lord Mayor
Pfarrkirchen

Dr Klaus-Jürgen Scherr

Savings Bank Director
Deputy Chairman of the
Board of Directors of
Sparkasse Kulmbach-Kronach
Kulmbach

Dr Johann Schleicher

since 1 June 2007
Under-Secretary
Bavarian State Ministry of
Economic Affairs, Infrastructure,
Transport and Technology
Munich

Dr Werner Schnappauf

until 9 October 2007 in his position
as State Minister
Bavarian State Ministry
for the Environment, Health and
Consumer Protection
Munich

Dr Walter Schön

Deputy Secretary
Bavarian State Chancellery
Munich

Christa Stewens

State Minister
Bavarian State Ministry of Employment
and Social Order, the Family and Women
Munich

Dr Reinhard Wiczorek

Councillor
City of Munich
Munich

Friedrich Wimberger

until 31 July 2007 in his position
as Savings Bank Director
Chairman of the Board of Directors of
Sparkasse Landshut
Landshut

Board of Administration*

Dr Siegfried Naser

Chairman
Executive President
Association of Bavarian Savings Banks
Munich

Prof Dr Kurt Faltlhauser

First Deputy Chairman
until 16 October 2007 in his position
as State Minister
Bavarian State Ministry of Finance
Munich

Erwin Huber

First Deputy Chairman
since 16 October 2007 in his position
as State Minister
Bavarian State Ministry of Finance
Munich
until 16 October 2007 in his position
as State Minister
Bavarian State Ministry of
Economic Affairs, Infrastructure,
Transport and Technology
Munich

Hansjörg Christmann

Second Deputy Chairman
Chief District Administrator
First President of the Association of
Bavarian Savings Banks
Dachau

Dr Günther Beckstein

Third Deputy Chairman
until 9 October 2007 in his position
as State Minister
Bavarian State Ministry of the Interior
Munich

Joachim Herrmann

Third Deputy Chairman
since 16 October 2007
State Minister
Bavarian State Ministry of the Interior
Munich

Alois Hagl

Savings Bank Director
Chairman of the Board of Directors of
Sparkasse im Landkreis Schwandorf
Chief Representative of the Bavarian
Savings Banks
Schwandorf

Jürgen W Heike

since 1 December 2007
State Secretary
Bavarian State Ministry of the Interior
Munich

Karl-Ludwig Kamprath

Savings Bank Director
Chairman of the Board of Directors of
Kreissparkasse München-Starnberg
Munich

Emilia Müller

since 22 October 2007
State Minister
Bavarian State Ministry of
Economic Affairs, Infrastructure,
Transport and Technology
Munich

Hans Schaidinger

Lord Mayor
President of the Bayerischer Städtetag
Regensburg

Georg Schmid

until 16 October 2007 in his position
as State Secretary
Bavarian State Ministry of the Interior
Munich

Klaus Weigert

Deputy Secretary
Bavarian State Ministry of Finance
Munich

* Relevant for the period
from 1 January to 31 December 2007

Financial Statements Audit Committee*

Dr Siegfried Naser

Chairman
Executive President
Association of Bavarian Savings Banks
Munich

Prof Dr Kurt Faltlhauser

Deputy Chairman
until 16 October 2007 in his position
as State Minister
Bavarian State Ministry of Finance
Munich

Erwin Huber

Deputy Chairman
since 16 October 2007 in his position
as State Minister
Bavarian State Ministry of Finance
Munich
until 16 October 2007 in his position
as State Minister
Bavarian State Ministry of
Economic Affairs, Infrastructure,
Transport and Technology
Munich

Alois Hagl

Savings Bank Director
Chairman of the Board of Directors of
Sparkasse im Landkreis Schwandorf
Chief Representative of the Bavarian
Savings Banks
Schwandorf

Jürgen W Heike

since 4 December 2007
State Secretary
Bavarian State Ministry of the Interior
Munich

Karl-Ludwig Kamprath

Savings Bank Director
Chairman of the Board of Directors of
Kreissparkasse München-Starnberg
Munich

Georg Schmid

until 16 October 2007 in his position
as State Secretary
Bavarian State Ministry of the Interior
Munich

Emilia Müller

since 4 October 2007
State Minister
Bavarian State Ministry of
Economic Affairs, Infrastructure,
Transport and Technology
Munich

* Relevant for the period
from 1 January to 31 December 2007

Trustees*

Dr Werner Böhme
Senior Assistant Secretary (retired)

First Deputy
Norbert Schulz
Senior Assistant Secretary (retired)

Second Deputy
Dr Manfred Seume
Senior Assistant Secretary (retired)

** Relevant for the period
from 1 January to 31 December 2007*

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Dieter Bartke

Savings Bank Director
Chairman of the Board of Directors of
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Erding
until 30 June 2007

Renate Braun

Savings Bank Director
Chairwoman of the Board of Directors of
Sparkasse Passau
Passau
since 1 October 2007

Stefan Erbacher

Savings Bank Director
Chairman of the Board of Directors of
Kreissparkasse Kulmbach
Kulmbach

Rudolf Faltermeier

Vice President
Association of Bavarian Savings Banks
Munich

Günter Götz

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Chairman of the Board of Directors of
Sparkasse Weiden
Weiden i. d. Opf.

Rainer Heller

Savings Bank Director
Chairman of the Board of Directors of
Sparkasse Fürth
Fürth
until 31 October 2007

Werner Netzel

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Association of Bavarian Savings Banks
Munich

Willi Neupärtl

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Deputy Chairman of the
Board of Directors of
Kreis- und Stadtsparkasse Erding-Dorfen
Erding
since 1 July 2007

Walter Pache

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Chairman of the Board of Directors of
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Günzburg

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Savings Bank Director
Chairman of the Board of Directors of
Sparkasse Landsberg-Dießen
Landsberg

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Chairman of the Board of Directors of
Sparkasse Miltenberg-Obernburg
Miltenberg

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Savings Bank Director
Chairman of the Board of Directors of
Sparkasse Freyung-Grafenau
Freyung
until 30 September 2007

Hans Wölfel

Savings Bank Director
Member of the Board of Directors of
Sparkasse Fürth
Fürth
since 1 November 2007

* Relevant for the period
from 1 January to 31 December 2007

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Archdiocese of Munich and Freising
Archepiscopal Diocesan Authorities
Financial Department
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(since 1 March 2007)

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Munich
(Curator until 14 October 2007;
member since 15 October 2007)

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Bavarian State Ministry of Finance
Munich
(Curator since 15 October 2007)

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Munich
(Curator)

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Munich

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Acting Partner
Rödl & Partner
Nuremberg

Prof Dr Bernd Rudolph

Institute of Capital Market Research
and Finance
Ludwig-Maximilians-Universität München
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Shareholder
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Herzogenaurach

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General Manager
Wittelsbacher Ausgleichsfonds
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Stuttgarter Lebensversicherung a. G.
Stuttgart

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Münchener Rückversicherungs-
Gesellschaft
Munich

Michael Schneider

Chairman of the Board of Directors of
LfA Förderbank Bayern
Munich
(since 1 February 2007)

Dipl-Kfm Dieter Schön

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Schön-Klinik Verwaltung GmbH
Prien

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Unternehmensgruppe Schörghuber
Munich

Friedrich Schubring-Giese

Chairman of the Board of Directors of
Versicherungskammer Bayern
Munich

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Chamber of Industry and Commerce
for Munich and Upper Bavaria
Munich

Rupert Stadler

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AUDI AG
Ingolstadt

Prof Dr Manfred Steiner

Professor, Department of
Business Management,
Finance and Banking at the
Universität Augsburg
Augsburg

Dr Johannes Teyssen

Chief Operating Officer
E.ON AG
Düsseldorf

Christoph Thomas

Acting Partner
HAMA GmbH & Co. KG
Monheim

Dr Johannes Vöcking

Chairman of the Board of Directors of
Barmer Ersatzkasse
Wuppertal

Dr Wolfgang Weiler

Member of the Board of Directors of
HUK-Coburg
Coburg

Alexander Wiegand

Acting Partner
WIKA Alexander Wiegand GmbH & Co. KG
Klingenberg

Manfred Wutzlhofer

Chairman of the Management of
Messe München GmbH
Munich

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