

08

2008 Annual Report and Accounts Individual Accounts

 Finanzgruppe Bayern

 Bayern LB

BayernLB's financial statements at a glance

Income statement (HGB)

EUR million	1 Jan – 31 Dec 2008	1 Jan – 31 Dec 2007	Change in %
Net interest income	1,394	1,885	-26.0
Net commission income	292	245	19.0
Administrative expenses	-950	-913	4.0
Net income/losses from financial transactions	-1,066	-151	>100.0
Operating profit/loss	-3,421	559	

Balance sheet (HGB)

EUR million	31 Dec 2008	31 Dec 2007	Change in %
Total assets	318,168	330,867	-3.8
Credit volume	235,332	245,701	-4.2
Total deposits	179,412	188,293	-4.7
Securitised liabilities	103,288	106,612	-3.1
Reported equity	18,145	19,728	-8.0

Banking supervisory ratios under the German Banking Act (KWG)

EUR billion	31 Dec 2008	31 Dec 2007	Change in %
Risk positions under the Solvency Ordinance	126.6	121.2	4.5
Own funds	20.0	17.6	13.6
Core capital ratio ¹	10.0%	7.6%	31.6
Own funds ratio	15.8%	14.5%	9.0

¹ Previous year's figure adjusted for market risk positions.

Number of employees

	31 Dec 2008	31 Dec 2007	Change in %
BayernLB	4,980	5,170	-3.7

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Overview

The economy

Germany's economy posted a good overall performance for 2008, a year though of two very different halves. For the year as a whole, growth was 1.3 percent and the number of employed rose by half a million while the number of unemployed fell by the same amount. The government's books were almost completely balanced. Only inflation rose to 2.6 percent, driven by sharply rising commodity prices in the first half of the year. Starting in summer however, the downturn intensified, with economic output contracting by more than 2 percent in the final quarter alone.

In September, the financial crisis took a marked turn for the worse when investment bank Lehman Brothers became insolvent. Even emerging markets, which had hitherto been scarcely affected, were drawn into the crisis, as appetite for risk nose-dived, constricting capital flows. In late summer, stock markets plunged as a noticeable softening in the global economy, and therefore corporate earnings, became increasingly apparent. On the bond markets, government bonds were boosted by the economic slowdown, weakening inflation and aggressive monetary easing in some cases. But private issuers had to offer higher interest premiums on bonds, and it became difficult if not impossible to trade them at times.

Business model and strategy

Due to the deepening financial crisis in the second half of 2008, BayernLB's very existence would have been at stake if countermeasures had not been taken in time. Massive support in the form of equity and guarantees from the Free State of Bavaria and the Financial Markets Stabilisation Fund (SoFFin) gave BayernLB the opportunity to take appropriate action to deal with the crisis. A new business model is currently being drawn up in close cooperation with the shareowners and the EU Commission. The Board of Management and staff also see this huge challenge as an opportunity. The key points of the restructuring measures that are to be implemented in 2009 and the years ahead are:

- BayernLB will refocus on its core customer segments. Bavarian and German customers will be the main focus, while foreign activities will either be completely terminated or heavily scaled down.
- BayernLB has a good market presence in certain segments due to strong (product) expertise. This expertise will be exploited and expanded, while secondary market activities will be heavily scaled down or terminated.
- Identical or similar activities in the Bank have already been bundled together for some products and services to boost efficiency. This strategy will be increasingly employed.
- The Bank will be managed by the Head Office in Munich on a tighter and more uniform basis.
- Costs will be significantly cut to maintain competitiveness over the long term.

BayernLB will position itself overall as a commercial bank focused on German customers and limit its risks accordingly. The Mittelstand, large corporates and commercial real estate customer segments and retail customer business will be the pillars of the future business model.

To set out in detail the specifics of the targeted restructuring of the Bank and implement it, a programme structure with 18 sub-projects was drawn up. In parallel, market, management and cross-divisional issues are being examined, so that a comprehensive restructuring plan for the European Union can be drafted within the six short months to the 18 June 2009 deadline, which was set in the decision on the Free State of Bavaria's recapitalisation measures from 18 December 2008. Around 250 members of staff from across the Group are involved in the programme. BayernLB is being supported in this project by the Boston Consulting Group.

Participations portfolio

The total number of direct participations was further reduced to 126 by the elimination of nine companies and addition of seven new ones.

The majority shareholding in Hypo Alpe-Adria-Bank International AG, Klagenfurt, which was acquired in the previous year, was increased from 57.3 percent to 67.1 percent. The participation supports BayernLB customers (particularly Corporates and Mittelstand) as well as the savings banks and their customers in their activities in South Eastern Europe.

Human resources

As at 31 December 2008, BayernLB employed a total of 4,980 staff, 190 fewer than the year before. Headcount fell by 179 within Germany and by 11 abroad.

Headcount at BayernLB

	2008	2007	Change	
			absolute	in %
Year-end headcount at BayernLB in Germany and abroad	4,980	5,170	-190	-3.7
• In Germany ¹	4,425	4,604	-179	-3.9
• Abroad ²	555	566	-11	-1.9
• BayernLB excluding BayernLabo and LBS Bayern	4,020	4,283	-263	-6.1
• BayernLabo	246	227	+19	+8.4
• LBS Bayern	714	660	+54	+8.2
• Male	2,537	2,647	-110	-4.2
• Female	2,443	2,523	-80	-3.2
• Full-time employees	4,035	4,227	-192	-4.5
• Part-time employees	945	943	+2	+0.2
Average length of service at the Bank (in years)³	13.66	13.06	+0.60	+4.6
Average age (in years)³	41.59	40.79	+0.80	+2.0

1 The figures relate to the headcount in the Head Office including LBS Bayerische Landesbausparkasse, Munich, and Bayerische Landesbodenkreditanstalt, Munich.

2 The figures relate to the headcount in the London, New York, Paris, Milan, Luxembourg, Hong Kong and Shanghai foreign entities.

3 The averaged figures relate to all active members of BayernLB staff in Germany and abroad (2008: 4,980; 2007: 5,170). In the previous year, only the Bank's core personnel (excluding temporary staff, interns, trainees etc.) were included in the calculations of average values. To ensure figures can be directly compared with each other, the averaged figures for 2007 shown here were adjusted.

As at 31 December 2008, 149 young members of staff were on some form of training programme, 68 of which were banking trainees. 47 students took part in a vocationally integrated course at a vocational academy, and 34 university graduates were taken on as trainees at the bank.

Junior staff headcount

	2008	2007	Change	
			absolute	in %
Year-end junior staff headcount at BayernLB in Germany and abroad	149	186	-37	-19.9
• Banking trainees	68	104	-36	-34.6
• Students on a vocationally integrated course at a vocational academy	47	48	-1	-2.1
• Graduate trainees	34	34	+0	+0.0

In the reporting year, 945 staff or 19.0 percent of the workforce were employed part-time. BayernLB continues to promote a good work-life balance by offering a wide range of flexible working time models. This is reflected in the continual increase in the ratio of part-time staff since 2001.

There was an immaterial rise in the rate of staff turnover due to resignations in both Germany and abroad to 3.1 percent (2007: 3.0 percent).

Corporate responsibility

A sense of shared corporate responsibility for society has been an integral part of BayernLB's ethos for many years. In 2008, the Bank once again implemented a wide range of projects to help the community, support education and science, improve sustainability management and promote art and culture.

Helping the community

BayernLB's commitment to social issues is aimed at supporting and encouraging disadvantaged people to improve their chances of having a secure and carefree future. In 2008, the charitable campaign Sternstunden "We help children" once more formed a central part of the assistance provided by the Bank. LBS has supported the road safety campaign "Können durch Erfahrung" (experts through experience) since 1984, a free safety training course for young people who are new to driving. The campaign aims to prevent accidents by teaching them how to drive a car or ride a motorbike more safely.

BayernLB also supports staff who work as volunteers in rescue teams and organisations serving the community.

Education and science

BayernLB supports the various different locations and economic regions it operates in by promoting knowledge and innovation. Besides its active involvement in the Financial Centre Munich campaign (Finanzplatz München Initiative), it continued to support the Financial Centre Germany campaign (Initiative Finanzstandort Deutschland).

Art and culture

BayernLB promotes art and culture not just through its own galleries but also by supporting musical performances and helping to stage historical events, constantly striving to make cultural heritage accessible to a wide audience. The Bank's in-house art galleries also foster the work of regional artists. One of the particular highlights was the exhibition of a number of works by Olaf Gulbransson, a Norwegian-born artist who achieved international recognition for his illustrations for the satirical weekly *Simplicissimus*. Besides the works on loan from the Olaf Gulbransson Museum for Illustrations and Caricatures in Tegernsee, the exhibition includes other works from private collections rarely seen in public. Supporting music is also a top priority for the Bank. In 2008, it was the main sponsor of the week of concerts at the Residenz palace in Munich for the third time.

Climate protection and sustainable banking products

BayernLB published its first sustainability report in 2008. It describes the measures the Bank has taken in recent years and the projects it is planning for the future to ensure it continues to fulfil its responsibilities as a sustainable financial services provider. In rigorously implementing the measures and projects set out in the report, it is not just meeting its corporate responsibilities, it is also leveraging market potential together with its customers from the increasing range of sustainable financial products now on offer.

BayernLB has been quick therefore to recognise not only the major role the financial services sector can play in tackling climate change but also the business options that the Bank and its customers have to protect the climate. It 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 certificates and providing advice on and processing subsidies.

BayernLB is convinced that progress towards a lasting and sustainable society can only be driven forward if all different sections of the community work together. It therefore aims to engage in a constructive dialogue with its partners in business, science, politics and the community and to contribute its knowledge from different initiatives. In 2008, for example, the Bank continued its commitment at a regional level to Munich's climate alliance (Klimabündnis), and at a national level, to the climate change finance forum (Finanzforum Klimawandel), created by the German government as part of the high-tech strategy for climate protection. In the international arena, the Bank has been a successful member of the United Nations Environment Programme Finance Initiative (UNEP FI) for the past ten years.

Management report

BayernLB was heavily buffeted by the events on the international financial markets over the past year. Numerous securities (including asset-backed securities (ABS)) could only be traded to a very limited extent and with bid-offer spreads at several times their normal range. Moreover, the collapse of investment bank Lehman Brothers in mid-September shook confidence in the markets on a long-term basis.

BayernLB's customer business posted a relatively strong performance in this tough market environment, but the fallout from the financial crisis had a significant negative impact on the Bank's net assets, financial position and earnings. Gross profit (the sum of net interest income and net commission income) fell by 20.8 percent year-on-year to EUR 1,686 million, while administrative expenses rose slightly to EUR 950 million. Due to the situation on the financial markets, the nascent recession and accompanying considerable impact on the negative net income/losses from financial transactions item, the negative gains or losses on measurement item and higher allocations to risk provisions, the operating profit/loss was EUR -3,421 million, significantly less than last year's EUR 559 million. To balance the net loss of EUR -3,919 million for the year (2007: net profit of EUR 170 million), an equivalent of reserves was released.

BayernLB's capital requirements also increased in this environment. Writedowns and loan loss provisions on securities, receivables and participations, coupled with the minimum capital adequacy requirements laid down by the Financial Markets Stabilisation Fund (SoFFin) as a condition for granting guarantees, resulted in a capital requirement of EUR 10 billion.

The recapitalisation by the Free State of Bavaria is a three stage process. On 30 December 2008, EUR 3 billion was transferred to the Bank's reserves by BayernLB Holding AG. On 30 January 2009, the Free State of Bavaria subscribed to EUR 3 billion in undated capital contributions from silent partners. On 30 March 2009, a further EUR 4 billion will be paid into the reserves once again by BayernLB Holding AG.

Besides the recapitalisation measures, guarantees were granted by SoFFin in an agreement on 3 December 2008. This provided BayernLB with a framework guarantee of EUR 15 billion by SoFFin.

BayernLB also concluded an agreement with the Free State of Bavaria on 19 December 2008, ring-fencing it against losses from an ABS portfolio with a nominal value of around EUR 20 billion. The guaranteed portfolio will remain on the Bank's balance sheet.

Portfolio losses of up to EUR 4.8 billion are covered in return for a guarantee premium. The guarantee becomes effective for losses above a first loss of EUR 1.2 billion to be borne by BayernLB. The Bank plans to close the transaction in six years. In FY 2008, writedowns of around EUR 1.3 billion that otherwise would have been needed could be avoided as a result of the guarantee .

Earnings

EUR million	BayernLB		
	1 Jan – 31 Dec 2008	1 Jan – 31 Dec 2007	Change in %
Net interest income	1,394	1,885	-26.0
Net commission income	292	245	19.0
Gross profit	1,686	2,130	-20.8
Personnel expenses	-459	-467	-1.6
Operating expenses	-491	-446	10.0
Administrative expenses	-950	-913	4.0
Net income/losses from financial transactions	-1,066	-151	>100
Net of other operating expenses and income	-3	37	–
Risk provisions	-1,737	-74	>100
Gains or losses on measurement	-1,351	-470	>100
Operating profit/loss	-3,421	559	–
Extraordinary expenses	-80	–	–
Income taxes	-417	-182	>100
Partial profit transfer	–	-207	-100
Net profit/net loss for the financial year	-3,919	170	–
Transfers to/transfers from the reserves	3,919	-44	–
Net retained profits	–	126	-100

Calculations may result in the figures in the table being rounded by ± one unit.

Net interest income fell by 26 percent year-on-year to EUR 1,394 million. Besides higher financing costs caused by the financial crisis, the decrease was largely due to a EUR 595 million year-on-year fall in income from shareholdings and stakes in affiliated companies.

Net commission income rose by a solid 19 percent to EUR 292 million. Falling commission income from the securities business was easily outweighed by an increase in commissions from the credit business. The year-on-year fall in net commission income from the credit card business was largely due to the transfer of a significant portion of the business to Group company Deutsche Kreditbank AG, Berlin (DKB).

Administrative expenses rose by 4 percent to EUR 950 million (2007: EUR 913 million).

Personnel expenses fell by 1.6 percent to EUR 459 million. An increase in expenses for pensions and other employee benefits was more than offset by a significantly lower share for variable compensation components.

Operating expenses rose by EUR 45 million to EUR 491 million. Much of this rise was due to the increase in expenses for the guarantee fund of the Landesbanks and the Bavarian Reserve Fund; these rose EUR 39 million to EUR 75 million.

Net income/losses from financial transactions, which was markedly affected by the financial crisis, was EUR -1,066 million (2007: EUR -151 million). Besides realised losses of EUR -241 million, this was mainly due to writedowns of EUR -825 million primarily on securities and credit derivatives.

In the trading portfolio, hidden reserves, which are not recognised in the income statement under the HGB realisation principle, rose by EUR 404 million. Besides an increase in credit derivatives, this was mainly due to customer business, particularly from trades in interest-rate derivatives, energy derivatives and currency transactions.

Net of other operating expenses and income was EUR -3 million. The previous year's figure of EUR 37 million was mainly due to the release of provisions that were no longer needed.

The cost-income ratio (CIR)¹ exceeded 100 percent in 2008 (2007: 45.3 percent) mainly as a result of the high net loss from financial transactions.

Net allocations to risk provisions were EUR -1,737 million (2007: EUR -74 million), of which EUR -830 million relates to losses from securities in the liquidity reserve largely as a result of writedowns following extreme falls in fair value due to the financial crisis. Due to the tough economic situation, net allocations to credit risk provisions were also significantly higher at EUR -868 million, to cover, among other things, risks related to the Icelandic exposure.

Gains or losses on measurement was also heavily affected by the ongoing turmoil on the international financial markets. The negative net figure of EUR -1,351 million (2007: EUR -470 million) was due to writedowns of EUR -544 million in the investment portfolio. The item was further affected by writedowns of EUR -729 million on shareholdings and stakes in affiliated companies. Most of the writedowns relate to Group companies Hypo Alpe-Adria-Bank International AG, Klagenfurt, (HGAA) and GBW AG, Munich (GBWAG).

Operating profit/loss (after risk provisions/measurement) was EUR -3,421 million (2007: EUR 559 million) due to the negative impact from the financial crisis.

Return on equity (RoE)² was negative (2007: 4.0 percent) due to the operating loss.

Extraordinary expenses includes EUR 80 million in restructuring expenses for specific personnel reductions as part of restructuring.

Income tax expenses increased significantly, rising by EUR 235 million to EUR 417 million, despite the large net loss for the financial year. The increase was largely due to a higher tax expense from previous years in relation to an audit and to the release of deferred tax assets.

¹ *CIR = administrative expenses / gross profit + net income/losses from financial transactions + net of other operating expenses and income*

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

With regards to the partial profit transfer, no distributions were made for issued silent partner contributions (2007: EUR 207 million). This was due to the fact that as part of the approval process for its recapitalisation measures the EU Commission expected BayernLB to refrain from making any distributions or interest payments on silent partner contributions and profit participation rights in 2008 unless legally obliged to do so. For unexpired profit participation rights and dated silent partner contributions, unpaid distributions can be carried forward to the subsequent period, provided they do not result in or increase a net accumulated loss for the year.

Net loss for the financial year was EUR -3,919 million (2007: EUR 170 million). The equivalent of reserves was released (2007: EUR 44 million allocated) to balance the net retained profits item. No dividend on the nominal capital was paid for 2008.

Net assets and financial position

Total assets fell by 3.8 percent to EUR 318.2 billion as at 31 December 2008. Much of the reason for this was the slowdown in the credit and securities business, due mainly to the state of the financial markets.

EUR billion	BayernLB		
	31 Dec 2008	31 Dec 2007	Change in %
Total assets	318.2	330.9	-3.8
Business volume	374.7	408.1	-8.2

The business volume (total assets plus liabilities from guarantees, indemnity agreements and irrevocable credit commitments) fell by a larger extent than total assets, decreasing 8.2 percent to EUR 374.7 billion.

Credit operations

EUR billion	BayernLB		
	31 Dec 2008	31 Dec 2007	Change in %
Due from banks	114.9	126.5	-9.2
• of which savings banks	15.7	15.6	0.6
Due from customers	100.7	97.0	3.8
Securities	80.2	85.3	-6.0
Credit volume*	235.3	245.7	-4.2

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

Due from banks fell by 9.2 percent to EUR 114.9 billion as at the end of 2008. The fall, which was largely due to the events on the international financial markets and their impact on the interbank business, related mainly to maturities of up to three-months.

Despite the difficult market environment, the customer business posted good growth, leading to an increase in due from customers of EUR 3.7 billion or 3.8 percent to EUR 100.7 billion. The increase, which mainly related to mid-range maturities of one to five years, occurred largely in BayernLB's domestic credit business.

The securities portfolio, which largely comprises bonds, fell by EUR 5.1 billion to EUR 80.2 billion. The fall in the securities portfolio, which occurred both in Germany (around EUR 2.0 billion) and in the foreign entities (around EUR 3.1 billion), is due to the writedowns that were necessary partly as a result of financial-crisis-driven fluctuations in fair value, as well as to sales and repayments in the ABS and other securities portfolios.

Since 2007, most securities have been allocated to the “securities measured as fixed assets” (investment) portfolio. This portfolio is measured based on the less strict principle of the lower of cost or market value; more information on the carrying amounts and fair values of these securities can be found in the notes. Credit-rating driven impairments were written down accordingly.

The increase in the carrying amount of shares in affiliated companies, which rose EUR 0.5 billion or 9.3 percent to EUR 5.9 billion resulted from two opposite effects. On the one hand, the carrying amount of the participations rose due to necessary capital increases at Group companies HGAA, DKB and GBWAG. On the other hand, the carrying amount fell primarily due to writedowns on the majority stakes in Group companies HGAA and GBWAG required as a result of the financial crisis.

The nominal value of derivative transactions increased by 7.8 percent to EUR 1,424 billion. The rise relates mainly to interest-rate derivatives and was largely due to the increase in hedging activities resulting from high money market volatility. Currency derivatives were affected to a lesser extent, while equity derivatives posted a decrease.

Refinancing

EUR billion	BayernLB		
	31 Dec 2008	31 Dec 2007	Change in %
Due to banks	125.3	128.0	-2.1
• of which savings banks	15.5	14.9	3.7
Due to customers	54.1	60.3	-10.2
Securitised liabilities	103.3	106.6	-3.1

Due to banks fell by 2.1 percent or EUR 2.7 billion to EUR 125.3 billion. The fall mainly relates to maturities of up to three months. Due to affiliated savings banks increased by 3.7 percent.

Due to customers fell by 10.2 percent to EUR 54.1 billion. The fall largely occurred in liabilities to institutional investors and companies with maturities of up to three months.

In 2008, BayernLB once again issued bonds and other securitised liabilities. BayernLB's public Pfandbriefs and mortgage-backed Pfandbriefs retained their triple A status from rating agencies Standard & Poor's, Moody's and Fitch. A wide range of bonus certificates and other customised investment products have also been issued under the BayernLB Select brand. Securitised liabilities fell by a total of 3.1 percent to EUR 103.3 billion due largely to issued bonds that matured in 2008.

Capital adequacy

The impact of the financial crisis on earnings had an affect on BayernLB's capital adequacy. The net loss for the financial year of around EUR -3.9 billion was balanced by releasing the equivalent of reserves. This was compensated by an indirect allocation of EUR 3 billion to the Bank's reserves in the first stage of recapitalisation by the Free State of Bavaria. Overall, reported equity year-on-year fell from EUR 9.6 billion to EUR 8.7 billion.

As part of the recapitalisation by the Free State of Bavaria, EUR 3 billion in silent partnership contributions as provided in January 2009. A further EUR 4 billion indirect capital increase by the Free State of Bavaria is planned for the end of March 2009.

These capital measures totalling EUR 10 billion will strengthen the equity ratio on a long term basis.

Banking supervisory ratios under the German Banking Act (KWG)

The risk positions were calculated on 31 December 2008 on the basis of the Solvency Ordinance (SolvV). The core capital ratio, which, besides risk assets and operational risk, also includes market risk positions for the first time, was 10.0 percent (2007: 7.6 percent adjusted for market risk positions). The own funds ratio was 15.8 percent (2007: 14.5 percent).

EUR billion	31 Dec 2008	31 Dec 2007
Risk positions under the Solvency Ordinance	126.6	121.2
Own funds	20.0	17.6
• of which core capital	12.6	9.3
Own funds ratio	15.8%	14.5%
Core capital ratio	10.0%	7.6%

* Previous year's figure adjusted for market risk positions.

Taking account of the entire EUR 10 billion in recapitalisation measures by the Free State of Bavaria, which will have been implemented by the end of March 2009, and based on the annual financial statements, the own funds ratio would be 18.4 percent and the core capital ratio 12.4 percent.

Outlook

The forecasts set out in the following report relating to BayernLB's performance in 2009 and 2010 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

In early 2009, there was very high level of uncertainty worldwide about the economic situation. In Germany's case, the unexpected slowdown in the 2008/2009 autumn/winter period alone would represent a 2 percent annualised fall in real gross domestic product for 2009, even before taking account of the additional expected decline in economic activity in the early part of the year.

Indeed, economic output is set to fall around 3 percent and conditions on the labour market deteriorate markedly over the course of the year. Despite massive state intervention, large, international banks are still in a precarious situation, leading in several countries to a long-term contraction in the supply of credit to companies and consumers (deleveraging). These, in turn, have scaled down their own demand. But the adjustments already made, the massive monetary and fiscal countermeasures taken, including aid packages for banks, and the noticeable easing of the burden on companies and consumers in industrialised nations by the fall in commodities prices should put an end the slowdown in overall economic activity over the course of this year. BayernLB is forecasting a moderate recovery for the second half of the year and 2010.

The expected 1 percent or so fall in global gross domestic product in 2009 and contraction in world trade are just as unusual as the long-lasting, large-scale turmoil on the financial markets. Only state invention can solve the crisis of confidence and break the vicious circle formed by the interplay between the financial crisis and the real economy. But the groundwork for a sustainable recovery in the global economy can be laid if the right lessons are drawn from the financial crisis so that a comprehensive, internationally agreed regulatory and supervisory framework for all financial intermediaries, markets and products is constructed, a monetary policy aimed at encouraging stability and eliminating bubbles from forming in asset markets is set, and liquidity and risk management processes in banks are improved.

Earnings and liquidity

In 2009, earnings will be heavily affected by future developments on the international financial markets. Difficult as it is to make reliable forecasts about these external conditions, the first few months of 2009 suggest that the negative impact from the financial crisis on BayernLB's earnings and liquidity has weakened.

The secondary market is currently highly volatile in all sub-segments so that any earnings forecasts would be subject to a high level of uncertainty. Fungibility on the secondary market was also sharply limited throughout 2008. Bonds from a wide range of issuers could only be traded at very low volumes or sold far below their fundamental fair price. Pfandbriefs and government bonds from certain countries could also sometimes only be traded with a bid/offer spread at several times the normal range. Inactive markets affected virtually all tradable products, particularly asset-backed securities.

In the short to medium term, however, the currently low interest rates should help prices to recover and fungibility improve slightly. Asset-backed securities, particularly the most senior, should also benefit to a certain extent, while earnings will probably be boosted by the pull-to-par effect on maturing securities. Nevertheless, the foreign exchange market remains a potent source of uncertainty. A sharp depreciation of some currencies (e.g. the GBP, RUB, HUF) would put stock markets and credit markets under renewed long-time pressure and negatively impact Eastern European and emerging market credit risks in particular.

Events on financial markets in 2008 also led to a marked widening in spreads and, at times, limited trading on the major refinancing markets, particularly the international capital market. In 2009, the trend towards higher refinancing costs is likely to continue and market volatility remain high.

But new refinancing options for banks have been opened up by the new market segment of state-guaranteed bonds, and on 23 January 2009, BayernLB issued its first state-guaranteed bond, with a EUR 5 billion volume and three-year term. Central banks should also continue to provide the commercial banking system with sufficient liquidity until the money and capital markets return to a permanent state of normality. The Bank therefore forecasts the liquidity situation will ease in 2009.

Overall, BayernLB's earnings and liquidity will continue to be heavily affected by the still relatively unpredictable developments on the international financial markets through 2009. Further losses, particularly in the form of additional writedowns on securities, can therefore still not be ruled out. Based on the expected recession, high levels of risk provisioning are also anticipated. In this climate, negative earnings for 2009 cannot be ruled out. The business environment is not expected to return to normal until 2011.

BayernLB has been taking appropriate action to deal with the international financial crisis and, in close cooperation with its shareholders and the EU Commission, has drawn up the key points of a new business model, now being worked out in detail and implemented. In future, business activities are to be focused even more heavily on the customer business in Germany and selected European regions. In light of this background, the Bank believes it can further build on the success in the customer business that it has already seen in 2008 and lift earnings as a result. On the cost side, implementing the strategic initiatives within the new business model will initially lead to an increase in expenses, particularly from restructuring. But in the medium term, targeted measures to boost efficiency should markedly improve the cost situation and reduce administrative expenses.

BayernLB's future performance

Key factors contributing to uncertainty in the forecasting period are future global economic performance, the continuing crisis of confidence in the financial markets and the difficulties on the US securitisation market. These factors are having a major impact on the banking sector in Germany. Major factors affecting BayernLB are the future economic performance in Eastern Europe and the sharp fall in German exports.

Due to the deepening financial crisis in the second half of 2008, BayernLB's very existence would have been at stake if countermeasures had not been taken in time. Massive support in the form of equity and guarantees from the Free State of Bavaria and the Financial Markets Stabilisation Fund (SoFFin) gave BayernLB the opportunity to take appropriate action to deal with the crisis. A new business model is currently being drawn up in close cooperation with the shareholders and the EU Commission.

The main objectives of the comprehensive restructuring programme are to focus on the core business, reduce risk assets considerably and improve efficiency. Specifically, the Bank plans to reduce its risk-weighted assets by more than a third. Costs across the group are also to be cut by around EUR 670 million over the medium term, which will mean losing around a quarter of the workforce. Customer-related business will be the exclusive focus going forward. Secondary market activities will either be terminated or reduced to a minimum level for the purposes of banking.

Based on the environment in the forecast period, BayernLB expects to see moderate business growth in its remaining core business. We believe a recovery trend will set in by 2010. Under these tough conditions, the Bank will be able to rely on its strong customer focus. In concrete terms, this means for example, using state subsidies to optimise or even just make possible financing. Opportunities are also available in the promising energy efficiency, sustainable energy production and water management markets. As part of the restructuring, a strategy is also being created to tap into these markets and expand the Bank's existing strong presence in, for example, the renewable energy sector. Another of BayernLB's key goals is to expand the Mittelstand business.

Events of special significance that could affect net assets, financial position and earnings after the close of the 2008 financial year remain the still unresolved financial and economic crisis. Factors that may weigh on earnings in particular include additional write-downs on securities, high levels of risk provisioning and the restructuring measures that are to be finalised by mid-2009. Accordingly, it cannot be ruled out that earnings in 2009 will be negative. An overview on this is given in the “Earnings and liquidity” sub-section of the Outlook. Information on the recapitalisation measures is given in the opening sections of the Management Report.

Despite the current outlook for the economy and capital markets, BayernLB is confident overall that its new business model and the strategy based on it will create the conditions to ensure its net assets, financial position and earnings will once again be positive in the medium term. However, changes in any of the basic economic factors could have a corresponding impact BayernLB's earnings.

Risk report

Summary

The global crisis affecting the financial system has led to a long-lasting disruption of the functioning of financial markets, so that mitigating risks with the tools available in functioning markets remains possible only to a very limited extent.

BayernLB has responded with a comprehensive crisis management plan. In the second half of 2008, BayernLB's very existence would have been at stake if counter measures had not been implemented and massive support given in the form of equity and guarantees from the Free State of Bavaria and SoFFin. A key focus of the crisis management is ensuring all credit portfolios are constantly monitored and potential problem exposures closely tracked.

In 2008, the first main elements of a review of the entire business model, and by extension the risk strategy, were drawn up. The key aims of the concept are to pool market and risk-related core competences, streamline risk management group-wide and implement other measures to diversify risks in BayernLB's strategic participations.

Rating deterioration occurred in the credit portfolio as a result of the recession. In the reporting year, credit volumes were reduced by suspending or lowering internal limits, restricting new business and shortening the terms of individual transactions within approved limits. The sector most affected by this is banking. In addition, the strategies and risk guidelines for all key sectors were assessed and reduction strategies determined for those rated as high risk.

As the financial market turmoil spread, specific and general interest rate risk increased just as markedly as currency risk. In December of the reporting year, EUR 4.8 billion of counterparty risk in the ABS portfolio, above a first loss of EUR 1.2 billion, was hedged through a guarantee agreement with the Free State of Bavaria. This also reduced the volatility of the related market prices, limiting the increase in market price risk overall.

In summary, the financial crisis had a major impact on all risk types. Economic risk in particular has increased markedly since the third quarter of 2008 due to higher market price and credit risks. This was reinforced by the fact that potential losses in various scenario calculations also increased. At the same time, available risk capital decreased as the fair value of the ABS portfolio eroded further over the course of 2008.

The end result was that the economic risk for the various risk types, including requirements in potential elevated risk situations (scenario analyses), exceeded the risk capital required for the Bank's target A+ rating.

In view of the fact that the full amount of the approved capital increase was not scheduled to be paid in before the end of the reporting period (see the management report), BayernLB and BayernLB Group's risk bearing capacity was insufficient at that time. A major easing in the risk bearing capacity situation will be achieved with the full payment of the extensive capital inflows provided by the Free State of Bavaria.

The financial crisis also resulted in tight liquidity conditions on the money and capital markets. Because of the limited functioning of the markets, particular emphasis was placed on monitoring and ensuring adequate levels of liquidity for BayernLB and BayernLB Group. The planning to ensure liquidity was constantly adapted to market conditions. Various preventative measures were employed throughout the reporting period to ensure payment obligations could be met and refinancing obtained at all times. In 2008, BayernLB's liquidity management was aided by stable levels of deposits from retail and business customers and the savings bank-financial services network (Sparkassen-Finanzgruppe).

In November 2008, amid the escalating financial crisis in the fourth quarter, BayernLB decided to apply to the German Financial Market Stabilisation Fund (SoFFin) for a EUR 15 billion guarantee. In mid-January 2009, after the framework guarantee was approved, the Bank successfully placed a state-guaranteed bond with a volume of EUR 5 billion.

Figures in the following tables may be rounded by +/- one unit.

Organisation

BayernLB's Board of Management is responsible for providing BayernLB with a proper business organisation that is capable in particular of ensuring major risks are appropriately managed and monitored. Operational implementation of risk management and monitoring within BayernLB is the responsibility of the Risk Office and the Financial Office support operations. The Risk Office's main tasks are to manage and report all risk types at Bank and Group level. It is responsible in particular for identifying, measuring and continually monitoring credit, investment, country and operational risks. The Financial Office took over responsibility for assessing BayernLB's market price, interest rate and liquidity risks from the Risk Office on 1 October 2008.

A system is in place to ensure that the Board of Management and other relevant bodies receive independent and risk-adequate reports on all risk types, including the calculation of risk bearing capacity. The Board of Management sets the risk policy consistent with the business strategy and specifies business objectives and guidelines for each major risk type.

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

Regulatory capital adequacy and risk bearing capacity

BayernLB's capital management is based on a planning process that combines strategic, risk-oriented and regulatory factors within a multi-year operational planning.

In the initial planning, BayernLB's strategy is reviewed regularly and modified where necessary. Strategy is confirmed or modified by the Board of Management and submitted to the Board of Administration for approval.

Based on the agreed strategy, the Risk Office and the Business Areas work together to draw up specific objectives for the sub-portfolios to deal with counterparty risk. Among the agreed target parameters are ratings, sectors and country structures.

Based on Internal Capital Adequacy Assessment Process (ICAAP) requirements, each business area and support operation within BayernLB is not only allocated required reported equity but also risk capital as defined for the purposes of risk management.

BayernLB has defined the following objectives, methods and processes to ensure business areas have adequate capital:

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

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

Regulatory capital is allocated to the units within Bayern through a distribution of risk assets and market risk positions agreed by the Board of Management, comprising, besides segment-specific targets, a target core capital ratio in excess of 8 percent.

Checks are constantly carried out to ensure the risk asset and market risk position limits for the individual units are observed. The Board of Management receives constant reports on current limit utilisations, information on changes in these regulatory ratios can be found in the Management Report.

Another key component of BayernLB's risk management besides complying with regulatory capital requirements is ensuring economic risk bearing capacity.

The calculation of the risk bearing capacity was further refined in 2008. This largely involved adding a further early warning function (negative case) to the existing concept, which succeeded in increasing sensitivity to small changes in economic risk. The confidence level, which is used as a basis for calculating economic risk capital, is derived from the strategic target rating. Accordingly, the economic risk is calculated on the basis of a confidence level of 99.96 percent, which corresponds to an external rating of A+.

Risk types used for calculating economic risk include credit, country, market price, investment and operational risks, as well as other risks (e.g. typical building savings risks at LBS). The economic risk for each risk type is normally calculated using the Value at Risk (VaR) method. This is supplemented by an additional calculated economic risk incorporating the outcomes of the stress scenarios.

Economic risk at BayernLB as at 31 December 2008

EUR million	31 Dec 2008	31 Dec 2007
Economic risks for each risk type	9,460	4,376
from capital provision to customers and other participations	4,709	3,308
• credit risk and country risk	2,852	2,183
• market risk	1,226	656
• operational risk	387	234
• investment risk	124	139
• other risks	120	96
from capital provided to Group strategic participations	2,846	–
• from lending	2,405	–
• from the provision of equity	441	–
from elevated risk situations (scenarios)	1,905	1,068

Economic risk rose significantly as a result of the deepening financial crisis, increased market price volatility and rating deterioration in the credit portfolio. Due to developments on financial markets, lower recovery rates were assumed for risk quantification, further contributing to a rise in credit risk.

Risk cover funds indicate the level at which unexpected losses arising from risks undertaken can actually be covered. They are organised into tiers along lines based on the balance sheet and income statement, in which the components of capital are categorised by their availability (liquidity) and the external impact of changes in them (capital market effects). A maximum loss limit – and therefore the available risk capital – is calculated from the risk cover funds. The components of the risk cover funds not included in the maximum loss limits are used to give depositors and senior creditors additional protection in the event of insolvency and are therefore not allocated to BayernLB's business activities. In the reporting year, the risk cover funds were presented under an IFRS format instead of an HGB format. Changes to the income statement or to equity based on fair value measurement have a direct impact on the risk cover funds available. The reallocation of securities to the IFRS loans and receivables category (LaR) as at 1 July 2008 resulted in a smaller reduction in risk cover funds than that which occurred due to market prices.

In addition to the results of VaR testing, which mainly uses historical statistical data, a number of scenarios involving elevated risk situations are assessed (stress scenarios). In designing the scenarios, events that are exceptional but plausible are consciously used.

Scenario	Objective
Weak economic environment	Describes the impact of an economic slowdown (global recession) on the portfolio.
Real estate bubble	Value of real estate collateral falls resulting in a recession.
Large problem individual borrowers	Loss in the event of default by a large problem individual borrower or an entire country.
Sector crisis	Simulation of the impact of an economic downturn in one or more sectors.
Profit slump	Reflects the business risk that arises from short-falls that may occur between planned and actual expenditure and income.
Increased risk provisioning	Simulation of significant risk cover fund utilisation.
Rating downgrade	Simulation of the downgrade of BayernLB's rating to A- or BBB+ (long-term) and A-2 or A-3 (short-term) based on S&P notation.
Market price/liquidity crisis	Simulation of a crisis on any one of BayernLB's major markets spilling over to the global inter-bank markets.
Additional funding obligation for the institutional deposit guarantee fund	Reflects the institution-specific impact of potential support requirements within the Sparkassen-Finanzgruppe, which could trigger additional funding obligations.

Early warning indicators of risk bearing capacity were developed to assess the relevance of these scenarios, enabling additional economic risk to be identified in good time. These indicators are subject, like scenarios, to constant review and are modified to take account of changed conditions if necessary. The effects of the scenarios are estimated and included in the risk report if the corresponding early warning indicator becomes relevant.

The deepening financial crisis also led to a marked increase in scenario losses. A total scenario loss of EUR 1,905 million (2007: 1,068 million) was reported as at 31 December 2008. The "Weak economic environment" scenario in particular resulted in an elevated additional economic risk. Other scenarios that were relevant as at the balance sheet date were: "Increased risk provisioning", "Market price and liquidity crisis", "Large problem individual borrowers" and "Rating downgrade".

The end result was that the economic risk for the different risk types, including requirements in elevated risk situations (stress scenarios), exceeded the risk capital required for the A+ rating targeted by the Bank. In view of the fact that the full amount of the approved capital increase was not scheduled to be paid in before the end of the reporting period (see the Management Report), BayernLB and BayernLB Group did not have sufficient risk bearing capacity at that time. A major easing in the risk bearing capacity situation will be achieved with the full payment of the extensive capital inflows provided by the Free State of Bavaria.

Credit risk (counterparty risk)

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

Credit risks (or counterparty risks) arise when direct or indirect claims against business partners arise from transactions. Any failure by these business partners to meet their payment obligations results in a loss equal to the amount due but not paid, less the value of any realised collateral and reduced by any other realisation proceeds. 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 risks and investment risks are measured, managed and monitored separately.

The Board of Management sets guidelines, based on business policy and risk bearing capacity, for the performance of the credit business through the credit risk strategy, which is part of the risk strategy covering all types of risk. Operational management of sub-portfolios is carried out using specific parameters and guidelines. In addition, the credit risk strategy not only sets principles for managing risks but also defines the resources required for this, the qualifications of staff and the technical-organisational support of the management process.

Pursuant to an agreed, risk-adequate competence regulation, credit decisions are taken by the Board of Administration, Board of Management, Credit Committee, authorised officers in Sales or the Risk Office analysis units.

The Credit Committee is a permanent body of BayernLB and the most senior institution below the Board of Management with credit authority. All credit decisions taken in accordance with the competence regulation in the Board of Management and Board of Administration are voted on first in the Credit Committee.

Borrowers are assigned to an appropriate rating class in a 25-tier master rating system based on the probability of default. BayernLB uses several statistically based rating procedures and obtained regulatory approval on 1 January 2007 to use the IRB approach. Approval to apply the IRB approach has been granted for the following rating modules under the regulatory review process:

- Banks,
- Corporates (including municipally owned companies),
- International public authorities,
- Country and transfer risk,
- Leasing (leasing companies and real estate leasing SPVs),
- Insurance,
- International commercial real estate,
- Project financing,
- Ship financing,
- Supranationals,
- Savings banks standard rating,
- Savings banks real estate rating,
- Internal Assessment Approach for securitisations.

In 2008, additional rating systems were submitted for regulatory testing in the form of rating procedures for assessing leveraged finance and aircraft financing.

BayernLB updates and refines these models in partnership with “RSU Rating Service Unit GmbH & Co. KG” and “Sparkassen Rating und Risikosysteme GmbH”. All rating procedures are submitted for ongoing validation to ensure they are able to correctly determine default probabilities in each customer and financing segment. Quantitative and qualitative analyses are carried out during the validation, in which rating factors, accuracy and calibration of procedures, data quality and model design are assessed on the basis of statistical and qualitative analyses and user feedback based on current experience. Further information can be found under the Solvency Ordinance heading on BayernLB’s website.

The Bank’s in-house rating systems are also used for loans granted to BayernLB’s participations.

Counterparty risks of individual customers are monitored daily by the Risk Office’s Group Risk Control Division using a bank-wide, limit-setting system. This allows limits for each borrower (unit) to be entered and their compliance with them to be monitored. In establishing the limits, a distinction is made between borrower, issuer, guarantee, replacement and settlement risks. Default risk timing structures are managed by subdividing the limits into different maturity bands.

Large risks are also managed group-wide based on the applicable regulatory framework for large exposures.

To ensure the credit portfolio is sufficiently granular, concentration risk is managed by placing economically-focused limits on borrower units, based on the Basel II risk weightings. This involves setting, on the basis of BayernLB’s equity situation, uniform, rating class-linked limits which no borrower unit may exceed.

The limiting of concentrations at portfolio and sub-portfolio level is carried out on the basis of the target portfolio management, which is structured by risk-orientated guidelines (such as portfolio limits by rating classes, sectors and countries). Target portfolio planning is based on the risk bearing capacity calculation, carried out over several years, reviewed annually and adapted if conditions change.

The Creditrisk+ model is used to measure credit risk at portfolio level. In addition, the risk contribution of each individual business partner to the entire portfolio in the event of the unexpected loss is also calculated for the purposes of risk analysis.

Another key tool for limiting risks is the acceptance and ongoing valuation of eligible forms of collateral.

In deciding how much collateral is required, particular account is taken of the type of financing, the 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 which sets out procedures for valuing collateral, the discount to be applied and the frequency for measuring each type of collateral, among other things. Net risk positions are calculated on the basis of the liquidation value of the collateral.

Specialist units are responsible for all contractual documentation of the collateral, as well as administration and ongoing monitoring. In derivatives trading, master agreements are usually concluded for the purpose of close-out netting. Collateral agreements have been made with certain business partners restricting the default risk associated with individual trading partners to an agreed maximum and authorising the call for additional collateral should this limit be exceeded.

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

Approval to lower capital requirements through real estate liens, guarantees, financial collateral and derivatives within the scope of the IRB approach has been granted by the Federal Financial Supervisory Authority (BaFin). In 2008, financial collateral (formerly only cash collateral) was extended to also include securities.

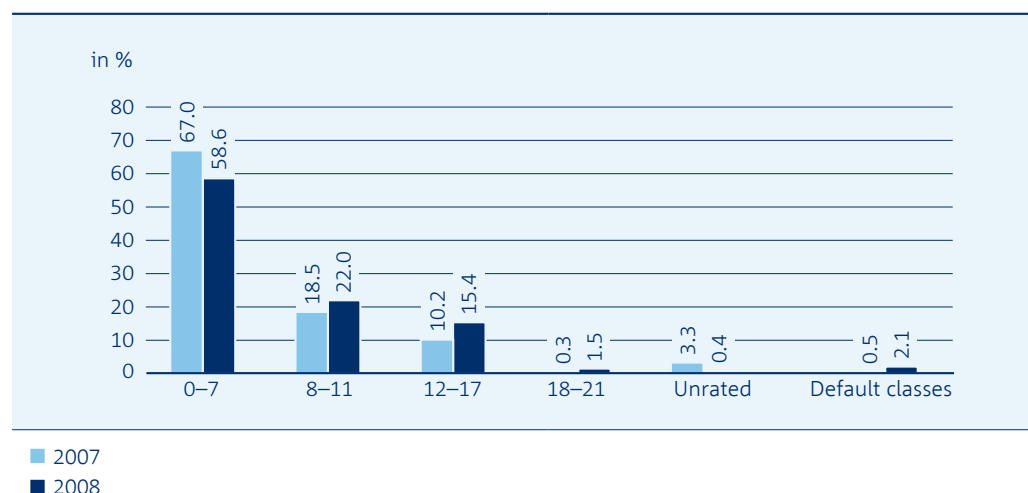
All credit exposures are monitored continuously in regard to their financial situation, collateral, compliance with limits, contractual obligations and internal and external agreements. Exposures with elevated risk are detected early on using defined early warning indicators that form part of the early risk detection process. Problem exposures are classified in line with standard international categories (special mention, substandard, doubtful and loss) based on their level of risk and, if necessary, are transferred over for special restructuring and risk monitoring.

Implementing suitable measures early on helps minimise or completely prevent BayernLB from experiencing potential defaults. Problem receivables and securities are assessed for objective indications of impairment.

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

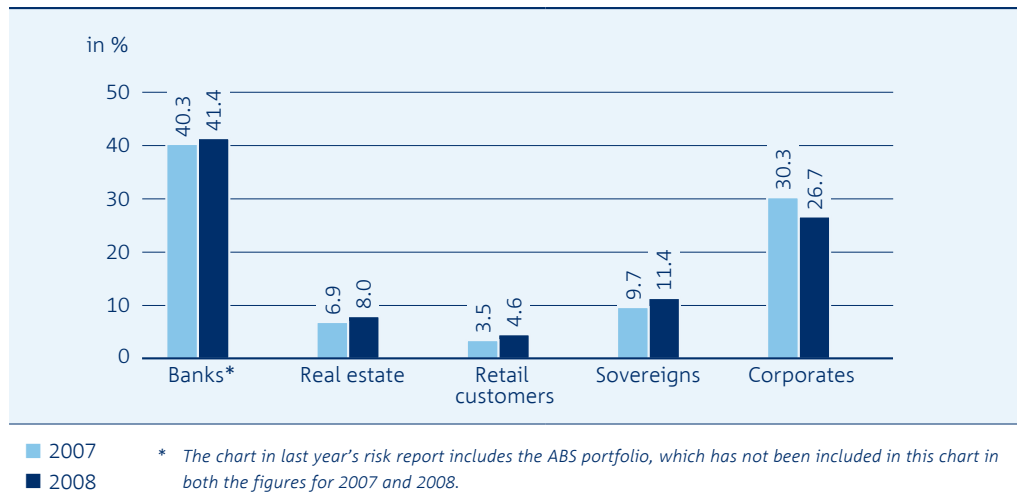
In the reporting year, BayernLB's gross credit exposure including its BayernLabo and LBS dependent institutions decreased markedly, falling by around EUR 42 billion (around -12 percent) to EUR 310 billion.

Gross exposure by rating class



Currently, 81 percent of gross exposure is investment grade (rating classes 0–11); in the previous year, the share was 86 percent. This fall and the increase in the volume of problem exposures (rating classes 18–21) is a reflection of the difficult economic environment.

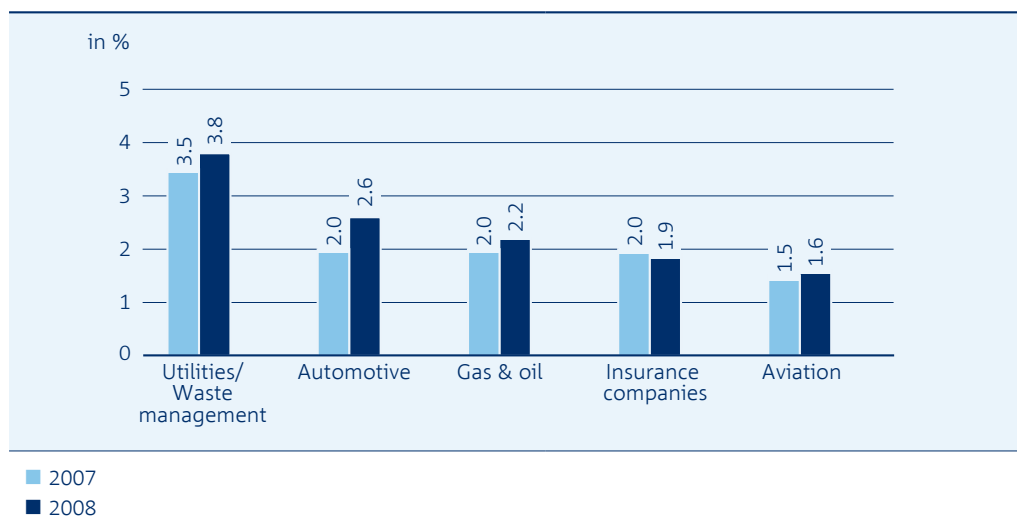
Gross exposure by sector group



The largest sector by volume in BayernLB is Banks. In absolute terms, the credit volume of this sector fell by around EUR 14 billion.

The increase in the retail business, which was in line with strategy, took place at LBS and Labo.

Gross exposure of the largest sectors within the Corporates sector group



No sector-related concentrations exist in BayernLB's Corporates portfolio. The percentage figures shown refer to each sector's share of the total gross exposure for all sector groups. The increase in the Automotive industry sector is due to inclusion of vehicle financing banks under this sector (previously Banks).

BayernLB Group's ABS portfolio

The securitisation business can be broken down into two segments: transactions for customers that are structured exclusively at the Munich and New York offices (ABS customer transactions) and investments in asset-backed securities (ABS securities).

The net volume of risk positions in relation to the ABS securities after individual hedging and not taking account of the guarantee agreement with the Free State of Bavaria, was wound down during 2008 from EUR 24.5 billion as at 31 December 2007 to EUR 19.6 billion as at 31 December 2008, through hedging and sales. In 2008, BayernLB's income statement was negatively impacted by the ABS portfolio in the amount of EUR 1,937 million.

On 19 December 2008, a guarantee agreement was concluded between the Free State of Bavaria and BayernLB. The guarantee covers actual losses in the ABS portfolio, above a first loss of EUR 1.2 billion. The maximum amount guaranteed is EUR 4.8 billion. The hedging has an economic, regulatory and accounting impact.

In return for a premium, the Free State of Bavaria undertakes as a protection seller to hedge BayernLB's ABS portfolio. The hedging covers insolvency, non-payment of capital and interest and capital writedowns, as well as losses incurred from any sales before maturity.

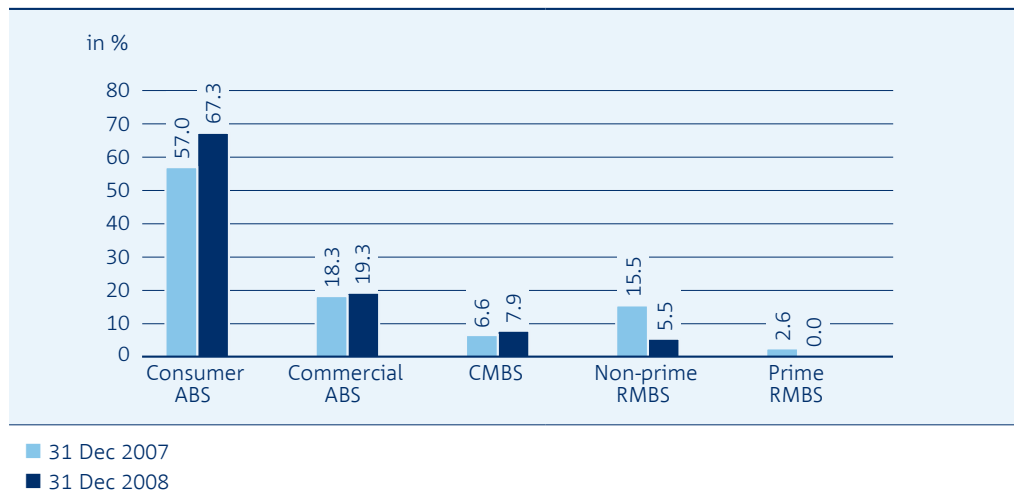
As at 31 December 2008, the first loss amount was exceeded by EUR 1.3 billion.

In the asset-backed credit business, BayernLB structures and securitises the receivables portfolios of customers (ABS customer transactions). The receivables portfolios comprise trade receivables, vehicle financing, consumer loans (including credit card receivables) and residential and commercial mortgage loans. The financing is largely carried out through Giro Balanced Funding Corporation and Giro Lion Funding Limited, the ABCP programmes established by the Bank.

The ABS customer transactions are recognised in the Bank's risk positions through the liquidity facilities provided for the ABCP programmes.

BayernLB's ABS customer transactions were valued at EUR 5.4 billion as at 31 December 2008 (2007: EUR 7.9 billion) and are conducted in BayernLB or in the conduits that it established. The decrease on 2007 was due to an active effort to reduce risks, particularly in relation to transactions in the US.

ABS customer transactions by asset class as at 31 December 2008



Based on BayernLB's own internal rating procedures, 15 percent of customer transactions have AAA and AA equivalent ratings (2007: 28 percent) and 78 percent A equivalent ratings (2007: 71 percent).

Default and 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 indications of impairment. These include:

- A rating of 19 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 for payment deferrals
- Rating-related restructuring or reorganisation
- Standstill agreements
- Excessive debt or insufficient cover
- Country-specific problems

All exposures that are classified as substandard or lower based on these criteria are assessed for the impact on future cash flows as and when 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 cashflow discounted at the original effective interest rate.

When establishing risk provisions, a distinction is made between single risk 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 include in particular no prospects of recovery, the loan is either written off against an existing single loan loss provision or directly written off against earnings. Criteria for write-downs are rating-related cessation of business activities and interest or capital repayment waivers.

As part of the rating process, default criteria are included in the rating system. These take account of 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 the default criteria of any subsidiary belonging to the BayernLB Group.

Suitable account is taken of all known risks in the credit business by establishing risk provisions. General loan loss provisions are established for potential risks.

Provisions for counterparty and country risks*

EUR million	2008	2007	2006	2005	2004	2003
As at 1 January	692	1,054	1,874	3,384	4,249	4,055
Write-backs	171	219	289	625	471	389
Utilisation	175	236	674	1,260	720	664
Allocations	1,106	102	155	322	379	1,448
Other changes ** +	7	9	12	53	53	201
As at 31 December	1,458	692	1,054	1,874	3,384	4,249

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

** Exchange rate changes and account transfers

Investment risk

Besides risks from lending, risks may also arise from participations (investments in entities), otherwise known as shareholder risk. These include potential losses of equity provided, liability risks (e.g. letters of comfort) or risks from profit and loss transfer agreements (loss transfers).

To achieve its corporate aims, BayernLB makes selected investments focused on broadening its range of business, providing services for it or purely as a financial investment.

The risk strategy and participation policy govern the handling of participation risks. A classification procedure for risk management and monitoring with clear guidelines on early detection of risks has been implemented for all participations.

Country risk

Country risk is the risk of a business partner in the country affected or the country itself failing to meet its obligations either at all or on time 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, expansion into Eastern Europe. BayernLB therefore consciously accepts a limited amount of country risk in the course of its business activities.

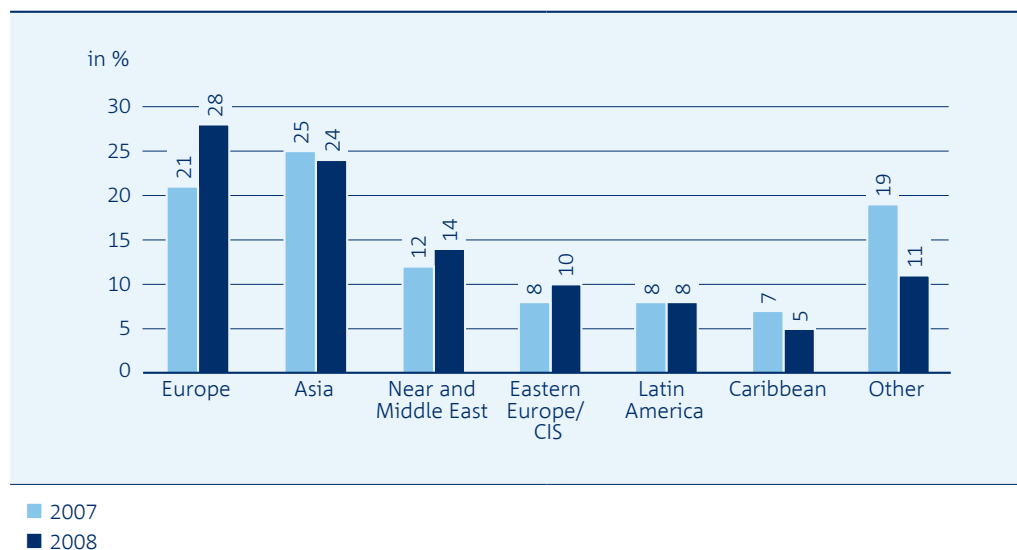
The country risk policy lays down uniform and binding criteria for defining and handling country risks. It regulates, for example, the need for a country rating for each country in which a transaction is carried out, the measurement of country risk, limiting, areas of responsibility, as well as monitoring, including escalation levels when limits are exceeded.

Country ratings are a key tool for measuring individual country risk. Country ratings are calculated 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. Country ratings are used by BayernLB to determine credit risk in the IRB approach under Basel II.

Of BayernLB's foreign exposure, 76 percent is in countries where, from the Bank's perspective, country risk is minimal. These are mainly members of the European Economic and Monetary Union, the United Kingdom and the US. Risk-relevant countries account for the remaining 24 percent. This includes BayernLB's exposure to Iceland, for which adequate risk provisions have been established.

In the fourth quarter of 2008, as part of the portfolio management, all country limits were evaluated and reduced in some cases; as a result, country exposures in the risk-relevant countries were reduced by just under 5 percent to EUR 30.0 billion. Of the current risk-relevant foreign exposure (EUR 30.0 billion), 93 percent is in rating classes 1–11 (investment grade) and 7 percent in the other rating classes.

Net exposure in risk-relevant countries by region



BayernLB has set aside adequate risk provisions to cover country risk. These were EUR 34 million (2007: EUR 30 million) as at December 2008. The country with the highest risk provisions is Ukraine, with around EUR 8 million. The sum of individual country-related exposures (in net terms) for which provisions were established increased year-on-year from EUR 22,245 million to EUR 25,708 million.

Market price risk

Market price risk relates to potential losses from changes in market prices. BayernLB breaks down market price risks by risk factor: general and specific interest rate risk, currency risk, share price risk, commodity risk, volatility risk, as well as risks from alternative investments. 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. New products go through a launching process before they are introduced.

In BayernLB, various instruments are used for the purposes of monitoring and limit setting, including risk sensitivities, value-at-risk, stress tests and ratios for calculating risk bearing capacity. Market price risks are normally measured as part of the daily monitoring process using the value-at-risk method based on a one-day holding period and confidence level of 99 percent. Historical simulation – which calculates and takes into account correlations – is the main value-at-risk method used at BayernLB.

Market price risk measuring procedures are regularly assessed for reliability with respect to the soundness and quality of the individual risk procedures. In the backtesting process, the risk forecast is compared with the actual results (profit or loss). In accordance with the Basel II traffic light approach, the forecasting quality of the risk model is classified as good if the forecast risk was not less than the actual daily risk on no more than four days per year. In BayernLB in 2008, due to the extreme market volatility, selected breaches of these limits for individual sub-portfolios occurred, whereby the extreme market movements were incorporated directly into the risk calculation.

Although value-at-risk-based measurement is the generally accepted approach for measuring risks, the outcomes must always be viewed in the context of the model assumptions (particularly: the selected confidence level, one day holding period, use of historical data over one year to forecast future events). For this reason, additional, forward-looking analyses are carried out on the basis of extreme or blanket assumptions that are not covered by the measurement methods used. In the stress tests, the market positions of individual banks are exposed to unusual or blanket market price movements or crisis situations and then analysed in terms of risk potential. These stress scenarios cover price risks for interest rates, credit spreads, exchange rates, share prices, prices of alternative investments, commodities prices, as well as volatility risks. The outcomes of the stress scenarios are also incorporated into the risk bearing capacity. For example, in the reporting year, due to the marked widening of credit spreads, additional stress-related economic risks for market risks were taken into account. The outcomes of the stress tests were continually reviewed and modified where necessary.

Within BayernLB, no in-house, internal risk models are currently used for regulatory purposes. Instead, the standard method is used.

Interest rate risk for the investment book portfolios is calculated as a present value risk and integrated into the daily Value at Risk market risk monitoring. Both contractual and legal termination rights are modelled as options and incorporated into the risk calculation. Undated silent partnership contributions are modelled based on their interest rate sensitivity.

As at the end of the year, the calculated changes in present value relative to liable capital were 7.2 percent, considerably lower than the outlier criterion of 20 percent. The increase on 2007 (2.8 percent) was due to the capital increase that was partially completed at the end of the year.

In BayernLB, the maximum loss from assuming market price risks was limited by the allocation of market risk capital, based on the risk bearing capacity calculation, thereby limiting the market risk capital for the entire value at risk. The risk factors were also monitored by defined sub-portfolios.

All market price risks are monitored and reported on a daily basis independently of Trading. Besides implementing supervisory requirements, the trading monitoring unit ensures risk transparency and regular reporting to the portfolio managers. As part of the monthly market price risk reporting, the Board of Management is given updates on the market price risk situation.

In 2008, in a climate of sharp market volatility, particularly in relation to credit spreads, market price risk in BayernLB was EUR 326.9 million in the trading and investment books (value-at-risk with a one-day holding period and 99 percent confidence level), 2.9 times higher than in 2007, and fluctuated over the year within a range of EUR 154.5 million to EUR 499.3 million.

Total market price risk in BayernLB in 2007 and 2008

EUR million	12-month comparison as per 31 Dec 2008			12-month comparison as per 31 Dec 2007		
	Average	High	Low	Average	High	Low
General interest rate VaR	96.50	323.54	39.62	74.29	145.29	42.46
Specific interest rate VaR*	245.55	405.97	161.50	–	–	–
Currency VaR	51.26	129.19	12.47	9.05	22.49	4.37
Equity VaR	1.63	4.19	0.45	5.36	25.64	1.26
Commodity VaR	2.93	7.95	0.05	1.50	2.76	0.40
Volatility VaR	3.54	8.95	1.80	2.96	4.57	1.39
Alternative investments VaR	7.39	8.91	4.76	7.20	8.92	3.44
Total VaR	326.9	499.3	169.3	88.4	160.7	53.8

In a climate of sharp market volatility, particularly in relation to credit spreads, the sharp year-on-year increase in value-at-risk was largely due to specific interest rate risk. Specific interest rate risk was also therefore modelled separately and limited within BayernLB from March 2008. As the financial market turmoil spread, currency volatility rose sharply, leading to an increase in risk. Commodity risk, risks from alternative investments and volatility risks are of secondary importance in relation to overall market price risk.

Due to the guarantee agreement with the Free State of Bavaria to hedge BayernLB's ABS portfolio that came into effect on 19 December 2008 and methodological changes in the value-at-risk calculation through the extended application of historical simulation in December, market price risks at the end of the year were considerably reduced (value-at-risk effect: guarantee agreement - EUR 139 million, methodology - EUR 39 million).

Value at risk in 2008



In 2008, the market price risk value-at-risk initially peaked in March. Due largely to a temporary narrowing in credit spreads and then subsequent widening, the value-at-risk initially fell before rising again. In September, in the wake of the Lehman insolvency, the value-at-risk spiked. The increase in October is largely due to an increase in market volatility. The subsequent fall was due to model-related methodological changes in calculating value-at-risk (reporting date-related removal of historical scenarios and causal-related allocation of hedge positions) for specific interest rate risks.

Over the course of the year, the value-at-risk limit was gradually raised from EUR 311.9 million to EUR 503.8 million. The changes in the limit were especially necessary given the ongoing increase in risk from ABSs and certain bonds, as BayernLB adopted a buy and hold strategy to deal with the extreme falls in value and increasing illiquidity in the relevant markets. These holdings were therefore allocated to a separate portfolio for timely monitoring and reporting.

Derivative instruments are concluded primarily with banks and public-sector customers. BayernLB uses derivative instruments to reduce counterparty risk in particular, as well as market price risks. There is no separate capital allocation or limitation of default risk for counterparties with derivatives positions. Both are carried out within the generally applicable limitation process for counterparty risk. Otherwise, the methods for supervisory large exposure management and internal risk concentration management for counterparty risk apply.

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

Liquidity risk

BayernLB defines liquidity risk as the risk of being unable to meet its payment obligations in full or on time, or, in the event of a liquidity crisis, the inability to obtain refinancing except at elevated market rates or to sell an asset except at a discount to its fair value.

The strategic principles for dealing with liquidity risk are set out in the risk strategy. The prime goal of liquidity risk management is to ensure payment obligations can be met and refinancing obtained at all times. The basic principles governing how BayernLB and the Group's strategic subsidiaries are to work together to manage liquidity efficiently are described in the Group Treasury Principles. In turn, these are supplemented by the detailed and organisational framework for managing and controlling liquidity risks set out in a liquidity policy that is applicable group-wide.

The Asset Liability Committee (ALCO) supports the Board of Management in exercising its management function in monitoring and optimising the use of key resources. Through a delegated decision-making power, it carries out the functions of managing and allocating the core resource of liquidity, among other things.

Liquidity management in BayernLB is the responsibility of the Group Treasury Division within Financial Markets. This is where structural and situational liquidity is managed overall. Situational liquidity settlement on the market is carried out by the Financial Markets Business Area through money market trades.

Liquidity overviews are compiled and group-wide risk controlling of liquidity risks carried out by the Mid Office Division (Financial Office Support Operations).

BayernLB has a written plan to ensure liquidity. In it, the processes, management tools and hedging instruments needed to avert or resolve potential short-term crises are set out. The escalation mechanism defines the liquidity status of the Bank in the form of a risk traffic light. In the event of a liquidity crisis, BayernLB's primary objectives are to remain solvent at all times and to avoid reputational damage.

The key methodological tool for measuring, analysing, monitoring and reporting on liquidity risk within the BayernLB is the liquidity overview. This 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).

The potential liquidity coverage measures the Bank's ability to obtain cash in terms of volume and timing in the shortest possible time at market rates. It shows the ability to cover liquidity gaps and therefore all cashflow-based liquidity risks. The most important components of the potential liquidity coverage are available facilities with central banks, availability of additional collateral eligible for refinancing at the central bank, the guarantee by the Financial Market Stabilisation Fund (SoFFin) and the issue potential in the register of cover.

One key consequence of the financial crisis has been tight liquidity conditions on the money and capital markets. Monitoring and ensuring adequate levels of liquidity within the Bank has therefore been a key challenge. In order to achieve this, BayernLB monitors and manages its liquidity based on a variety of scenarios.

Besides the "basic scenario", the risk measurement spectrum is supplemented by additional scenario analyses under stress conditions. The following liquidity stress scenarios are calculated regularly:

- Rating downgrade to A-
- Rating downgrade to BBB+
- Market liquidity crisis
- Market crisis and downgrade to A-
- Worst case scenario.

In the "market liquidity crisis" scenario that had previously been established, the findings from the current financial crisis are constantly incorporated to give as conservative a picture as possible as to the liquidity situation should the crisis deepen further compared with the status quo.

In 2008, to take as wide account as possible of continued potential risks, the existing range of scenarios was supplemented by a hypothetical scenario that simulates the effects on BayernLB's liquidity situation of a market liquidity crisis combined with a potential downgrade to A-.

In the current crisis situation, the "worst case scenario" is the central management tool for managing the BayernLB's liquidity risk and is an important indicator and impetus for measures. It adds a dynamic approach to the range of scenarios, that is, in particular, additional account is taken of the negative impact of new credit business on liquidity. In the reporting year, to take account of the deepening financial crisis, the scenario was calculated on a daily rather than a weekly basis.

Key figures are calculated for each scenario based on the liquidity overview, 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, with particular weighting being given to the utilisation over the first ten trading days. For management purposes, coverage ratios, which show the relationship of liquidity reserves and cash to short-term due and callable payment obligations for certain areas of the Group, are also regularly calculated.

The amount of diversification within the refinancing structure is regularly also analysed and monitored. In the reporting year, there were no significant liquidity-relevant risk concentrations.

A specific cash-flow balance for BayernLB for the following 180 days is also calculated regularly for the public Pfandbrief register and the mortgage register and sent to the Board of Management as part of the report required under section 27 of the German Pfandbrief Act (Pfandbriefgesetz), along with other key ratios for the register of cover. This balance indicated surplus liquidity coverage throughout 2008.

In its risk management, BayernLB distinguishes between situational (up to one year) and structural liquidity situations (more than one year). 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)). Facilities are available in sufficient amounts at both these central banks to ensure that any unplanned payment obligations can be covered, even on the same day in a worst case scenario. The liquidity of the non-European foreign entities and the strategic banking subsidiaries within BayernLB Group is ensured through local liquidity reserves and inclusion in the liquidity pooling of the Munich Head Office. The BayernLB core bank acts as lender of last resort for the Group if needed.

In managing structural liquidity, a 30-year simulation period is used. To safeguard the solvency of the Group and its ability to refinance, even in the medium and long term, suitable instruments are used to create a balanced funding structure. The key management tool for this is the group-wide funding planning which is regularly adjusted in line with the current liquidity situation. Ongoing issue capability for the Pfandbrief market and the maintenance of a high-quality register of cover is ensured by Collateral Management.

Situational liquidity management also serves to ensure the regulatory requirements of the Liquidity Ordinance (LiqV) 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 reporting year, BayernLB's liquidity ratio was between 1.28 and 1.37 (2007: between 1.11 and 1.55), so that minimum regulatory requirements (ratio always above 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 ten trading days. Observed scenarios are rated either as "relevant" or non-relevant" after their early warning indicators are examined. In 2008, two scenarios - the market liquidity crisis and the rating downgrade to A- (from July 2008) - were classified as relevant, while the rating downgrade to BBB+ scenario was consistently rated non-relevant.

To ensure liquidity gaps can be plugged by mobilising potential liquidity coverage at any time if required, the utilisation levels in all scenario analyses classed as relevant must always be below 100 percent. 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.

In 2008, the ratios for the maximum utilisation of the potential liquidity coverage in the stress scenarios classed as relevant met their early warning function and took effect before the crisis deepened in the third and fourth quarters. Measures to reduce existing liquidity risks could therefore be taken in good time.

Liquidity overviews are compiled so that liquidity risks can be economically managed and monitored. This involves calculating the liquidity surplus by subtracting in each maturity band the cumulative liquidity gaps derived from balance sheet items, commitments and guarantees, termination rights and derivatives from the realisable potential liquidity coverage in question. The reported cash flows expected from an economic perspective in relation to non-deterministic products are based partly on modelling assumptions. As at the end of the year, the EUR 10 billion capital increase and the EUR 15 billion SoFFin guarantee were included in the liquidity overviews and taken into account at EUR 8 billion.

The table below compares BayernLB's liquidity situation as at 31 December 2008 with the previous year:

2008

EUR million	Up to 3 months	Up to 1 year	Up to 5 years
Liquidity surplus	25,268	17,375	28,942
arising from			
liquidity coverage potential	37,145	42,560	17,014
less			
• liquidity gap from balance sheet items	3,470	17,294	-12,796
• liquidity gap from commitments and guarantees	9,233	9,482	2,579
• liquidity gap from termination rights	-922	-1,636	-1,082
• liquidity gap from derivatives	97	44	-629

2007

EUR million	Up to 3 months	Up to 1 year	Up to 5 years
Liquidity surplus	25,367	19,096	26,676
arising from			
liquidity coverage potential	55,706	54,996	34,775
less			
• liquidity gap from balance sheet items	16,728	20,246	2,229
• liquidity gap from commitments and guarantees	13,781	16,553	6,431
• liquidity gap from termination rights	-51	-785	-401
• liquidity gap from derivatives	-119	-115	-160

As is evident from the liquidity surplus, BayernLB had sufficient levels of liquidity in all maturities. Over the year, reserves were used as part of active liquidity management (e.g. by drawing more extensively on central bank money facilities), leading to a reduction in liquidity gaps and decrease in potential coverage. The underlying cashflows for the analysis also include liabilities that the Free State of Bavaria and the Association of Bavarian Savings Banks are obliged to guarantee. Some of the maturities here are longer than the five-year horizon shown in the table. To prevent any larger liquidity gaps, BayernLB matched the liabilities mostly with corresponding receivables.

In the reporting year, BayernLB's liquidity risk management also had to take account of the deepening financial crisis. In accordance with the planning to ensure liquidity, the internal liquidity status was adapted to market conditions and various preventative measures employed to ensure solvency and the ability to refinance at all times. This included the targeted management of liquidity reserves within the collateral management process and measured management of new credit business based on the refinancing situation. These measures were accompanied by an active communication policy towards investors, rating agencies and supervisory authorities.

Contrary to the conservative model assumptions in the stress scenarios, no significant change was detected in the behaviour of BayernLB's customers concerning drawing on facilities. Liquidity management was supported by stable levels of deposits from private and business customers, as well as the savings bank-financial services network (Sparkassen-Finanzgruppe). BayernLB was also able to place significant volumes of issues (secured and unsecured) on the capital markets despite the sometimes very tough market environment. During this process, BayernLB, the institution with the strongest capital market position in the group, provided the Group's strategic subsidiaries with significant refinancing funds.

In November 2008, amid the escalating financial crisis in the fourth quarter and the ensuing discussion on the ability of even German banks to refinance themselves, BayernLB decided to apply to SoFFin for a EUR 15 billion guarantee. In mid-January 2009, after the guarantee was approved, the Bank successfully placed its first state-guaranteed bond with a volume of EUR 5 billion. This – coupled with the agreed and partially completed strengthening of the capital base – resulted in a further improvement in the structural availability of liquidity.

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

Operational risk

In line with the regulatory definition, BayernLB defines operational risk (OpRisk) as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Legal risks fall within this definition.

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

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

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

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

For the purposes of disclosure under the Solvency Ordinance (SolvV) and Basel II, BayernLB has applied the standardised approach (STA) since 1 January 2007 to calculate capital requirements for operational risk.

To estimate operational risk internally and economically, BayernLB uses a value-at-risk model based on a loss distribution approach. The model factors in internal and external loss data and allows “expected” and “unexpected” losses to be calculated.

To build up base data, information on OpRisk events in the business areas and support operations is continually collected within an institutionalised reporting system (loss database). Additional information is collected through risk inventories and included as scenarios in the OpRisk modelling. In 2008, BayernLB further improved its methods for building up these scenarios and the loss data recording procedures. For the purposes of early detection, specific key risk indicators are used.

BayernLB founded the OpRiskdata consortium (DakOR) back in 2006 in partnership with eight other banks and service provider VÖB Service as trustee. Joint data are used to make comparisons and have been employed since 2007 to measure OpRisk in the BayernLB internal value-at-risk model. Since 2008, BayernLB has used the ÖffSchOR loss event database also operated by VÖB Service, in which publicly known OpRisk loss events, primarily from German-speaking countries, are entered.

The central OpRisk controlling unit is responsible for issuing guidelines on all methods, processes and systems related to OpRisk controlling and management. The local OpRisk management units of the business areas and support operations are responsible for managing these risks. Incentives for reducing these risks are created by allocating OpRisk capital.

Processes with generally higher operational risk are identified and reviewed by systematically monitoring the risk inventories, self-assessments and key risk indicators used.

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

Threat scenarios are taken into account, including the non-availability of staff, loss of usability of buildings or an outage of support systems. To ensure proper business operations are maintained in an emergency (business continuity), suitable protection measures are drawn up on the basis of an examination of failure scenarios relevant to critical business processes.

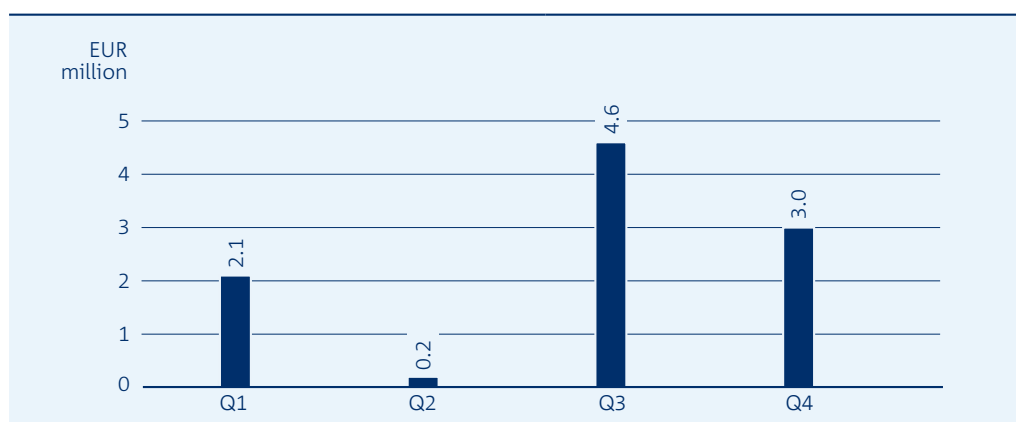
The BayernLB-applicable BCM standard including process steps, controls and responsibilities is incorporated in the Bank’s written organisational rules. The BCM standard covers regular risk monitoring of local BCM activities and, in 2008, was the subject of comprehensive training sessions for local management.

In 2008, both the analysis of the business activities that must be maintained bank-wide in the event of an emergency (based on loss potential) and the report on current threats to BayernLB from potential risks were updated.

BayernLB's operational risk and OpRisk management activities are regularly reported to the Board of Management. The half-yearly OpRisk report was discontinued as at 30 September 2009 when OpRisk reporting was integrated into the quarterly risk reports for the Group and BayernLB. The risk reports show on a quarterly basis the OpRisk loss situation and changes in the economic risk for OpRisk. In addition, the risk report shows on a half-yearly basis the relevant OpRisk potential for the Bank and BayernLB Group and summarises the status of BayernLB's BCM activities.

In 2008, the bank-wide (including Labo and LBS) unexpected loss averaged EUR 351 million bank-wide (2007: EUR 215 million), peaking at EUR 441 million (2007: EUR 245 million). OpRisk losses occurring in 2008 fell bank-wide to EUR 9.9 million (2007: EUR 47.4 million).

The following chart gives a breakdown of the total OpRisk loss events in 2008.



There were no significant potential OpRisk threats arising from legal risks at the end of the reporting year.

Outlook

Now that the negative effects from credit and market risks in the ABS portfolio have been reduced significantly by the ring-fencing of that portfolio and liquidity risks have been markedly limited by SoFFin's guarantee and the Free State of Bavaria's capital measures, the focus in BayernLB and BayernLB Group in 2009 will be on measures to limit the effects from the risks in the credit portfolio arising from the economic recession.

We forecast the rating deterioration in the credit portfolio that appeared in 2008 will continue over the year. The unwinding strategy agreed in 2008 for sectors classed as high risk will continue to be systematically implemented. The focus in the establishment of risk provisions and own funds planning was already shifted accordingly in 2008.

Due to the rapid growth in the national deficits of some nations, including some European countries, attention will continue to be focused on the growth of country risks in 2009. This trend has already been partially addressed by the marked reduction in country risk limits in the fourth quarter of 2008.

With the measures for downsizing risk assets implemented in 2008 and further refinements as part of the focus on the core business areas in 2009, BayernLB will continue to actively tackle the impact of the financial crisis.



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Balance sheet and income statement

Balance sheet – Bayerische Landesbank

as at 31 December 2008

Assets				2008	2007
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1. Cash reserves					
a) Cash			12,622		13,800
b) Deposits with central banks			650,470		557,425
<i>of which:</i>					
<i>at Deutsche Bundesbank</i>	554,162				437,418
c) Deposits in postal giro account			–		–
				663,092	571,225
2. Debt certificates issued by public entities and bills of exchange eligible for refinancing at central banks					
a) Treasury bills and Treasury discount paper and similar debt certificates issued by public entities			413,184		1,372,379
<i>of which:</i>					
<i>eligible for refinancing at Deutsche Bundesbank</i>	–				–
b) Bills of exchange			–		–
<i>of which:</i>					
<i>eligible for refinancing at Deutsche Bundesbank</i>	–				–
				413,184	1,372,379
3. Due from banks					
a) Payable on demand			13,135,140		15,215,115
b) Other receivables			101,706,648		111,308,588
<i>comprising Bausparkasse building loans:</i>					
• <i>building-saving loans</i>	7,003				6,404
• <i>preliminary and interim financing loans</i>	–				–
• <i>other building loans</i>	–				–
				114,841,788	126,523,703
4. Due from customers				100,701,039	97,023,956
<i>of which:</i>					
• <i>secured by charge on property</i>	17,966,553				16,711,272
• <i>municipal loans</i>	25,457,943				26,736,945
• <i>Bausparkasse building loans</i>					
– <i>from allotments (building-saving loans)</i>	1,910,682				1,790,851
– <i>preliminary and interim financing</i>	2,655,913				2,611,224
– <i>other building loans</i>	1,411				2,206
<i>of which:</i>					
<i>secured by charge on property</i>	3,645,758				3,530,534
Carried forward				216,619,103	225,491,263

Liabilities				2008	2007
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1. Due to banks					
a) Payable on demand			8,273,087		9,238,841
b) With agreed maturity or period of notice			117,020,124		118,779,475
c) Building-saving deposits			19,609		24,192
<i>of which:</i>					
• <i>on terminated contracts</i>		–			–
• <i>on allotted contracts</i>	419				305
				125,312,820	128,042,508
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-saving deposits		8,140,842			8,085,509
<i>of which:</i>					
• <i>on terminated contracts</i>	90,017				88,848
• <i>on allotted contracts</i>	218,892				203,657
			8,140,842		8,085,509
b) Other liabilities					
ba) payable on demand		4,173,777			5,265,134
bb) with agreed maturity or period of notice		41,784,522			46,899,524
			45,958,299		52,164,658
				54,099,141	60,250,167
3. Securitised liabilities					
a) Bonds issued			95,573,182		98,967,622
b) Other securitised liabilities			7,714,843		7,644,043
<i>of which:</i>					
• <i>money market instruments</i>	6,378,010				7,152,849
• <i>own acceptances and promissory notes outstanding</i>	–				–
				103,288,025	106,611,665
4. Liabilities held in trust				6,837,696	7,102,771
<i>of which:</i>					
<i>loans on a trust basis</i>	6,837,696				7,102,771
5. Other liabilities				5,439,916	5,227,289
6. Deferred income				872,094	1,042,127
Carried forward				295,849,692	308,276,527

Assets				2008	2007
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Carried forward				216,619,103	225,491,263
5. Bonds and other fixed-interest securities					
a) Money market instruments					
aa) issued by public-sector borrowers		46,357			–
<i>of which:</i>					
<i>eligible as collateral at Deutsche Bundesbank</i>	–				–
ab) issued by other borrowers		5,718,097			2,633,558
<i>of which:</i>					
<i>eligible as collateral at Deutsche Bundesbank</i>	2,198,151				584,036
			5,764,454		2,633,558
b) Bonds and other debt securities					
ba) issued by public-sector borrowers		4,676,856			5,448,556
<i>of which:</i>					
<i>eligible as collateral at Deutsche Bundesbank</i>	1,861,963				3,142,001
bb) von anderen Emittenten		56,910,278			64,461,915
<i>of which:</i>					
<i>eligible as collateral at Deutsche Bundesbank</i>	29,089,169				32,962,337
			61,587,134		69,910,471
c) Own debt securities			12,075,077		11,731,381
<i>Nominal value</i>	12,107,944				11,676,535
				79,426,665	84,275,410
6. Equities and other non-fixed interest securities				756,694	1,022,378
7. Investments				457,112	481,228
<i>of which:</i>					
• <i>in banks</i>	201,838				208,338
• <i>in financial service providers</i>	–				–
8. Shares in affiliated companies				5,917,854	5,414,838
<i>of which:</i>					
• <i>in banks</i>	4,862,826				4,481,332
• <i>in financial service providers</i>	–				–
9. Assets held in trust				6,837,696	7,102,771
<i>of which:</i>					
<i>loans on a trust basis</i>	6,837,696				7,102,771
10. Equalisation claims on public authorities including bonds originating from the conversion of such claims				–	–
11. Intangible assets				27,179	21,509
12. Tangible assets				506,233	518,818
13. Other assets				6,526,307	5,357,802
14. Deferred taxes				236,953	331,434
15. Deferred expenses				855,821	849,581
Total assets				318,167,617	330,867,032

Liabilities				2008	2007
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Carried forward				295,849,692	308,276,527
7. Provisions					
a) For pensions and similar obligations			1,786,334		1,734,391
b) For taxes			437,728		177,614
c) Other provisions			<u>1,923,575</u>		<u>804,320</u>
				4,147,637	2,716,325
7a. Reserve fund for Bausparkasse				25,373	20,285
8. Special tax-allowable reserve				–	–
9. Subordinated liabilities				6,881,018	7,260,827
10. Profit-participation certificates				2,053,297	2,546,392
<i>of which:</i>					
<i>due in less than two years</i>		815,214			1,215,414
11. Funds for general bank risks				473,000	454,000
12. Equity					
a) Subscribed capital					
aa) Statutory nominal capital	2,300,000				1,800,000
uncalled nominal capital	<u>–</u>				<u>–</u>
		2,300,000			1,800,000
ab) Capital contributions of silent partners		<u>2,208,450</u>			<u>2,518,526</u>
			4,508,450		4,318,526
b) Specific-purpose capital			612,016		612,016
c) Capital reserve			1,476,134		476,134
d) Retained earnings					
da) statutory reserves		1,268,000			1,268,000
db) other retained earnings		<u>873,000</u>			<u>2,792,000</u>
			2,141,000		4,060,000
e) Net retained profits/net accumulated losses			<u>–</u>		<u>126,000</u>
				8,737,600	9,592,676
Total liabilities				318,167,617	330,867,032
1. Contingent liabilities					
a) Contingent liabilities from the endorsement of bills rediscounted			–		–
b) Contingent liabilities from guarantees and indemnity agreements (also see notes)			19,789,500		22,153,751
c) Liabilities from collateral furnished for third-party obligations			<u>–</u>		<u>–</u>
				19,789,500	22,153,751
2. Other liabilities					
a) Repurchase obligations from non-genuine sale and repurchase agreements			–		–
b) Placement and underwriting commitments			–		–
c) Irrevocable loan commitments			<u>36,790,061</u>		<u>55,108,652</u>
				36,790,061	55,108,652

Income statement for Bayerische Landesbank
for the period from 1 January to 31 December 2008

				2008	2007
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
1. Interest income from					
a) Credit and money market transactions		10,136,455			9,528,304
<i>of which interest income of Bausparkasse:</i>					
• from building-saving loans	83,228				81,932
• from preliminary and interim financing loans	125,365				124,242
• from other building loans	87				128
b) Fixed-interest securities and debt-register claims		3,558,183			3,428,638
			13,694,638		12,956,942
2. Interest expenses			12,452,845		11,925,354
<i>of which:</i>					
for building-saving deposits	184,784				185,000
				1,241,793	1,031,588
3. Current income from					
a) Equities and other non-fixed interest securities			65,733		165,126
b) Investments			26,319		160,756
c) Shares in affiliated companies			30,769		491,792
				122,821	817,674
4. Income from profit-pooling agreements, profit transfer agreements and partial profit transfer agreements				29,262	35,620
5. Commission income			549,991		605,676
<i>comprising Bausparkasse commission income:</i>					
• from concluding and procuring contracts	58,476				55,457
• from loan administration after allotment	5,388				6,706
• from providing and processing preliminary and interim financing loans	–				–
6. Commission expenses			258,032		360,266
<i>of which:</i>					
for concluding and procuring contracts on behalf of Bausparkasse	91,586				84,144
				291,959	245,410
7. Net income or net expenses from financial transactions				-1,066,048	-151,393
8. Other operating income				64,056	78,160
9. Income from the write-back of the special tax-allowable reserve				–	–
10. General administrative expenses					
a) Personnel expenses					
aa) salaries and wages		354,904			377,003
ab) social security contributions, pensions and other employee benefits		104,147			89,684
			459,051		466,687
<i>of which:</i>					
for pensions	40,862				43,134
b) Other administrative expenses			459,103		412,679
				918,154	879,366
Carried forward				-234,311	1,177,693

	2008			2007	
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Carried forward				-234,311	1,177,693
11. Amortisation, depreciation and writedowns on intangible assets and tangible assets				31,605	33,405
12. Other operating expenses				52,728	34,872
13. Amortisation, depreciation and writedowns on receivables and certain securities and additions to provisions for the credit business			1,737,493		74,320
<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>	19,000				-
14. Income from reversals of receivables and certain securities as well as from the release of provisions for the credit business			-		-
				1,737,493	74,320
15. Amortisation, depreciation and writedowns on investments, shares in affiliated companies and securities classified as fixed assets			1,345,753		461,500
16. Income from reversals of investments, shares in affiliated companies and securities classified as fixed assets			-		-
				1,345,753	461,500
17. Expenses from loss transfers				5,543	8,766
18. Allocations to the special tax-allowable reserve				-	-
19. Gains or losses on ordinary activities				-3,407,433	564,830
20. Extraordinary earnings			-		-
21. Extraordinary expenses			80,433		-
22. Extraordinary income				80,433	-
23. Taxes on income and earnings			417,252		181,989
24. Other taxes unless disclosed under item 12			13,882		5,796
				431,134	187,785
25. Profits transferred under the partial profit transfer agreement				-	207,045
26. Net income/loss for the financial year				-3,919,000	170,000
27. Withdrawals from the capital reserve				2,000,000	-
28. Withdrawals from retained earnings					
a) From the statutory reserve			-		-
b) From other retained earnings			1,919,000		-
				1,919,000	-
29. Allocation to retained earnings					
a) To the statutory reserve			-		-
b) To other retained earnings			-		44,000
				-	44,000
30. Net retained profits/net accumulated losses				-	126,000

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 format of the balance sheet and income statement corresponds to the formats stipulated by the RechKredV Ordinance and includes the items required for building societies (Bausparkassen).

Figures are normally given in millions of euros.

Accounting policies

Assets and liabilities are valued in accordance with 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 nominal amount or at cost. Low-interest or non-interest bearing receivables are discounted if necessary. All recognisable risks have been taken into account by establishing specific loan loss provisions. Risk provisions are calculated in accordance with the methods used in the consolidated accounts prepared pursuant to IFRS. Specific loan loss provisions are determined by subtracting the present value of future expected cash flows, calculated using the original effective interest rate based on the discounted cash flow method, from the carrying amount of the receivable. Additions to or reversals of risk provisions are made in line with changes in expected cash flows. Receivables for which specific loan loss provisions have been established are reduced by incoming payments. Changes in the cash value of future expected cash flows over the period are reported in interest income. General loan loss provisions also cover potential credit risks. To provide for general banking risks, reserves are established pursuant to section 340f and 340g HGB. Except for reserves established in accordance with section 340g HGB, all value adjustments and contingency reserves have been netted against the corresponding asset items. Country-specific portfolio provisions are established for country risks not covered by specific loan loss provisions. Country risk provisions are calculated using the method in the IFRS consolidated financial statements. This method is based on the Basel II system 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 or discounts on receivables and liabilities are reported under deferred expenses or deferred income and amortised on a pro rata basis.

Securities portfolios in the liquidity reserve and the trading book have been valued according to the strict principle of lower of cost or market value by observing the requirement to reinstate original values. Investment securities are valued according to the less strict principle of lower of cost or market value. 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 be offset against the corresponding valuation losses (compensational valuation taking account of the imparity principle).

Asset-backed securities (ABSs) are measured on the basis of counterparty or broker prices or of prices from providers of market data (indicative price sources), as no active market currently exists for this type of security. These prices are normally verified by using other suppliers of market data or a mark-to-matrix model based on externally provided market data/parameters. Internal valuation models can also be employed when markets are inactive. The goal here is to establish what the transaction price would have been in an arm's length exchange between knowledgeable and willing parties on the measurement date.

Investments and shares in affiliated companies have been valued at historical cost pursuant to the rules for fixed assets or, if permanent impairment is anticipated, at the lower of cost or market as at the balance sheet date, taking account of IDW Statement HFA 10.

Intangible assets and fixed assets have been valued at historical cost or cost of production, less depreciation where applicable. Depreciation has been generally based on the permissible tax rates.

Tax deferrals are reported in accordance with section 274 HGB. Deferred tax assets and liabilities are netted if they relate to the same tax authority.

Pension provisions are calculated using the projected unit credit method as set out in IAS 19. Under this method, actuarial reports are drawn up based on biometric assumptions (Richttafeln 2005 G (actuarial tables) by Klaus Heubeck) 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 IDW statement HFA 2/1988 are therefore fulfilled; the fiscal going concern value pursuant to section 6a EStG is exceeded. Besides the retirement provision system that pension provisions have been established for, the Bank also has a legally independent pension fund for indirect staff pension benefit entitlements. If permitted under tax law, the Bank makes regular contributions to fund assets; as at 31 December, there was a coverage shortfall of around EUR 120 million. As soon as any entitlements to retirement provision in future years that have been granted become legally binding, a pension provision is established to meet the resulting shortfall.

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 that are not yet due relating to credit derivatives and price fluctuation settlement payments from total return swaps during the term are shown under other assets or other liabilities. From 2008, premiums from credit default swaps have been recognised pro rata temporis under net interest income (non-trading portfolio) and under net income from financial transactions (trading portfolio) to ensure the income statement provides a true financial picture. Premium payments for interest rate caps, floors and collars and upfront payments for interest rate and (cross) currency swaps are disclosed under deferred items.

Structured products of the trading portfolio and the liquidity reserve are reported as a uniform financial instrument because they are valued at the strict principle of lower of cost or market value. 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 listed derivative financial instruments is calculated using prices on relevant exchanges. If these 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 observable market data. The main valuation models include the present value method, option price models and other methods.

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

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 volatility, expected dividends, 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. Hedging transaction gains or losses are therefore disclosed in the same manner as the gains or losses on the underlying transaction.

The revaluation of trading transactions is performed individually by applying the imparity and realisation principle. Unrealised profits or 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 anticipated losses from open transactions.

Profits from trading transactions are normally disclosed under net income from financial transactions. Current (interest) payments on securities and derivatives of the trading portfolio are reported in interest income.

Currency translation

Currency translation has been based on the principles of section 340h HGB and the IDW statement of the BFA (banking committee) 3/95. Assets which are denominated in a foreign currency and treated as fixed assets are translated at historical exchange rates if they are not predominantly hedged in the same currency. Other assets and liabilities denominated in foreign currencies and outstanding spot deals are translated at year-end mid spot rates, while forward transactions not settled are translated at the year-end forward rates. When forward exchange transactions are used to hedge balance sheet items generating interest, the swap amounts are accrued pro rata temporis. Spot price differences resulting from the translation of these hedged balance sheet items are netted out and reported under other assets or other liabilities. On-balance sheet items and open transactions denominated in foreign currencies are, pursuant to section 340h (2), sentence 2 HGB, treated and evaluated in each currency as predominantly hedged items. These gains and losses resulting from currency translation are accordingly recognised on the income statement pursuant to section 340h (2), sentences 1 and 2 HGB. Unrealised gains from open transactions are disclosed up to the amount of any losses from spot transactions in the same currency. There was no income to be shown separately, as the items existing in currency trading on the balance sheet date were established relatively recently or could be closed on the market at any time.

Notes to the balance sheet - excluding pro-rated interest, unless otherwise stated

Assets

Due from banks

EUR million	2008	2007
This item includes:		
Other receivables with a residual maturity of		
• up to three months (including accrued interest)	24,748	44,168
• over three months up to one year	30,124	23,530
• over one year up to five years	30,029	26,320
• more than five years	16,806	17,291
Due from affiliated companies	18,713	10,063
Due from companies in which investments are held	225	162
Due from affiliated savings banks	15,727	15,632
Subordinated receivables	859	964
Committed but not yet disbursed building loans of the building societies		
• from allotment	116	112

Due from customers

EUR million	2008	2007
This item includes:		
Receivables with a residual maturity of		
• up to three months (including accrued interest)	15,577	18,951
• over three months up to one year	10,865	10,811
• over one year up to five years	36,353	28,012
• more than five years	37,205	38,080
Receivables without a fixed date of maturity	701	1,170
Due from affiliated companies	605	1,039
Due from companies in which investments are held	596	615
Receivables from leasing transactions	–	332
Subordinated receivables	37	20
Overdue interest and redemption payments from building loans of the building societies	4	5
Committed but not yet disbursed building loans of the building societies		
• from allotment	420	391
• for preliminary and interim financing purposes	68	76

Bonds and other fixed-interest securities

EUR million	2008	2007
This item includes:		
Amounts falling due in the following year (including accrued interest)	11,293	7,750
Securitised receivables from affiliated companies	3,988	3,560
Subordinated securities	194	210
Marketable securities, of which		
• listed	54,932	58,505
• unlisted	23,854	25,086

In 2008, a security in the liquidity reserve carried at EUR 350 million was reallocated to the “securities measured as fixed assets” (investment) portfolio. BayernLB has the intention and ability to hold this security indefinitely. This portfolio is measured at the less strict principle of lower of cost or market value, since current fluctuations in value are not rated as long term; it is assumed that securities are repaid in full when they mature.

As at the balance sheet date, bonds and other fixed-interest securities in the trading portfolio and liquidity reserve were carried at EUR 25,923 million (2007: EUR 36,185 million) based on the strict principle of the lower of cost or market value. In the investment portfolio, securities were carried at EUR 52,863 million (2007: EUR 47,406 million) based on the less strict principle of lower of cost or market value; their fair value was EUR 47,547 million (2007: EUR 46,294 million). A significant proportion are asset-backed securities, with a carrying amount of EUR 17,908 million and fair value of EUR 14,085 million. In return for a premium to be paid by the Bank, the Free State of Bavaria has guaranteed up to EUR 4.8 billion in losses from an ABS portfolio. The guarantee becomes effective for losses exceeding a first loss amount of EUR 1.2 billion, which is borne by BayernLB. In 2008, writedowns in the amount of approximately EUR 1.3 billion which otherwise would have been required could be avoided as a result of the guarantee.

Shares and other non-fixed interest securities

EUR million	2008	2007
This item includes:		
Subordinated securities	15	15
Marketable securities, of which		
• listed	113	176
• unlisted	243	168

As at the balance sheet date, shares and other non-fixed-interest securities were carried at EUR 388 million (2007: EUR 387 million) based on the less strict principle of lower of cost or market value, while the fair value of these holdings was EUR 380 million (2007: EUR 381 million).

Investments

EUR million	2008	2007
This item includes:		
Marketable securities, of which		
• listed	117	117
• unlisted	44	57

Shares in affiliated companies

EUR million	2008	2007
This item includes:		
Marketable securities, of which		
• listed	846	702
• unlisted	4,620	4,213

Assets held in trust

EUR million	2008	2007
This item mainly includes housing loans granted by Bayerische Landesbodenkreditanstalt and breaks down as follows:		
Due from banks	159	180
Due from customers	6,679	6,923

Tangible assets

EUR million	2008	2007
This item includes:		
Land and buildings used for own operations	398	370
Business and office equipment	37	41

Other assets

EUR million	2008	2007
This item includes:		
Premium claims from credit derivatives (protection buyer positions)	2,574	2,008
Premiums from credit derivatives not yet received (protection seller positions)	1,455	1,390
Offsetting item for foreign currency translation	1,134	712
Option premiums paid	592	517

Deferred taxes

Deferred taxes largely arise from the ban under tax legislation on recognising provisions for anticipated losses and the resulting temporary differences which will probably reverse at Bank level over the next five years.

Deferred expenses

EUR million	2008	2007
This item includes:		
Premium on receivables	66	91
Discount on liabilities	215	234

Changes in fixed assets

EUR million	Cost of purchase	Additions	Disposals	Transfers	Appreciation	Depreciation/write-downs (cumulative)	Net carrying amount 31 Dec 2008	Net carrying amount 31 Dec 2007	Depreciation/written-downs for the financial year
			Changes +/- ¹						
Investments			-24				457	481	
Shares in affiliated companies			+503				5,918	5,415	
Investment securities			+5,459				53,252	47,793	
Intangible assets	110	17	1	-	-	99	27	22	11
Tangible assets	784	22	30	-	-	270	506	519	21
Other fixed assets	16	-	-	-	-	3	13	12	-

¹ The aggregation option pursuant to section 34 (3) RechKredV was utilised.

Genuine sale and repurchase agreements

EUR million	2008	2007
Carrying amounts of assets transferred under sale and repurchase agreements	9,353	10,894

Assets in foreign currency

EUR million	2008	2007
Total amount of assets denominated in foreign currency	78,812	85,835

Assets held as cover

EUR million	2008	2007
Mortgage Pfandbriefs and Landesbodenbriefs¹	5,163	5,474
Cover assets contained in:		
• Due from banks	71	71
• Due from customers ¹	8,341	6,116
• Bonds, notes and other fixed-interest securities	382	382
• Additional cover	100	100
Excess cover	3,731	1,195
Public Pfandbriefs	47,277	53,897
Cover assets contained in:		
• Due from banks	18,516	21,394
• Due from customers	21,100	23,020
• Bonds, notes and other fixed-interest securities	10,825	11,024
• Additional cover	4,575	3,471
Excess cover	7,739	5,012

¹ Bayerische Landesbodenkreditanstalt mortgage bonds in the amount of EUR 2 million were subsequently included in the previous year's figures.

Liabilities

Due to banks

EUR million	2008	2007
This item includes:		
Term liabilities with a residual maturity of		
• up to three months (including accrued interest)	44,579	71,380
• over three months up to one year	33,267	15,135
• over one year up to five years	19,636	13,797
• more than five years	19,538	18,468
Due to affiliated companies	3,652	1,176
Due to companies in which investments are held	47	83
Due to affiliated savings banks	15,485	14,930

Due to customers

EUR million	2008	2007
This item includes:		
Other term liabilities with a residual maturity of		
• up to three months (including accrued interest)	12,065	17,018
• over three months up to one year	5,134	4,728
• over one year up to five years	7,960	8,430
• more than five years	16,626	16,723
Due to affiliated companies	147	210
Due to companies in which investments are held	261	282

Securitised liabilities

EUR million	2008	2007
This item includes:		
Bonds issued		
• amounts falling due in the following year	20,689	18,463
Other securitised liabilities with a residual maturity of		
• up to three months (including accrued interest)	5,226	4,656
• over three months up to one year	2,283	2,688
• over one year up to five years	60	112
• more than five years	146	188
Due to affiliated companies	1,100	544
Due to companies in which investments are held	12	12

Liabilities held in trust

EUR million	2008	2007
This item breaks down as follows:		
Due to banks	23	29
Due to customers	6,815	7,074

Other liabilities

EUR million	2008	2007
This item includes:		
Premium liabilities from credit derivatives (protection seller positions)	2,136	1,876
Premiums from credit derivatives not yet paid (protection buyer positions)	1,919	1,518
Option premiums received	494	541
Covering obligation resulting from the sale of securities borrowed	430	939

Deferred income

EUR million	2008	2007
This item includes:		
Discount on receivables	84	87

Provisions

Deferred tax liabilities in the amount of EUR 19 million are included under tax provisions.

Subordinated liabilities

EUR million	2008	2007
In the reporting year, interest expenses amounted to	362	280

Subordinated liabilities can not contractually be repaid in the event of BayernLB's insolvency or liquidation until all non-subordinated creditors have been satisfied. Creditors do not have the right to demand repayment prior to maturity. These subordinated liabilities fulfil the requirements to be counted as liable capital pursuant to section 10 (5a) KWG and section 10 (7) KWG.

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

EUR million	Volume	Interest rate	Due of maturity
Bond	1,000	5.75%	23 Oct 2017
Bond	750	4.50%	7 Feb 2019

The terms and conditions for subordinated bonds apply. There is no provision for conversion into equity or another debt instrument.

Liabilities in foreign currency

EUR million	2008	2007
Total amount of liabilities denominated in foreign currency	58,791	68,962

Contingent liabilities and other liabilities

Neither of these items, disclosed at the foot of the balance sheet, contain any individual amounts which have a material bearing on the Bank's overall activities.

Assignment of collateral for the Bank's own liabilities

EUR million	2008	2007
Assets have been assigned as collateral in the case of the following own liabilities in the amounts shown below		
Due to banks	26,078	32,698
Due to customers	10	6
Contingent liabilities	33	31

The provision of collateral for the Bank's own liabilities predominantly concerns open market transactions with the European System of Central Banks (EUR 10,833 million) and assigned receivables from pass-through loans to banks (EUR 9,827 million).

Securities with a nominal value of EUR 3,014 million have also been deposited as collateral in connection with transactions on futures and options exchanges and other stock exchange and clearing systems.

Notes to the income statement

Interest income and interest expenses

From 2008, premiums from credit default swaps in the non-trading portfolio have been recognised pro rata temporis, generating a net income of EUR 23 million.

Interest expenses includes expenses from the compounding of interest for pension provisions EUR 83 million of (2007: EUR 70 million).

Commission income and commission expenses

Commission income of EUR 42 million (2007: 129 million) and commission expenses of EUR 32 million (2007: 106 million) were reported from the credit card business. The year-on-year falls were due to the transfer of a significant portion of the credit card business to Group company Deutsche Kreditbank Aktiengesellschaft, Berlin (DKB).

Net income or net expenses from financial transactions

From 2008, premiums from credit default swaps in the trading portfolio have been recognised pro rata temporis, generating a net expense of EUR 35 million.

General administrative expenses

Expenses from the compounding of interest for pension provisions is reported under interest expenses instead of under personnel expenses.

Other administrative expenses includes EUR 75 million (2007: EUR 36 million) from additions to the guarantee fund of the Landesbanks and central giro institutions and to the reserve fund of the Association of Bavarian Savings Banks (Bavarian reserve fund).

Extraordinary expenses

This item includes extraordinary restructuring expenses of EUR 80 million.

Taxes on income and earnings

In the reporting year, current tax expenses were EUR 1 million in Germany. For previous years, a current tax expense of EUR 251 million relating to the completion of the audit for assessment years 1999-2002 is recognised.

The deferred tax expenses of EUR 139 million relate to the writing back of deferred

tax assets. In view of the uncertain outlook for future earnings due to the current financial crisis, BayernLB has recognised deferred taxes at core bank level only for temporary differences which will probably reverse over the next five years if offset by positive taxable income.

A tax expense of EUR 26 million was generated by the foreign entities.

Payments on silent partner contributions and profit participation rights

Pursuant to the agreement on the approval of recapitalisation measures, BayernLB had met the expectations of the EU Commission by not making any distributions or interest payments on silent partner contributions and profit participation rights, unless contractually obliged to do so. In 2008, no distributions for issued silent partner contributions and profit participation rights were therefore reported.

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	2008	2007
The total amount of income disclosed in items 1, 3, 5, 7 and 8 in the income statement breaks down into the following geographical markets:		
Germany	10,874	11,541
Europe (ex Germany)	1,111	1,129
America	1,196	1,330
Asia	184	307

Derivatives transactions

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

Derivatives transactions – volumes

EUR million	Nominal values		Positive ¹ fair values	Negative ¹ fair values
	2008	2007	2008	2008
Interest-rate risks				
• Interest-rate swaps	855,666	833,470	24,133	20,970
• FRAs	178,801	121,392	489	444
• Interest-rate options	32,775	35,454	560	1,672
– call options	12,214	12,582	560	–
– put options	20,561	22,872	–	1,672
• Caps/ floors	31,740	29,932	236	314
• Exchange-traded contracts	59,934	26,975	2	1
• Other interest-based forward transactions	4,090	3,905	3	16
Total interest-rate risks	1,163,006	1,051,128	25,423	23,417
Currency risks				
• Forward exchange transactions	69,421	81,065	2,726	2,788
• Currency swaps/cross currency swaps	59,470	40,564	3,406	2,313
• Foreign exchange options	8,825	5,901	299	221
– call options	4,539	2,968	299	–
– put options	4,286	2,933	–	221
• Exchange-traded contracts	–	–	–	–
• Other currency-based forward transactions	–	–	1	5
Total currency risks	137,716	127,530	6,432	5,327
Equity and other price risks				
• Equity forward contracts	42	–	–	9
• Equity/index options	134	5,883	30	37
– call options	53	5,724	30	–
– put options	81	159	–	37
• Exchange-traded contracts	45	1,279	–	1
• Other forward transactions	876	376	608	604
Total equity and other price risks	1,097	7,538	638	651
Credit derivative risks				
• Protection buyer	56,957	65,615	4,913	271
• Protection seller	65,388	69,667	476	4,966
Total credit derivative risks	122,345	135,282	5,389	5,237
Total	1,424,164	1,321,478	37,882	34,632

Derivatives transactions – maturities structure

EUR million	Nominal values							
	Interest-rate risks		Currency risks		Equity and other price risks		Credit derivative risks	
	2008	2007	2008	2007	2008	2007	2008	2007
Residual maturities								
• up to three months	126,006	125,758	43,215	53,569	394	6,059	4,405	5,225
• up to one year	326,844	269,331	27,834	27,588	364	1,223	8,799	15,532
• up to five years	405,902	349,800	53,647	28,728	338	236	77,099	70,555
• more than five years	304,254	306,239	13,020	17,645	1	20	32,042	43,970
Total	1,163,006	1,051,128	137,716	127,530	1,097	7,538	122,345	135,282

Derivatives transactions – counterparty structure

EUR million	Nominal values		Positive ¹	Negative ¹
			fair values	fair values
	2008	2007	2008	2008
OECD banks	702,290	685,324	17,727	17,798
Non-OECD banks	617,422	525,592	13,233	12,601
Public-sector entities within the OECD	9,180	6,267	1,951	77
Other counterparties ²	95,272	104,295	4,971	4,156
Total	1,424,164	1,321,478	37,882	34,632

Derivative transactions – trading transactions³

EUR million	Nominal values		Positive ¹	Negative ¹
			fair values	fair values
	2008	2007	2008	2008
Interest-rate-based contracts	1,102,075	975,839	22,074	21,495
Currency-based contracts	137,596	127,360	6,432	5,300
Equity-based contracts	1,097	7,538	638	651
Credit-derivative-based contracts	122,326	135,262	5,389	5,234
Total	1,363,094	1,245,999	34,533	32,680

Comments:

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

2 Including exchange-traded contracts

3 Trading transactions with 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 generating income from proprietary trading.

Notes pursuant to section 35 (1) no. 8 RechKredV

Portfolio of building-saving contracts and contract amounts of Bayerische Landesbausparkasse (LBS)

	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 Dec 2007	1,717,410	41,458	297,758	7,098	2,015,168	48,556
B. Additions in financial year through						
• New contracts (effective)	271,320	7,261	–	–	271,320	7,262
• Transfers	12,497	293	2,243	64	14,740	356
• Waivers and revocations of allotment	7,877	130	–	–	7,877	130
• Splits	1,666	–	59	–	1,725	–
• Allotments	–	–	117,356	2,370	117,356	2,370
• Other	13,986	459	456	10	14,442	469
Total	307,346	8,143	120,114	2,444	427,460	10,587
C. Reductions in the financial year through						
• Allotments	117,356	2,370	–	–	117,356	2,370
• Reductions	–	474	–	3	–	477
• Terminations	129,777	2,188	60,290	868	190,067	3,056
• Transfers	12,497	293	2,243	64	14,740	356
• Consolidations	–	–	4,283	–	4,283	–
• Contract expiries	8,208	81	53,266	1,204	61,474	1,285
• Waivers and revocations of allotment	–	–	7,877	130	7,877	130
• Other	16,931	826	735	19	17,666	846
Total	284,769	6,232	128,694	2,288	413,463	8,520
D. Net additions/reductions	22,577	1,911	-8,580	156	13,997	2,067
E. Portfolio as at 31 Dec 2008	1,739,987	43,369	289,178	7,254	2,029,165	50,623
Of which:						
building savers outside the Federal Republic of Germany:	5,410	138	582	17	5,992	155

	No. of contracts	Contract amounts in EUR million
Portfolio of contracts not yet effective		
• Concluded prior to 1 Jan 2008	12,280	455
• Concluded in financial year 2008	65,612	1,806

Information on changes within the individual tariff categories can be found in LBS's annual report.

LBS allotment fund volumes

EUR million	2008
A. Additions	
Brought forward from the previous year (surplus): amount not yet distributed	6,272
Additions in financial year	
• Building-saving deposits (incl. building-saving premiums)	1,710
• Redemption amounts ¹ (incl. building-saving premiums)	559
• Interest on building-saving deposits	185
• Reserve fund for Bausparkasse	5
Total additions	8,731
B. Reductions	
Reduction in the financial year	
• Allotted amounts, if disbursed	
a) Building-saving deposits	1,213
b) Building loans	678
• Repayment of building-saving deposits on building-saving contracts not yet allocated	631
Additions surplus (amounts not yet disbursed) at end of financial year²	6,209
Total reductions	8,731

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

² The additions surplus includes:

- a) building-savers' deposits not yet disbursed relating to allotted building-saving contracts: EUR 219 million
b) building loans not yet disbursed relating to allotments: EUR 536 million

Notes pursuant to section 28 Pfandbrief Act (PfandBG)

Covered bonds (Pfandbriefs) outstanding and cover pools

EUR million	Nominal value		Present value		Risk-related present value	
	2008	2007	2008	2007	2008	2007
Mortgage-backed Pfandbriefs	5,161	5,472	5,394	5,566	5,199	5,255
Cover funds ¹	8,891	6,665	9,391	6,753	8,913	6,246
of which: derivatives	–	–	–	–	–	–
Excess cover	3,730	1,193	3,997	1,187	3,714	991
Public Pfandbriefs	47,277	53,897	49,493	54,327	47,374	50,725
Cover funds ^{1,2}	56,187	60,120	57,504	59,559	54,926	55,520
of which: derivatives	–	–	8	5	-11	15
Excess cover	8,910	6,223	8,011	5,232	7,552	4,795

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 pools

EUR million	Mortgage Pfandbriefe		Cover funds ¹		Public Pfandbriefe		Cover funds ^{1,2}	
	2008	2007	2008	2007	2008	2007	2008	2007
Residual maturities and interest-rate lock-in periods								
• up to one year ³	1,232	1,528	1,508	1,677	12,298	12,213	12,606	13,896
• over one year up to five years	3,068	3,001	3,551	2,174	24,896	28,751	18,940	18,026
• over five years up to ten years	724	880	3,374	2,357	7,390	9,957	21,018	24,171
• more than ten years	137	63	458	457	2,693	2,976	3,623	4,027
Total	5,161	5,472	8,891	6,665	47,277	53,897	56,187	60,120

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

3 Previous year's figure for the cover pool with residual maturities and interest-rate lock-in periods of up to one year was corrected by EUR 9 million.

Receivables serving as cover for mortgage Pfandbriefe by size

EUR million	Mortgages serving as cover	
	2008	2007
up to EUR 300,000	1,823	2,201
over EUR 300,000 EUR up to EUR 5 million	1,297	1,069
over EUR 5 million	5,290	2,914
Additional cover ¹	481	481
Total	8,891	6,665

1 Additional cover was not reported in the previous year.

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

EUR million	Mortgages serving as cover			
	commercial		residential	
	2008	2007	2008	2007
Germany	4,144	3,522	2,843	2,672
• flats	–	–	998	1,177
• single-family homes	–	–	774	948
• multi-family homes	–	–	1,016	522
• office buildings	1,664	1,369	–	–
• retail buildings	1,245	1,034	–	–
• industrial buildings	41	36	–	–
• other commercial buildings	571	530	–	–
• unfinished new buildings not yet generating income	115	27	28	13
• plots of land	27	45	27	12
• Additional cover ¹	481	481	–	–

1 Additional cover was not reported in the previous year.

EUR million	Mortgages serving as cover			
	commercial		residential	
	2008	2007	2008	2007
France	256	–	–	–
• office buildings	249	–	–	–
• industrial buildings	7	–	–	–
Great Britain and Northern Ireland	752	336	–	–
• office buildings	478	271	–	–
• retail buildings	250	55	–	–
• other commercial buildings	24	10	–	–
Italy	298	–	–	–
• office buildings	60	–	–	–
• retail buildings	131	–	–	–
• unfinished new buildings not yet generating income	107	–	–	–
The Netherlands	79	–	–	–
• office buildings	28	–	–	–
• retail buildings	51	–	–	–
Austria	24	25	–	–
• retail buildings	8	8	–	–
• plots of land	1	1	–	–
• office buildings	15	16	–	–
Poland	13	11	–	–
• office buildings	11	11	–	–
• unfinished new buildings not yet generating income	2	–	–	–
Sweden	12	–	–	–
• retail buildings	12	–	–	–
Switzerland	163	70	–	–
• office buildings	40	39	–	–
• retail buildings	93	31	–	–
• other commercial buildings	30	–	–	–
Spain	64	–	–	–
• office buildings	64	–	–	–
Czech Republic	58	–	–	–
• office buildings	46	–	–	–
• unfinished new buildings not yet generating income	12	–	–	–
Hungary	62	–	–	–
• retail buildings	62	–	–	–
USA	119	29	4	–
• office buildings	119	29	–	–
• unfinished new buildings not yet generating income	–	–	4	–
Total	6,044	3,993	2,847	2,672

¹ Additional cover was not reported in the previous year.

Total payments on mortgage receivables overdue for 90 days and more by country where the real estate collateral is located

EUR million	2008	2007
Germany	2	4
Total	2	4

Additional information on mortgage receivables pursuant to section 28 (2)

No. 3 PfandBG

As at the balance sheet date, two (2007: 0) commercial and 93 (2007: 941) residential properties were subject to foreclosure sale proceedings, and one (2007: 0) commercial and 75 (2007: 92) residential properties were subject to administrative receivership.

One (2007: 0) commercial property and eight (2007: 8) residential properties were foreclosed on in the year under review.

No properties were repossessed in 2007 or 2008 to prevent a loss on a mortgage.

EUR million	Type of use			
	commercial		residential	
	2008	2007	2008	2007
Overdue interest payments on mortgage debt	–	1	1	1
Repayments of mortgages				
• by amortisation	203	206	109	105
• other	412	322	323	292

1 Previous year's figure corrected

Receivables serving as cover for public-sector Pfandbriefs by debtor, guarantor and its domicile

EUR million	Cover assets	
	2008	2007
Germany	49,889	54,904
• national government	1,120	1,185
• regional authorities	11,821	12,610
• local authorities	6,146	6,700
• other debtors	27,591	30,938
• additional cover ¹	3,211	3,471
Belgium	–	5
• national government	–	5
Denmark	25	67
• additional cover ²	25	67
European Union	104	105
• other debtors	104	105
France incl. Monaco	70	70
• additional cover ²	70	70
Greece	27	31
• national government	–	4
• additional cover ²	27	27
Great Britain and Northern Ireland	604	755
• national government	5	4
• regional authorities	599	751
Iceland	–	2
• regional authorities	–	2
Italy	155	55
• national government	–	5
• additional cover ²	155	50
Canada	118	138
• regional authorities	59	69
• local authorities	59	69
Luxembourg	700	200
• other debtors	200	200
• additional cover	500	–
The Netherlands	130	90
• additional cover ²	130	90
Norway	15	–
• additional cover	15	–
Austria	67	57
• national government	17	7
• additional cover ²	50	50
Poland	139	90
• national government	20	30
• additional cover ²	119	60
Romania	7	10
• national government	7	10
Sweden	9	6
• national government	9	6

1 Additional cover was not reported in the previous year.

2 Additional cover was reported in the previous year under other debtors.

EUR million	Cover assets	
	2008	2007
Switzerland	2,897	2,731
• national government	–	59
• regional authorities	1,356	1,474
• other debtors	1,268	1,198
• additional cover	273	–
Spain	866	454
• regional authorities	866	454
Czech Republic	6	7
• national government	6	7
Turkey	46	14
• national government	46	14
Hungary	302	316
• national government	302	316
USA	9	11
• national government	9	11
Cyprus	2	2
• national government	2	2
Total	56,187	60,120

1 Additional cover was not reported in the previous year.

2 Additional cover was reported in the previous year under other debtors.

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

EUR million	2008	2007
Germany		
• national government	1	–
• regional authorities	3	3
Total	4	3

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 the balance sheet date, BayernLB 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, BayernLB 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, as well as from consulting and marketing agreements.

As at the balance sheet date, there were call commitments for capital not fully paid up of EUR 97 million. There were uncalled liabilities from limited partnership shares of EUR 31 million. There were also additional funding obligations amounting to EUR 36 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 54 million.

On the balance sheet date, BayernLB's liability as a member of the guarantee fund of the Landesbanks came to EUR 352 million. There is a call commitment for the reserve fund of the Association of Bavarian Savings Banks (Bavarian reserve fund) amounting to EUR 221 million and an additional funding obligation worth EUR 681 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 private credit institutions which are majority-owned by the Bank.

Administrative bodies

Board of Administration (until March 2009)

Georg Fahrenschon

since 30 October 2008
Chairman since 30 October 2008
State Minister
Bavarian State Ministry of Finance
Munich

Dr. Siegfried Naser

First Deputy Chairman
since 1 September 2008
(Chairman until 31 August 2008)
Executive President
Association of Bavarian Savings Banks
Munich

Erwin Huber

until 30 October 2008
(Chairman from 1 September 2008 to
30 October 2008,
First Deputy Chairman until
31 August 2008)
State Minister
Bavarian State Ministry of Finance
Munich

Joachim Herrmann

Second Deputy Chairman
since 1 September 2008
(Third Deputy Chairman
until 31 August 2008)
State Minister
Bavarian State Ministry of the Interior
Munich

Hansjörg Christmann

Third Deputy Chairman
since 1 September 2008
(Second Deputy Chairman
until 31 August 2008)
Chief District Administrator
Dachau

Alois Hagl

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

Jürgen W. Heike

until 30 October 2008
State Secretary
Bavarian State Ministry of the Interior
Munich

Diethard Irrgang

since 15 January 2009
Chairman of the General Staff Council
Bayerische Landesbank
Munich

Karl-Ludwig Kamprath

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

Emilia Müller

until 30 October 2008
State Minister
Bavarian State Ministry of Economic Affairs,
Infrastructure, Transport and Technology
Munich

Hans Schaidinger

Lord Mayor
Regensburg

Klaus Weigert

Deputy Secretary
Bavarian State Ministry of Finance
Munich

Dr. Bernd Weiß

since 9 January 2009
State Secretary
Bavarian State Ministry of the Interior
Munich

Martin Zeil

since 20 November 2008
State Minister
Bavarian State Ministry of Economic Affairs,
Infrastructure, Transport and Technology
Munich

Board of Management (including allocation of responsibilities from 1 January 2009)

Dr. Michael Kemmer

Chairman since 1 March 2008
Corporate Center Support Operations

- Corporate Development/Board of Management Support Division
- Corporate Communications Division
- Human Resources Division
- Audit Division

Theo Harnischmacher

Deputy Chairman
Mittelstand Business Area
Savings Banks & Bavarian Market Business Area
Bayerische Landesbausparkasse

Dr. Rudolf Hanisch

Deputy Chairman
Corporate Center Support Operations

- Legal Services, Compliance Center and Prevention of Money Laundering Division¹

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

Stefan W. Ropers

Corporates Business Area
Financial Markets Business Area

Dr. Ralph Schmidt

Risk Office Support Operations

Stefan Ermisch

since 1 July 2008
Financial Office, IT and
Operations Support Operations

Werner Schmidt

Chairman until 29 February 2008

Dr. Gerhard Gribkowsky

until 2 April 2008

¹ Although part of the Legal Services Division in organisational terms, the Compliance unit and the officers dealing with money laundering, financial crime and data protection report directly to the Board of Management.

Remuneration of the administrative bodies

EUR '000	2008	2008	2007	2007
Total remuneration during the financial year:				
Members of the Board of Management		4,287		5,728
• Chairman of the Board of Management	811		1,465	
– Fixed salary	811		1,226	
– Variable compensation (incl. compensation for previous years)	–		239	
• Deputy Chairmen of the Board of Management (combined)	1,079		1,274	
– Fixed salary	1,079		1,044	
– Variable compensation	–		230	
• Full members of the Board	2,145		2,718	
– Fixed salary	2,145		2,223	
– Variable compensation	–		495	
• Ancillary compensation (non-cash compensation)	252		271	
Members of the Board of Administration		328		324
Former members of the Board of Management and their surviving dependents		6,756		4,736
Pension provisions established for former members of the Board of Management and their surviving dependents		50,764		54,466

Loans to the administrative bodies

EUR '000	2008	2007
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
Members of the Board of Administration	351	563

The year-on-year fall was largely due to the transfer of the retail business to Group company DKB, Berlin, on 1 October 2008.

Mandates held by legal representatives or by other employees¹

Name	Mandates held in supervisory bodies to be constituted under German law for major incorporated companies (including all credit institutions)
Board of Management	
Dr. Michael Kemmer	DekaBank Deutsche Girozentrale, Frankfurt/Main Deutsche Kreditbank Aktiengesellschaft, Berlin HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt Logwin AG, Grevenmacher MKB Bank Zrt., Budapest
Theo Harnischmacher	Deutsche Factoring Bank Deutsche Factoring GmbH & Co., Bremen Deutsche Kreditbank Aktiengesellschaft, Berlin GBW AG, Munich Landesbank Saar, Saarbrücken LB(Swiss) Privatbank AG, Zurich Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich
Dr. Rudolf Hanisch	Banque LBLux S.A., Luxembourg BayernInvest Kapitalanlagegesellschaft mbH, Munich Deutsche Kreditbank Aktiengesellschaft, Berlin E.ON Energie AG, Munich GBW AG, Munich HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt Landesbank Saar, Saarbrücken Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich
Stefan W. Ropers	BayernInvest Kapitalanlagegesellschaft mbH, Munich MAN AG, Munich
Dr. Ralph Schmidt	Deutsche Kreditbank Aktiengesellschaft, Berlin Deutsche WertpapierService Bank AG, Frankfurt/Main HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, Klagenfurt Liquiditäts-Konsortialbank GmbH, Frankfurt/Main MKB Bank Zrt., Budapest
Stefan Ermisch	Banque LBLux S.A., Luxembourg Deutsche Kreditbank Aktiengesellschaft, Berlin
Staff	
Karl Filbert	BayernInvest Kapitalanlagegesellschaft mbH, Munich Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich
Dr. Winfried Freygang	BayernInvest Kapitalanlagegesellschaft mbH, Munich
Dr. Detlev Gröne	Banque LBLux S.A., Luxembourg
Ernst Holland	GBW AG, Munich GEWOFAG Gemeinnützige Wohnungsfürsorge AG, Munich
Georg Jewgrafow	Landesbank Saar, Saarbrücken
Thomas Neher	BayernInvest Kapitalanlagegesellschaft mbH, Munich
Karin Pfaffenzeller	BayernInvest Kapitalanlagegesellschaft mbH, Munich
Dr. Franz Wirnhier	Landesbank Saar, Saarbrücken

¹ This information is valid as per 31 December 2008.

External auditors' fees

EUR '000	2008	2007
Fees recorded as expenses in the financial year for		
• the financial statements audit	5,031	6,472
• other certification and valuation services	1,462	734
• tax consultancy services	178	135
• other services	1,867	1,931
Total	8,538	9,272

Number of employees (annual average)

	2008	2007
Female	2,413	2,424
Male	2,525	2,560
Total	4,938	4,984

The total includes 962 (2007: 931) part-time employees, whose numbers correspond to 605 (2007: 586) full-time equivalents. The 126 (2007: 136) trainees and students on a vocationally integrated course at a vocational academy 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 net assets, financial position and earnings 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 performance of Bayerische Landesbank.

Munich, 24 March 2009

Bayerische Landesbank
The Board of Management

Dr. Michael Kemmer

Theo Harnischmacher

Dr. Rudolf Hanisch

Stefan W. Ropers

Dr. Ralph Schmidt

Stefan Ermisch

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 book-keeping system, and the management report of Bayerische Landesbank, Anstalt des öffentlichen Rechts, München (BayernLB), for the business year from January 1 to December 31, 2008. 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, 24 March 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes
Wirtschaftsprüfer
(German Public Auditor)

Eberhard Feil
Wirtschaftsprüfer
(German Public Auditor)

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3 Report by the Board of Administration

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Report by the Board of Administration

Background

2008 was an extremely difficult year for the banking and financial sector around the world. It was marked by a financial crisis which, after picking up a momentum that could scarcely have been imagined, took yet another sharp turn for worse and snowballed into a global liquidity crisis over the course of the year, spilling out into the real economy and triggering a worldwide recession. State rescue packages were offered to banks and hard hit sectors, while governments also put together economic stimulus programmes to palliate the worst effects of the global recession.

Because of the financial market crisis, 2008 was also a very bad year for BayernLB, which reported negative earnings. Within this tough and dramatically changing environment, the Board of Administration extensively discussed and agreed the need for a fundamental review and refocus of the BayernLB business model and recapitalisation of the Bank. The measures were already put into motion in 2008.

ABS portfolio ring-fenced

As the financial crisis spread, so too did the damage to BayernLB. To keep future options and room for manoeuvre open, the Board of Administration decided to shield the Bank in large measure from any further negative impact from its ABS portfolio.

ABS portfolio risks ring-fenced

In December 2008, BayernLB and the Free State of Bavaria jointly agreed ring-fencing measures, under which the Free State of Bavaria would guarantee up to EUR 4.8 billion in losses from the ABS portfolio provided they exceed EUR 1.2 billion. The amount corresponds to the first loss to be borne by the Bank, half of which was accounted for in the 2007 and 2008 Annual Reports.

BayernLB begins recapitalisation

Recapitalisation underway

BayernLB has also had to be recapitalised by the Free State of Bavaria due to the incessant turmoil on international financial markets. The EU Commission gave the go-ahead on 18 December 2008 to a EUR 10 billion recapitalisation of the Bank by the Free State of Bavaria. The first EUR 3 billion tranche was transferred in 2008; the remaining tranches (a EUR 4 billion capital increase and EUR 3 billion in silent capital contributions) were paid out in the first quarter of 2009 to a maximum of EUR 10 billion.

The Association of Bavarian Savings Banks did not participate in the recapitalisation plan.

BayernLB establishes new business model

The Free State of Bavaria's stabilisation measures were fundamental to the BayernLB Group's new strategy, the key elements of which were discussed in depth and agreed upon by the Board of Administration. It involves a clearly focused business model and subsequent restructuring and downsizing.

Over the first few months of 2009, the Board of Management and Board of Administration have been and will be devoting themselves to creating a restructuring plan for implementing a new, sustainable business model. BayernLB will systematically focus its attention on its core markets and core areas of expertise.

Legal, statutory and supervisory requirements

The Board of Management provided the Board of Administration with, comprehensive, and up-to-date information at regular intervals 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 those of associated companies. The supervisory requirements governing Board of Management reporting of incongruities detected by the internal auditing unit were fulfilled.

During its 21 meetings in 2008, 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 German Federal Financial Supervisory Authority and/or the Deutsche Bundesbank.

The Board of Administration regularly addressed the statutory and supervisory requirements that the Bank must observe. Both boards discussed BayernLB's business and risk strategy in detail. The Board of Administration's monitoring activities were more closely focused on strategy and portfolio monitoring, as well as on risk bearing capacity.

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. Both boards therefore held detailed discussions over the course of the year on business policy, strategic priorities and all facets of BayernLB's business model. Agreed measures were and are constantly reviewed and modified as needed.

The Board of Management also provided the Board of Administration with regular updates on the Bank's risk situation and risk management. The Board of Administration monitored loan portfolio performance through a risk and portfolio reporting that is constantly refined, so taking account of partial modifications to risk examination and evaluation. The Board of Administration also received regular reports on the international financial crisis and ensuing loss of confidence and liquidity on the global financial markets. Reports by the Board of Management also dealt with the impact of the crisis on BayernLB's ABS exposures. Two investigations by an auditing firm found that both boards had acted properly with respect to their decisions on investments in structured securities portfolios and off-balance sheet special purpose vehicles, and on problem loans; internal and external rules were complied with.

Legal and supervisory requirements met

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 20 January 2009, the Board of Administration discussed BayernLB's compliance with its Corporate Governance Principles in 2008. It and the Board of Management determined, 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

In 2008, the Bavarian state government reshuffle resulted in major changes to the composition of the Board of Administration.

Erwin Huber's mandate on the Board of Administration came to an end as from 30 October 2008. Jürgen W. Heike and Emilia Müller stepped down at that date. The Board of Administration would like to express its utmost gratitude to them for their invaluable and fruitful service to the Bank.

Georg Fahrenschon, Bavarian State Minister of Finance, was appointed both a Member and Chairman of the Board of Administration effective from 30 October 2008. Martin Zeil, Bavarian State Minister for Economic Affairs, Infrastructure, Transport and Technology, was appointed a Member of the Board of Administration effective from 20 November 2008. Dr. Siegfried Naser, Executive President of the Association of Bavarian Savings Banks, became First Deputy Chairman of the Board of Administration, Joachim Herrmann, Bavarian State Minister of the Interior, the Second Deputy Chairman, and Hansjörg Christmann the Third Deputy Chairman effective from 1 September 2008.

Changes also took place within the Board of Management. 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. Dr. Gerhard Gribkowsky also 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 the Financial Markets Business Area from Dr. Ralph Schmidt in addition to his responsibilities for the Corporates Business Area. Stefan Ermisch was appointed to the Board of Management on 1 July 2008 and made responsible for Financial Office, IT and Operations.

Changes to BayernLB's Board of Management

2008 annual accounts audited and approved

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

Unqualified opinions were granted upon completion of the audit in all cases. The auditors' reports were discussed thoroughly in the meetings held by the Board of Administration and its Financial Statements Audit Committee on 24 April 2009. These meetings were attended by the auditors, who explained the principal findings of the audit and were available to answer questions. Following its own final examination of the audit and on the recommendation of the Financial Statements Audit Committee, the Board of Administration approved the findings of the external audit.

In its meeting on 24 April 2009, the Board of Administration adopted the Bank's annual accounts submitted by the Board of Management and gave its approval to the management report, consolidated accounts and Group management report. It was decided that in view of the poor business performance and negative annual result for 2008, a dividend will not be paid by BayernLB Holding, which holds 100 percent of the nominal capital of the Bank.

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

A thank you to the Board of Management and all the staff

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

It would also like to wish them every success in tackling the key tasks for 2009, particularly the challenges in restructuring the Group and establishing the new business model. The Board of Administration is confident that BayernLB will consolidate and expand its strong position in a fiercely competitive and tough market environment.

Munich, 24 April 2009

The Board of Administration

Georg Fahrenschon
Chairman

**Board of
Administration
adopts BayernLB's
annual accounts and
approves manage-
ment report, consoli-
dated accounts
and Group manage-
ment report**

4

4 Committees and advisory boards

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General meeting*

Dr. Siegfried Naser

Deputy Chairman until 31 August 2008
Chairman from 1 September 2008
Executive President
Association of Bavarian Savings Banks
Munich

Erwin Huber

Chairman until 31 August 2008
Deputy Chairman from
1 September 2008 until
30 October 2008 in his position
as State Minister
Bavarian State Ministry of Finance
Munich

Georg Fahrenschon

Deputy Chairman
since 30 October 2008
State Minister
Bavarian State Ministry of Finance
Munich

Dr. Michael Bauer

since 17 January 2008
Deputy Secretary
Bavarian State Ministry of Finance
Munich

Wolfgang Bayerl

First Lord Mayor
Neunburg v. Wald

Dr. Otmar Bernhard

17 January 2008 until
30 October 2008 in his position
as State Minister
Bavarian State Ministry for the
Environment, Health and Consumer Pro-
tection
Munich

Ludwig Bronold

until 30 April 2008 in his position
as 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

until 30 April 2008 in his position
as Chief District Administrator
Starnberg

Erich Josef Geßner

since 1 September 2008
Chief District Administrator
Neu-Ulm

Martin Haf

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

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

Savings Bank Director
Chairman of the Board of Directors
of Sparkasse Landshut
Landshut

Rudolf Heiler

First Lord Mayor
Grafing

Joachim Herrmann

State Minister
Bavarian State Ministry of the Interior
Munich

Dr. Jörg Jung

until 30 November 2008 in his position
as Under Secretary
Bavarian State Ministry of the Interior
Munich

Gebhard Kaiser

until 31 August 2008 in his position
as Chief District Administrator
Sonthofen

Norbert Kastner

Lord Mayor
Coburg

Wolfgang Kelsch

until 30 April 2008 in his position
as First Lord Mayor
Wendelstein

Harald Leitherer

Chief District Administrator
Schweinfurt

Josef Miller

until 30 October 2008
in his position as 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

until 30 April 2008 in his position
as 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

Dieter Seehofer

since 30 April 2008
Savings Bank Director
Member of the Board of Directors
of Sparkasse Ingolstadt
Ingolstadt

* Relevant for the period from 1 January to 31 December 2008

Dr. Klaus-Jürgen Scherr

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

Dr. Johann Schleicher

Under Secretary
Bavarian State Ministry of Economic
Affairs, Infrastructure, Transport and
Technology
Munich

Erwin Schneider

since 1 September 2008
Chief District Administrator
Altötting

Dr. Walter Schön

Deputy Secretary
Bavarian State Chancellery
Munich

Christa Stewens

until 30 October 2008
in her position as State Minister
Bavarian State Ministry
of Employment and Social Order,
the Family and Women
Munich

Heinz Wöfl

since 1 September 2008
Chief District Administrator
Regen

Dr. Reinhard Wieczorek

Councillor City of Munich
Munich

Board of Administration*

Georg Fahrenschon

Chairman since 30 October 2008
State Minister
Bavarian State Ministry of Finance
Munich

Erwin Huber

First Deputy Chairman until
31 August 2008
Chairman from 1 September 2008
until 30 October 2008 in his position
as State Minister
Bavarian State Ministry of Finance
Munich

Dr. Siegfried Naser

Chairman until 31 August 2008
First Deputy Chairman since
1 September 2008
Executive President
Association of Bavarian Savings Banks
Munich

Joachim Herrmann

Third Deputy Chairman until
31 August 2008
Second Deputy Chairman
since 1 September 2008
State Minister
Bavarian State Ministry of the Interior
Munich

Hansjörg Christmann

Second Deputy Chairman
until 31 August 2008
Third Deputy Chairman
since 1 September 2008
Chief District Administrator
First President of the Association
of Bavarian Savings Banks
Dachau

Alois Hagl

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

* Relevant for the period from 1 January to 31 December 2008

Board of Administration*

Jürgen W. Heike

until 30 October 2008 in his position
as State Secretary
Bavarian State Ministry of the Interior
Munich

Karl-Ludwig Kamprath

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

Emilia Müller

until 30 October 2008
in her position as State Minister
Bavarian State Ministry of Economic
Affairs, Infrastructure, Transport
and Technology
Munich

Hans Schaidinger

Lord Mayor
President of the Bayerischer Städtetag
Regensburg

Klaus Weigert

Deputy Secretary
Bavarian State Ministry of Finance
Munich

Martin Zeil

since 20 November 2008
State Minister
Bavarian State Ministry of Economic
Affairs, Infrastructure, Transport and
Technology
Munich

Financial Statements Audit Committee*

Georg Fahrenschon

since 18 December 2008
State Minister
Bavarian State Ministry of Finance
Munich

Erwin Huber

Deputy Chairman
(until 23 September 2008)
Chairman from 24 September 2008
to 30 October 2008 in his position
as State Minister
Bavarian State Ministry of Finance
Munich

Dr. Siegfried Naser

Chairman until 23 September 2008
Deputy Chairman since
24 September 2008
Executive President
Association of Bavarian Savings Banks
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

until 30 October 2008 in his position
as 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

until 30 October 2008 in her position
as State Minister
Bavarian State Ministry
of Infrastructure, Transport
and Technology
Munich

Martin Zeil

since 18 December 2008
State Minister
Bavarian State Ministry of
Economic Affairs, Infrastructure,
Transport and Technology
Munich

* Relevant for the period from 1 January to 31 December 2008

Trustees*

Dr. Werner Böhme

Senior Assistant Secretary (retired)

First Deputy

Norbert Schulz

Senior Assistant Secretary (retired)
Bavarian State Ministry of the Interior

Second Deputy

Dr. Manfred Seume

Senior Assistant Secretary (retired)

Savings Bank Advisory Council*

Renate Braun

Savings Bank Director
Chairwoman of the Board
of Directors of Sparkasse Passau
Passau

Stefan Erbacher

Savings Bank Director
Chairman of the Board of Directors
of Sparkasse Kulmbach-Kronach
Retired as of 31 December 2008

Rudolf Faltermeier

Vice President
Association of Bavarian Savings Banks
Munich

Günter Götz

Savings Bank Director
Chairman of the Board of Directors
of Sparkasse Oberpfalz Nord
Weiden
Member until 31 October 2008

Dr. Rudolf Gingele

Savings Bank Director
Member of the Board of Directors
of Sparkasse Regensburg
Regensburg
Member since 1 November 2008

Willi Neupärtl

Savings Bank Director
Chairman of the Board of Directors
of Sparkasse Erding-Dorfen
Erding

Walter Pache

Savings Bank Director
Chairman of the Board of Directors
of Sparkasse Günzburg-Krumbach
Günzburg

Johann Reiter

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

Hans Schmittner

Savings Bank Director
Member of the Board of Directors
of Sparkasse Miltenberg-Obernburg
Miltenberg

Hans Wölfel

Savings Bank Director
Chairman of the Board of Directors
of Sparkasse Fürth
Fürth

* Relevant for the period from 1 January to 31 December 2008

Economic Advisory Council*

Dr. Sebastian Anneser

Canon
Archepiscopal Financial Director
Archdiocese of Munich and Freising
Archepiscopal Diocesan Authorities
Financial Department
Munich

Willi Berchtold

Member of the Board of Directors
of ZF Friedrichshafen AG
Friedrichshafen

Dr. Manfred Bode

Managing Shareholder
Wegmann & Co
Unternehmens-Holding KG
Munich

Detlev Bremkamp

Vice Chairman
Mondial Assistance SA, Paris
Munich

Gerd A. Bühler

Managing Shareholder
GAB Grundstücks-, Finanzierungs-,
Verwaltungs- und Beteiligungs GmbH
Munich

Wolfgang Deml

Chairman of the Board
of Directors of BayWa AG
Munich
(until 30 June 2008)

Dr. Dr. Axel Diekmann

Managing Director
Verlagsgruppe Passau
Passau

Georg Fahrenschohn

Bavarian State Minister
Bavarian State Ministry of Finance
Munich
(Curator from 1 December 2008)

Prof. Dr. Kurt Faltlhauser

State Minister (retired)
Of Counsel
Peters, Schöneberger u. Partner
Rechtsanwälte, Wirtschaftsprüfer,
Steuerberater
Munich

Werner Frischholz

Member of the Board of Directors
of KRONES AG
Neutraubling

Stephan Gemkow

Member of the Board of Directors
of Deutsche Lufthansa AG
Cologne

Prof. Dr. Erich Greipl

Managing Director
METRO Vermögensverwaltung GmbH
Düsseldorf

Dipl.-Ing. Peter Hamberger

Managing Shareholder
Hamberger Industrierwerke GmbH
Rosenheim

Franz Josef Haslberger

Freising

Dr.-Ing. E.h. Martin Herrenknecht

Chairman of the Board of Directors
of Herrenknecht AG
Schwanau-Allmannsweier

**SHS Karl Friedrich, Hereditary
Prince of Hohenzollern**

General Manager of
Unternehmensgruppe
Fürst von Hohenzollern
Sigmaringen
(until 29 February 2008)

Erwin Horak

President
Staatliche Lotterieverwaltung
Munich

Prof. Dr. h.c. Karlheinz Hornung

Member of the Board of Directors
of MAN Aktiengesellschaft
Munich

**Erwin Huber, MdL (member of
the Bavarian Parliament)**

Bavarian State Minister (retired)
Bavarian Parliament
Munich
(Curator until 30 October 2008)

Dr. Dieter Hundt

Chairman of the Supervisory Board
of ALLGAIER WERKE GmbH
Uhingen

Dr. Dirk Ippen

Managing Director
Münchener Zeitungs-Verlag GmbH
& Co. KG
Munich

Hanswilli Jenke

Managing Director
Haslberger Finanzdienstleistungs-
und Beteiligungs GmbH
Freising

Dr. Hermann Jung

Member of the Group's Board
of Directors of Voith AG
Heidenheim

Dr. Michael Kerkloh

Chairman of the Management
of Flughafen München GmbH
Munich

Dr.-Ing. Martin Komischke

Chairman of the Group's Management
of Hoerbiger Holding AG
Zug

Stefan Krause

Member of the Board
of Directors of BMW AG
Munich
(until 31 March 2008)

Dipl.-Kfm. Xaver Kroner

Director
Verband bayerischer
Wohnungsunternehmen e.V.
Munich

Dr. Wolfhard Lechnitz

Chairman of the Board of
Directors of IVG Immobilien AG
Bonn

Arnulf Lode

Vice President
ADAC Allgemeiner Deutscher
Automobil-Club e. V.
Munich

* Relevant for the period from 1 January to 31 December 2008

Klaus Lutz

Chairman of the Board
of Directors of BayWa AG
Munich
(from 1 July 2008)

Dr. Klaus-Dieter Maubach

Chairman of the Board
of Directors of E.ON Energie AG
Munich
(from 1 August 2008)

Josef Anton Meggle

Chairman of the Supervisory Board
of Meggle AG
Wasserburg am Inn

Hartmut Mehdorn

Chairman of the Board of Directors
of Deutsche Bahn AG
Berlin

Dr. Siegfried Naser

Executive President
Association of Bavarian Savings Banks
Munich
(Curator)

Jan Peter Nonnenkamp

Member of the Board of Directors
of Knorr-Bremse AG
Munich
(until 7 November 2008)

Lothar Panzer

Chairman of the Board of Directors
of Bayerische Versorgungskammer
Munich

Dr. Helmut Platzer

Chairman of the Board of Directors
of AOK Bayern – Die Gesundheitskasse
Munich

Dr. Wolfgang Plischke

Member of the Board
of Directors of Bayer AG
Leverkusen

Prof. Dr. Klaus Rauscher

Berlin

Heinz-Reiner Reiff

Managing Director
Stahlgruber Otto Gruber
GmbH & Co. KG
Poing

Angelique Renkhoff-Mücke

Chairwoman of the Board
of Directors of WAREMA Renkhoff
Holding AG
Marktheidenfeld

Andreas Renschler

Member of the Board
of Directors of Daimler AG
Stuttgart

Hans Peter Ring

Chief Financial Officer
EADS N.V.
Ottobrunn

Randolf Rodenstock

President
Vereinigung der Bayerischen
Wirtschaft e.V.
Munich

Dr. Christian Rödl

Acting Shareholder
Rödl & Partner
Nuremberg

Prof. Dr. Bernd Rudolph

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

Maria-Elisabeth Schaeffler

Shareholder
INA-HOLDING SCHAEFFLER KG
Herzogenaurach

Dipl.-Kfm. Peter Scherkamp

General Manager
Wittelsbacher Ausgleichsfonds
Munich

Manfred F. R. Schmidt

Chairman of the Board of Directors
of Stuttgarter Lebensversicherung a. G.
Stuttgart

Dr. Jörg Schneider

Member of the Board of Directors
of Münchener Rückversicherungs-Gesell-
schaft
Munich

Michael Schneider

Chairman of the Board of Directors
of LfA Förderbank Bayern
Munich

Dipl.- Kfm. Dieter Schön

Managing Director
Schön-Klinik Verwaltung GmbH
Prien

Stefan Schörghuber

Chairman of the Board of Directors
of Unternehmensgruppe Schörghuber
Munich
(deceased as of 25 November 2008)

Friedrich Schubring-Giese

Chairman of the Board of Directors
of Versicherungskammer Bayern
Munich

Dr.-Ing. Dieter Soltmann

Honorary President
Chamber of Industry and Commerce
for Munich and Upper Bavaria
Munich

Prof. Dr. Manfred Steiner

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

Axel Strotbek

Member of the Board
of Directors of AUDI AG
Ingolstadt

Dr. Johannes Teysen

Chief Operating Officer
E.ON AG
Düsseldorf
(until 31 May 2008)

Christoph Thomas

Managing Shareholder
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

Managing Shareholder WIKA
Alexander Wiegand GmbH & Co. KG
Klingenberg

Manfred Wutzlhofer

Chairman of the Management
of Messe München GmbH
Munich

* Relevant for the period from 1 January to 31 December 2008

BayernLB 2008 Annual Report and Accounts

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This is an English translation of the German original. The wording of the German Annual Report of Bayerische Landesbank is the official and binding version.

Sparkassen-Finanzgruppe Bayern

Sparkassen-Finanzgruppe Market leader in Bavaria		
<ul style="list-style-type: none"> • Aggregate total assets (bank business): EUR 580 bn • Aggregate regulatory capital for supervisory purposes (excl. BayernLB): EUR 13.9 bn • Aggregate premium volume (insurance business): EUR 5.9 bn • Staff: approx. 73,000 		
		
BayernLB	75 Savings banks	Versicherungskammer Bayern
<p>Consolidated total assets: EUR 421.7 bn</p> <p>Staff: Bank: 4,832 Group: 20,285</p>	<p>Total assets: EUR 167 bn</p> <p>Staff: approx. 46,640</p> <ul style="list-style-type: none"> • Branches: 2,562 • Self-service branches: 314 • Advisory centres: 406 <p>Customer loans: EUR 96 bn Customer deposits: EUR 128 bn</p> <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>Sparkassen-Immobilien Vermittlungs GmbH & Co. KG Vol. of business brokered: EUR 1.16 bn</p> <p>DekaBank Share of Bavarian savings bank org. incl. BayernLB's share: 9.4% Consolidated total assets: EUR 139 bn</p> <p>Landesbank Berlin Share of Bavarian savings bank org. incl. VKB share: 13.6%</p> <p>Deutsche Leasing Share of Bavarian savings banks: 12.4% New business volume: EUR 9.0 bn</p>	<p>Premium volume: EUR 5.9 bn</p> <p>Staff: 6,466</p> <p>Investment portfolio: EUR 34 bn</p> <p>Germany's largest public-sector insurance provider</p> <p>Market leader in Bavaria and the Palatinate</p> <p>Entities within the Versicherungskammer Bayern Group</p> <ul style="list-style-type: none"> • Composite insurers • Life insurers • Health insurers • Re-insurers
		
Bayerische Landesbausparkasse		
<p>Number of building-saving contracts: 2.0 m</p> <p>Volume of building-saving contracts: EUR 50.6 bn</p>		
Bayerische Landesbodenkreditanstalt		
<p>Loan volume: EUR 19.3 bn</p> <p>Subsidised contracts: 13,705 flats</p>		
<p>Entities of the BayernLB Group</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 <p>and many other participations offering special services to savings banks</p>		
		
Association of Bavarian Savings Banks		
<ul style="list-style-type: none"> • Association members: 75 Bavarian savings banks and their owners • Owner and guarantor of Versicherungskammer Bayern • Owner and guarantor of BayernLB together with the Free State of Bavaria 		

Bayerische Landesbank
Brienner Strasse 18
80333 Munich
Germany
www.bayernlb.com

