

08

# Group Financial Report

First quarter 2008

 Finanzgruppe Bayern

 Bayern LB





# Contents

<b>BayernLB Group – the first quarter of 2008 at a glance</b>		4
<b>Business performance in the first quarter of 2008</b>	Earnings	5
	Net assets and financial position	7
	Segment results	8
	Outlook	10
<b>Administrative bodies</b>		11

**Note:**

This Group financial report as at 31 March 2008 has been prepared with great care. The information is presented voluntarily for our customers and the public. The report does not contain all the information and data required under IAS 34 (Interim Financial Reporting) nor does it fully comply with the disclosure and valuation standards of IFRS. The results have not been audited or reviewed for correctness.

# BayernLB Group – the first quarter of 2008 at a glance

## Performance

EUR million	1. 1. – 31. 3. 2008	3/12 2007
Net interest income	633	543
Risk provisions for credit business	-71	-29
Net commission income	123	95
Result from fair value measurement	-478	-59
Result from hedge accounting	16	7
Result from financial investments	-501	-84
Administrative expenses	-595	-441
Earnings before taxes (operating result)	-770	64

## Balance sheet figures

EUR billion	31. 3. 2008	31. 12. 2007
Total assets	414.2	415.6
Credit volume	271.6	267.5
Equity and subordinated capital	23.2	25.3

## Key banking regulatory data under the German Banking Act

	31. 3. 2008	31. 12. 2007
Core capital (EUR billion)	11.6	11.9
Own funds (EUR billion)	21.1	21.5
Risk positions (EUR billion)	187.2	188.9
Core capital ratio (in %)	7.3	7.4
Total capital adequacy ratio (in %)	11.3	11.4

## Current ratings

	Long-term	Short-term	Pfandbriefe <sup>1</sup>
Fitch Ratings	A+	F1+	AAA
Moody's Investors Service	Aa2	Prime-1	Aaa
Standard & Poor's	A	A-1	AAA

<sup>1</sup> Applies to public-sector Pfandbriefe and mortgage bonds

# Business performance in the first quarter of 2008

## Earnings

EUR million	1. 1. – 31. 3. 2008	3/12 2007
Net interest income	633	543
Risk provisions for credit business	–71	–29
Net interest income after risk provisions	562	514
Net commission income	123	95
Result from fair value measurement	–478	–59
Result from hedge accounting	16	7
Result from financial investments	–501	–84
Administrative expenses	–595	–441
Other result	103	33
Earnings before taxes	–770	64

### Pro forma results, not including the impact of the financial markets crisis

Earnings in the first quarter were significantly affected by the crisis on international financial markets. In order to more clearly compare earnings from operations, the impact of the financial markets crisis has been eliminated from the following. The figures show that the BayernLB Group got off to a satisfactory start in 2008 despite the difficult operating environment and was on par with 2007's performance.

EUR million	1. 1. – 31. 3. 2008	3/12 2007
Earnings before taxes	–770	64
Adjustment for impact of financial markets crisis	1,113	292
Adjusted earnings before taxes	343	356

Financial markets remained unsettled in the first three months of 2008. The crisis that began in the second half of 2007 continued. Since the middle of April 2008, however, a slight easing in market tension has been seen. Nonetheless, it appears too early to conclude that this means the end of the market turmoil.

Overall, the BayernLB Group's business with customers was satisfactory in the first quarter of 2008, in view of the difficult operating environment. Comparisons with the previous year are difficult due not only to the impact of the financial markets crisis but also to the consolidation of Hypo Group Alpe Adria (HGAA) with over 6,800 employees and more than 350 operating locations. HGAA has been consolidated since October 2007. Accordingly, only around one-fourth of HGAA's full-year earnings and expenses are included in the Group's 2007 accounts. The increases in net interest income, net commission income, and other results as well as in administrative expenses are all mainly attributable to the consolidation of HGAA.

Writedowns on the ABS portfolio and other securities portfolios resulting from the financial markets crisis and affecting profit and loss amounted to approximately EUR 1.1 billion in the first quarter of 2008. Not counting these writedowns, first-quarter earnings before taxes would have been EUR 343 million. Including the impact of the write-downs, the pre-tax result was a negative EUR –770 million (2006: EUR 64 million).

The 16.7 percent increase in net interest income to EUR 633 million was primarily due to the consolidation of HGAA. The first-quarter interest income does not include recurring distributions and dividends from non-consolidated shareholdings which mainly take place later in the course of the year.

The increase in risk provisions in the credit business was also mainly attributable to the impact of the consolidation of HGAA. Added to this, writebacks from provisions have returned to a more normal rate from the high levels of previous years, resulting in lower positive figures.

Net commission income rose 29.4 percent to EUR 123 million. Two-thirds of the EUR 28 million increase came from HGAA.

Credit spreads widened as a result of the financial market crisis, leading to writedowns of EUR 621 million on the value of securities and credit derivatives. This was offset by earnings of EUR 143 million, so that the net result from fair value measurement was EUR –478 million (previous year: EUR –59 million).

The result from hedge accounting climbed by EUR 9 million to EUR 16 million.

As in the second half of 2007, the turmoil on financial markets again had a drastic effect on the result from financial investments in the first quarter of 2008. The negative result of EUR –501 million (previous year: EUR –84 million) was almost completely due to writedowns on securities as a result of the crisis.

The other result was marked by earnings from the Group's real estate subsidiaries and HGAA's leasing business, which accounted for around two-thirds of the EUR 70 million increase to EUR 103 million.

The consolidation of HGAA likewise was responsible for much of the increase in administrative expenses, which rose 34.9 percent to EUR 595 million. This figure includes personnel expenses which rose at a somewhat lower rate of 27.6 percent to EUR 277 million. Operating expenses were up by EUR –94 million to EUR –318 million, mainly due to HGAA.

Return on Equity (RoE) was negative as a result of the impact of the financial markets crisis. However, on a pro forma basis excluding the effects of the financial markets crisis, RoE would have been 17.1 percent, within the target range. Based on the reported figures, the cost-income ratio (CIR) was over 100 percent, however the adjusted pro forma figure was 58.5 percent.

## Net assets and financial position

### Assets

EUR million	31. 3. 2008	31. 12. 2007
Cash reserve	2,201	4,207
Loans and advances to banks	69,622	68,311
Loans and advances to customers	180,049	175,567
Risk provisions	-2,415	-2,307
Assets held for trading	81,380	84,812
Positive market values from derivative financial instruments (hedge accounting)	1,954	1,944
Investment assets	64,813	67,827
Investment property	3,355	3,375
Property, plant and equipment	1,776	1,786
Intangible assets	2,477	2,571
Income tax assets	5,089	5,397
Other assets	3,879	2,148
<b>Total assets</b>	<b>414,180</b>	<b>415,639</b>

### Liabilities

EUR million	31. 3. 2008	31. 12. 2007
Liabilities to banks	92,579	93,446
Liabilities to customers	97,272	92,617
Securitised liabilities	120,875	122,895
Liabilities held for trading	66,573	68,568
Negative fair values from derivative instruments (hedge accounting)	1,872	2,104
Provisions	3,226	3,016
Income tax liabilities	4,808	5,192
Other liabilities	3,822	2,454
Subordinated capital	12,380	12,453
Equity	10,773	12,893
• Equity excluding minority interests	8,803	10,835
• Minority interests	1,970	2,058
<b>Total liabilities</b>	<b>414,180</b>	<b>415,639</b>

Total assets eased 0.3 percent to EUR 414.2 billion.

Many other asset and liability items were also virtually unchanged. The largest changes in absolute terms occurred in loans and advances to customers and in customer deposits.

Loans and advances to customers were up by EUR 4.4 billion to EUR 180.0 billion, with HGAA accounting for most of the increase.

Customer deposits were also higher, rising 5.1 percent, or EUR 4.7 billion, to EUR 97.3 billion.

Equity disclosed was EUR 2 billion lower as at 31 March 2008. Besides additions to the revaluation reserve amounting to approximately EUR 1 billion resulting from write-downs in market value due to the financial markets crisis, the negative result for the quarter also had a major impact. Equity is expected to rise again over the course of the year, in part thanks to the implementation of a risk protection plan supported by the Bank's two owners.

Regulatory capital slipped slightly by EUR 0.4 billion to EUR 21.1 billion. The total capital adequacy ratio dipped 0.1 percentage points to 11.3 percent, while the core capital ratio also declined 0.1 percentage points to 7.3 percent.

### **Segment results**

The segment report is based on the monthly internal management report to the Board of Management and breaks down results by the Group's segments comprising the operating Business Areas; the legally dependent entities BayernLabo and LBS Bayern; the Group's strategic subsidiaries and the Support Operations/Other segment. In addition to the operating profit of the business areas/support operations, the results of the individual segments include the results of the consolidated subsidiaries and units allocated to each segment.

The Support operations/Other segment shows the earnings contributions which are not attributable to the sales segments. This includes in particular earnings contributions from Support Operations that cannot be allocated to the operational units in a way which reflects where they were generated. This segment also includes earnings from participations which are not allocated to the operating segments.

## Segment report as at 31 March 2008

EUR million	Corporates	Real Estate	Financial Markets	Financial Institutions & Sovereigns	Savings Banks & Bavarian Market	BayernLabo/ LBS Bayern	The Group's Strategic Subsidiaries	Support operations/ Other	Group
Net interest income	79	43	14	32	19	81	349	15	633
Risk provisions for credit business	3	4	0	0	0	-1	-77	0	-71
Net commission income	25	15	9	13	13	0	48	-1	123
Result from fair value measurement	11	3	-415	12	9	-1	-48	-49	-478
Result from hedge accounting	0	0	-6	0	0	0	23	-1	16
Result from financial investments	1	0	-490	0	0	-5	-7	0	-501
Administrative expenses	-61	-30	-43	-19	-44	-34	-330	-34	-595
Other result	0	0	3	0	1	1	66	32	103
<b>Earnings before taxes</b>	<b>58</b>	<b>36</b>	<b>-929</b>	<b>38</b>	<b>-1</b>	<b>42</b>	<b>24</b>	<b>-37</b>	<b>-770</b>
Return on equity (%)	12.0%	19.9%	>-100%	22.1%	-2.5%	12.4%	1.5%	—	—
Cost-income ratio (%)	53.1%	48.2%	>100%	33.5%	>100%	41.5%	75.3%	—	>100%

The Real Estate; Financial Institutions/Sovereigns; Savings Banks and Bavarian Market; and BayernLabo/LBS Bayern segments either hit or exceeded their targets. This is even more positive, as the extent of the financial markets crisis today could not be foreseen when the targets were drawn up.

The earnings performance of the Corporates segment was relatively good, in view of the fiercely competitive environment and sharp decline in the value of the US dollar vs. the euro in the first quarter.

The negative results in the Financial Markets segment were due to further writedowns on the securities portfolios.

The quarterly results for the Group Strategic Subsidiaries segment are currently below target also due to writedowns on their securities portfolios and the overall difficult business environment. This segment's earnings are expected to significantly rebound over the course of the year.

### Outlook

Customer-related business is essentially satisfactory and on track. Overall results will be highly dependent on the future course of the financial markets crisis which cannot be foreseen at this time. In order to ensure BayernLB's long-term freedom of action and planning, a plan has been agreed with the Group's owners to shield it from up to EUR 6 billion in theoretical default risks in the ABS portfolio. BayernLB would bear the first EUR 1.2 billion in defaults by itself. The goal of the risk protection plan is to shield BayernLB from further volatility in the market value of the ABS securities portfolio. Moreover, a reduction in market value volatility will maintain BayernLB's freedom of action and planning in regard to further developing its business model. Several models for the structure of the protection plan, which differ mainly in their impact on the balance sheet and operational complexity, are currently being examined.

# Administrative bodies of BayernLB

## Board of Management\*

### Dr Michael Kemmer

Chairman  
 Corporate Center Support Operations

- Corporate Development/BoM Support Division
- Press & Media Relations Division
- Audit Division

Financial Office Support Operations

### Dr Rudolf Hanisch

Deputy Chairman  
 Corporate Center Support Operations

- Legal Services and Prevention of Money Laundering Division

Real Estate Business Area  
 Financial Institutions & Sovereigns Business Area  
 BayernLabo

### Theo Harnischmacher

Deputy Chairman  
 Corporate Center Support Operations

- Human Resources Division
- Organisation & IT Division

Savings Banks and Bavarian Market Business Area  
 LBS Bayern

### Stefan W. Ropers

Corporate Center Support Operations

- Economics and Research Division

Corporates Business Area  
 Financial Markets Business Area

### Dr Ralph Schmidt

Risk Office Support Operations  
 incl. Compliance Center<sup>1</sup>

\* As per 7 May 2008

<sup>1</sup> The Compliance Center reports directly to the Board of Management but is part of the Legal Services Division in organisational terms.

**Board of Administration****Dr Siegfried Naser**

Chairman  
Executive President  
Association of Bavarian Savings Banks  
Munich

**Erwin Huber**

First Deputy Chairman  
State Minister  
Bavarian State Ministry  
of Finance  
Munich

**Hansjörg Christmann**

Second Deputy Chairman  
Chief District Administrator  
Dachau

**Joachim Herrmann**

Third Deputy Chairman  
State Minister  
Bavarian State Ministry  
of the Interior  
Munich

**Alois Hagl**

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

**Jürgen W. Heike**

Permanent Secretary  
Bavarian State Ministry  
of the Interior  
Munich

**Karl-Ludwig Kamprath**

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

**Emilia Müller**

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  
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