2 BayernLB Group's consolidated financial statements

Income statement

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

	Notes	EUR million	2008 EUR million	2007 EUR million
Interest income		22,158		19,766
Interest expenses		-19,488		-17,577
Net interest income	(25)		2,670	2,189
Risk provisions for the credit business	(26)		-1,656	-115
Net interest income after risk provisions			1,014	2,074
Commission income		1,114		859
Commission expenses		-531		-479
Net commission income	(27)		584	380
Gains or losses on fair value measurement	(28)		-2,138	-257
Gains or losses on hedge accounting	(29)		-136	27
Gains or losses on investments	(30)		-1,933	-466
Income from interests in companies valued at equity			9	130
Administrative expenses	(31)		-2,620	-1,765
Other income	(32)		141	136
Operating profit/loss			**-5,079**	**259**
Restructuring expenses	(33)		-87	-4
Gains or losses on ordinary activities/ Earnings before taxes			**-5,166**	**255**
Income taxes	(34)		-191	-80
Earnings after taxes			**-5,358**	**175**
Minority interests			274	-83
Consolidated net income/loss			**-5,084**	**92**

Figures in the tables may be rounded by ± one unit

Balance sheet

Bayerische Landesbank
as at 31 December 2008

Assets	Notes	2008 EUR million	2007 EUR million
Cash reserves	(8, 35)	3,796	4,207
Loans and advances to banks	(9, 36)	89,638	68,311
Loans and advances to customers	(9, 37)	202,567	175,567
Risk provisions	(10, 38)	-3,439	-2,307
Portfolio hedge adjustment assets		546	–
Assets held for trading	(11, 39)	47,349	84,812
Positive fair values from derivative financial instruments (hedge accounting)	(12)	3,929	1,944
Investments	(13, 40)	62,455	67,702
Interests in companies measured at equity	(41)	106	125
Investment property	(14, 42)	3,517	3,375
Property, plant and equipment	(43)	1,951	1,786
Intangible assets	(15, 44)	2,213	2,571
Current tax assets	(45)	269	362
Deferred tax assets	(45)	4,390	5,034
Other assets	(16, 46)	2,378	2,148
Total assets		**421,666**	**415,639**

Figures in the tables may be rounded by ± one unit

(Balance sheet continued)

Liabilities	Notes	2008 EUR million	2007 EUR million
Liabilities to banks	(17, 47)	142,480	93,446
Liabilities to customers	(17, 48)	91,307	92,617
Securitised liabilities	(17, 49)	117,479	122,895
Liabilities held for trading	(18, 50)	34,054	68,568
Negative fair values from derivative financial instruments (hedge accounting)	(19)	3,086	2,104
Provisions	(20, 51)	3,112	3,016
Current tax liabilities	(52)	531	277
Deferred tax liabilities	(52)	4,371	4,915
Other liabilities	(21, 53)	2,160	2,454
Subordinated capital	(54)	11,821	12,453
Equity	(55)	11,265	12,893
• Equity excluding minority interests		8,693	10,835
– Subscribed capital		3,556	3,082
– Specific-purpose capital		612	612
– Hybrid capital instruments	(22)	545	621
– Capital reserve		1,476	476
– Retained earnings		4,909	6,547
– Revaluation reserve		-2,265	-672
– Foreign currency translation reserve		-141	43
– Consolidated profit/loss		–	126
• Minority interests		2,573	2,058
Total liabilities		**421,666**	**415,639**

Figures in the tables may be rounded by ± one unit

Statement of changes in equity

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

	Parent									Minority interests	
EUR million	Subscribed capital	Specific-purpose capital	Hybrid capital instruments	Capital reserve	Retained earnings	Revaluation reserve	Currency translation reserve	Consolidated net income/ loss	**Equity before minority interests**		**Consolidated equity**
As at 1 Jan 2007	**3,082**	**612**	**581**	**476**	**6,797**	**330**	**7**	**122**	**12,007**	**552**	**12,559**
Changes in the revaluation reserve[1]						-1,002			-1,002		-1,002
Currency-related changes							36		36	2	38
Total changes not recognised in income						*-1,002*	*36*		*-966*	*2*	*-964*
Consolidated net profit/loss								92	92	83	175
Total consolidated net profit/ loss						*-1,002*	*36*	*92*	*-874*	*85*	*-789*
Capital increase/ capital decrease											
Change in the scope of consolidation and other			239		-30				209	1,427	1,636
Allocations to/withdrawals from reserves					-220			220	–		–
Withdrawals from hybrid capital instruments[2]			-199						-199	-6	-205
Distributions on silent partners' capital contributions, profit participation rights and specific purpose capital[2]								-186	-186		-186
Dividends paid								-122	-122		-122
As at 31 Dec 2007	**3,082**	**612**	**621**	**476**	**6,547**	**-672**	**43**	**126**	**10,835**	**2,058**	**12,893**

1 *Items that have been offset directly against equity are shown separately in the notes.*

2 *Includes distributions on silent partners' capital contributions and profit participation rights subject to split accounting.*

3 *Information on year-on-year changes is given in the notes.*

4 *Information on transactions with owners is given in the notes.*

(Statement of changes in equity continued)

	Parent									Minority interests	
EUR million	Subscribed capital	Specific-purpose capital	Hybrid capital instruments	Capital reserve	Retained earnings	Revaluation reserve	Currency translation reserve	Consolidated net income/ loss	**Equity before minority interests**		**Consolidated equity**
Carried forward as at 31 Dec 2007	**3,082**	**612**	**621**	**476**	**6,547**	**-672**	**43**	**126**	**10,835**	**2,058**	**12,893**
Adjustments as per IAS 8[3]					-55				-55	67	12
As at 1 Jan 2008	**3,082**	**612**	**621**	**476**	**6,492**	**-672**	**43**	**126**	**10,780**	**2,125**	**12,905**
Changes in the revaluation reserve[1]						-1,593			-1,593		-1,593
Currency-related changes							-184		-184	-4	-188
Transactions with owners[4]					1,612				1,612		1,612
Total changes not recognised in profit or loss					*1,612*	*-1,593*	*-184*		*-165*	*-4*	*-169*
Consolidated net profit/loss								-5,084	-5,084	-274	-5,358
Total consolidated net profit/loss					*1,612*	*-1,593*	*-184*	*-5,084*	*-5,249*	*-278*	*-5,527*
Capital increase/ capital decrease	500			3,000					3,500	900	4,400
Change in the scope of consolidation and other	-26		-18		-160				-204	-160	-364
Allocations to/withdrawals from reserves				-2,000	-3,093			5,093	–		–
Withdrawals from hybrid capital instruments[2]			-58		58					-14	-14
Distributions on silent partners' capital contributions, profit participation rights and specific purpose capital[2]								-9	-9		-9
Dividends paid								-126	-126		-126
As at 31 Dec 2008	**3,556**	**612**	**545**	**1,476**	**4,909**	**-2,265**	**-141**	**–**	**8,692**	**2,573**	**11,265**

1 *Items that have been offset directly against equity are shown separately in the notes.*

2 *Includes distributions on silent partners' capital contributions and profit participation rights subject to split accounting.*

3 *Information on year-on-year changes is given in the notes.*

4 *Information on transactions with owners is given in the notes.*

Cash flow statement

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

EUR million	2008	2007
Net profit or loss for the period	**-5,358**	**175**
Items in annual net income not affecting the cash flow and carryforwards to cash flow from operating activities		
• depreciation, value adjustments and write-ups on receivables and assets	2,192	161
• changes to provisions	-68	-186
• changes to other items not affecting cash flow	1,984	-1,356
• gains or losses on the sale of assets	-47	-180
• other adjustments (net)	-2,919	-1,853
Sub-total	**-4,216**	**-3,239**
Changes to assets and liabilities from operating activities		
• loans and advances		
– to banks	-21,046	4,346
– to customers	-28,339	-12,836
• securities (unless investments) and derivatives	6,014	-2,674
• other assets from operating activities	-231	-439
• liabilities		
– to banks	49,344	11,500*
– to customers	-1,310	7,421
• securitised liabilities	-5,416	-4,410
• other liabilities from operating activities	-120	849
• cash flows from hedging derivatives	-1,139	643
Interest and dividends received	59,848	54,633
Interest paid	-56,557	-52,630
Income tax payments	-423	-233
Cash flow from operating activities	**-3,591**	**2,931***

* *Adjustment due to initial consolidation of HGAA*

(Cash flow statement continued)

EUR million	2008	2007
Cash inflows from the sale of		
• investments	1,618	1,107
• interests in companies valued at equity	28	–
• investment property	223	130
• property, plant and equipment	300	61
• intangible assets	57	35
Cash outflows for the acquisition of		
• investments	-1,311	-3,113
• interests in companies valued at equity	-1	–
• investment property	-355	-321
• property, plant and equipment	-594	-138
• intangible assets	-81	-85
Effects from changes in the scope of consolidation		
• cash inflows from the sale of subsidiaries and other business units	1	1
• cash outflows for the acquisition of subsidiaries and other business units	-315	-832
Cash flow from investment activities	**-430**	**-3,155**
Cash inflows from allocations to equity	3,223	236
Disbursements to company owners and minority shareholders	-128	-169
Changes in cash from subordinated capital (net)	-456	2,478
Cash inflow from an increase in minority interests	926	4
Cash flow from financing activities	**3,565**	**2,549**
cash in hand at end of previous period	4,207	1,856
+/- cash flow from operating activities	-3,591	2,931*
+/- cash flow from investment activities	-430	-3,155
+/ -cash flow from financing activities	3,565	2,549
+/- exchange-rate, consolidation-group and valuation-related change in cash on hand	45	26
Cash in hand at end of period	**3,796**	**4,207***

* *Adjustment due to initial consolidation of HGAA*

Notes

1 **Notes on the consolidated financial statements**

2 **Accounting policies**

(1) Basis
(2) Changes on the previous year
(3) Scope of consolidation
(4) Consolidation principles
(5) Currency translation
(6) Offsetting
(7) Financial instruments
(8) Cash reserves
(9) Receivables
(10) Risk provisioning
(11) Assets held for trading
(12) Positive fair values from derivative financial instruments (hedge accounting)
(13) Investments
(14) Investment property/property, plant and equipment
(15) Intangible assets
(16) Other assets
(17) Liabilities
(18) Liabilities held for trading
(19) Negative fair values from derivative financial instruments (hedge accounting)
(20) Provisions
(21) Other liabilities
(22) Hybrid capital instruments
(23) Leasing
(24) Taxes

3 **Segment reporting**

Notes

Notes on the consolidated financial statements

The consolidated financial statements for Bayerische Landesbank (BayernLB), Munich, for financial year 2008 were prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to Commission Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 (including all addenda), as well as supplementary provisions applicable under section 315a (1) of the German Commercial Code (HGB). In addition to the IFRS-defined standards, IFRS also comprise the International Accounting Standards (IAS), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). All standards and interpretations that are mandatory within the EU for financial year 2008 have been applied.

The consolidated financial statements contain the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the notes including the segment report. The reporting currency is the euro.

Unless otherwise stated, all amounts are given in EUR million and rounded. Figures in the tables may be rounded by ± one unit and are not normally preceded by a symbol if it is clear from the context.

The Group management report including risk report, which also contains the notes pursuant to IFRS 7.31 and IFRS 7.42, has been published in a separate section of the annual report.

Accounting policies

(1) Basis

Pursuant to IAS 27.28, BayernLB Group's accounts are drawn up in line with group-wide accounting and valuation methods. Recognition and measurement are carried out on a going concern basis.

Income and expenses are recorded pro rata temporis and recognised in the period to which they are attributable.

Estimates and measurements required for accounting and valuation under IFRS are carried out in accordance with the respective standards. They are continually assessed and are based on past experience and other factors such as expectations of future events. The calculation of the value of risk provisions, provisions, deferred taxes and the measurement of the fair value of financial instruments in particular involves the application of estimates.

An asset is capitalised when it is probable that the future economic benefits will flow to BayernLB Group and its cost can be measured reliably.

A liability is capitalised when it is probable that an outflow of resources embodying economic benefits will result from its settlement and the settlement amount can be measured reliably.

Effects of new and amended IFRS

Except for the amendments to standards IAS 39 and IFRS 7 relating to the reclassification of financial assets, described in note (58), the interpretations (IFRIC 11 and 14, as well as IFRIC 12, which had not yet been incorporated into European law) that were applicable for the first time in the reporting year had no significant effect on the consolidated financial statements.

Except for IFRS 8 (business segments), we have not adopted prematurely any revised or new standards or interpretations (revised IFRS 1, 2, 3, 6; IAS 1, 16, 19, 23, 27, 31, 32, 39 and 40; changes from the IASB's annual improvement process; IFRIC 13, 15, 16, 17) relevant to BayernLB Group issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretation Committee (IFRIC) that do not become mandatory until financial year 2009 or later.

It is expected that these standards will be implemented when they enter into force. No significant impact on recognition and measurement is expected as a result.

(2) Changes on the previous year

To provide a truer picture of earnings, the method for recognising performance of derivatives in economic hedges used to hedge financial instruments reported at fair value through profit or loss (fair value option) has been changed with effect from the reporting year. Gains or losses arising from the sale or measurement of these derivatives are now reported under fair value gains or losses from the fair value option, according to the underlying transaction within the gains or losses from fair value measurement item, instead of under net trading income. Current income is recognised, as with other derivatives in economic hedges, under net interest income. Among the adjustments to the previous year's figures, EUR 19 million was reallocated from the gains or losses on fair value measurement item to net interest income (see notes (25) and (28)).

From the reporting year, the following have been recognised as separate items on the income statement or balance sheet:

- Income from interests in companies valued at equity (formerly: gains or losses on investments);
- Restructuring expenses (formerly: other income); see note (33)
- Interests in companies valued at equity (formerly: investments); see note (41)
- Current tax assets (formerly: income tax assets)
- Deferred tax assets (formerly: income tax assets)
- Current tax liabilities (formerly: income tax liabilities)
- Deferred tax liabilities (formerly: income tax liabilities)

In the reporting year, due to the massive widening of spreads in relation to major counterparties, a counterparty-specific credit spread was included in the valuation of over-the-counter (OTC) derivatives for the first time. The effect from valuing financial instruments at their middle rate rather than their bid and offer price based on sensitivity analyses is also taken into account. The resulting effects are described in note (28).

As the purpose of conducting money market activities – now focused on liquidity management – has changed, loans and advances to banks and customers arising from BayernLB Group's money market activities are categorised as loans and receivables if they were established after 1 July 2008 (see notes (9), (11), (17) and (18)).

In accordance with the International Accounting Standard Board's (IASB) amendments to IAS 39 and IFRS 7 –"Reclassification of Financial Assets" – and to Commission Regulation 1004/2008, available-for-sale and held-for-trading assets have been reclassified as loans and receivables. Further information is provided in notes (7) and (58) .

BayernLB Group has also begun using fair value hedges to hedge portfolios of financial instruments as at the reporting year. Due to this extension of hedge accounting to include portfolio fair value hedges in the broader sense, "portfolio hedge adjustment assets" has been inserted as an additional item on the balance sheet. Further information is provided under note (7).

The following adjustments were also made:

Due to a reallocation from the interests in companies valued at equity item to the interests in non-consolidated subsidiaries, joint ventures, associated companies, and other interests item, the previous year's figures were adjusted by EUR 75 million (see notes (40) and (41)).

In the reporting year at a subsidiary, due to an adjustment related to the previous year, loans and advances to customers was increased by EUR 31 million and risk provisions reduced by EUR 19 million, with no effect on the income statement (see note (38)).

In the reporting year at a subsidiary, due the adjustment of a first-time adoption effect, EUR 67 million was rebooked from retained earnings to minority interests.

(3) Scope of consolidation

Besides the parent company, the group of companies consolidated within BayernLB comprise 166 (2007: 164) subsidiaries, of which two (2007: nine) are special purpose entities and nine (2007: seven) are special funds fully consolidated under IAS 27 and SIC 12. The consolidated financial statements do not contain proportionately consolidated entities.

Five (2007: five) joint ventures and eight (2007: seven) associated companies are valued at equity.

Changes at BayernLB:

The following companies were consolidated for the first time within BayernLB:

Real I. S. AG Gesellschaft für Immobilien Assetmanagement, Munich, was included in the consolidated financial statements for the first time with effect from 1 January 2008 after exceeding a materiality criterion.

The following companies were deconsolidated from BayernLB:

Special purpose entities Isar Securities Ltd., Jersey; Lion Securities Limited, Jersey: Giro Funding US Corporation, Delaware; Giro Multi-Funding Corporation, Delaware; and Giro Lion (US) Funding LLC, Delaware, were previously fully consolidated. Any remaining assets within them were disposed of outside the Group or transferred at carrying value to BayernLB in the first half of the reporting year; any assets and liabilities remaining after 30 June 2008 were immaterial. These five companies were therefore deconsolidated with effect from 1 July of the reporting year. Any income and expenses generated up to 30 June 2008 were included in BayernLB Group's income statement. There were no gains or losses on deconsolidation.

In the reporting year, the fully consolidated special purpose entities Dorrit Investments (Guernsey) Ltd., Guernsey, and Trotwood Investments S.A.R.L., Luxembourg, were dissolved; income and expenses generated up to the final payment are included in BayernLB Group's income statement (based on the respective audited liquidation accounts as at 29 August 2008 and 17 October 2008). There were no gains or losses on deconsolidation.

The deconsolidations reduced consolidated total assets by EUR 2,454 million.

Changes in the consolidated sub-group of Deutsche Kreditbank Aktiengesellschaft (DKB), Berlin:

In the reporting year, the fully consolidated subsidiaries DKB Wohnungsgesellschaft Sachsen mbH, Döbeln; and BayernInvest DKB I-Fonds, Luxembourg, were included in the sub-group financial statements for the first time after exceeding materiality criteria.

Under the divestment and acquisition agreement of 27 August 2008, portions of the assets of the consolidated DKB Wohnungsgesellschaft Thüringen mbH, Gera, were transferred to DKB Wohnungsgesellschaft Thüringen Lusan Brüte GmbH & Co. KG, Gera, and DKB Wohnungsgesellschaft Thüringen Lusan Zentrum GmbH & Co. KG, Gera. DKB Wohnungsgesellschaft Thüringen mbH, Gera, holds a 100 percent stake in both German limited partnership entities (Kommanditgesellschaft). All three entities were included in the DKB sub-group as at the balance sheet date.

Changes in the consolidated sub-group of Landesbank Saar, Saarbrücken:

In the reporting year, based on materiality criteria, SaarLB-Bankenbeteiligungsgesellschaft mbH, Saarbrücken, was included as a fully consolidated subsidiary in the sub-group financial statements for the first time.

Changes in the consolidated sub-groups GBW AG, Munich:

Due to materiality, GBW Gebäudemanagement GmbH, Munich, was fully consolidated in the sub-group financial statements for the first time.

Changes in the consolidated sub-group MKB Bank Zrt. (MKB), Budapest:

In the reporting year, S.C. Corporate Recovery Management S.R.L., Bucharest, and Exter-Immo Zrt., Budapest, were consolidated as fully consolidated subsidiaries in the sub-group financial statements after exceeding materiality criteria.

The previously fully consolidated subsidiary MKB Romexterra Fond de Pensii S.A., Bucharest, was closed and deconsolidated.

Changes in the consolidated sub-group of Hypo-Alpe-Adria-Bank International AG (HGAA), Klagenfurt:

The following subsidiaries were consolidated for the first time within the HGAA sub-group:

- HYPO INVESTMENTS a.d. Beograd, Belgrade (acquired)
- Društvo za upravljanje dobrovoljnim penzijskim fondom HYPO a.d. Beograd, Belgrade (founded)
- NORICA INVESTMENTS LIMITED, St. Helier – Jersey (founded)
- HYPO TC-BB DOO BEOGRAD, Belgrade (founded)
- HYPO KASINA DOO BEOGRAD, Belgrade (founded)
- HYPO 111, Klagenfurt (founded)
- HYPO DVA d.o.o., Ljubljana (founded)
- HYPERIUM DOOEL Skopje, Skopje (founded)
- HYPO ULAGANJA d.o.o., Zagreb (founded)
- HYPO SINDELIC DOO BEOGRAD, Belgrade (founded)
- HYPO PB DOO BEOGRAD, Belgrade (founded)

The following subsidiaries were deconsolidated from the sub-group of HGAA:

- VIVATINVEST d.o.o., Moravske toplice, (sold)
- HYPO CENTAR SIBENIK d.o.o., Zagreb (merged)
- HYPO AC ADA DOO BEOGRAD, Belgrade (merged)
- HYPO RK ALEKSANDAR DOO BEOGRAD, Belgrade (merged)
- HYPO PP CENTAR DOO BEOGRAD, Belgrade (merged)
- HYPO MARSOL DOO BEOGRAD, Belgrade (merged)
- HYPO MY PLACE DOO BEOGRAD, Belgrade (merged)
- HYPO ZALJEVO DOO BEOGRAD, Belgrade (merged)
- HYPO CINEMA DOO BEOGRAD, Belgrade (merged)
- HYPO SINDELIC DOO BEOGRAD, Belgrade (merged)
- HYPO PB DOO BEOGRAD, Belgrade (merged)

None of these changes in the scope of consolidation had any significant impact on BayernLB Group’s balance sheet and income statement.

BayernLB’s scope of consolidation is determined on the basis of materiality criteria. Due to their secondary importance individually and as a group in relation to the operating results and financial position of the Group, 334 (2007: 294) companies were neither consolidated nor valued at equity. The impact on the balance sheet from the contractual relationships between Group companies and these non-consolidated entities are reported in the consolidated financial statements.

A complete overview of subsidiaries, joint ventures and associated companies included in the consolidated financial statements can be found in the list of shareholdings (see note (72)).

(4) Consolidation principles

Consolidation is performed by offsetting the cost of purchasing the subsidiary against the Group's share of the revalued equity as at the acquisition date. This equity is the difference between the assets and liabilities of the acquired company measured at their fair value at the time of initial consolidation, taking account of deferred taxes. Any difference between the higher cost of purchase and the prorated equity is recognised as goodwill under intangible assets on the consolidated balance sheet.

Shares in subsidiaries that do not belong to the parent company are reported as minority interests under equity.

Joint ventures and associated companies are valued group-wide at equity and reported under the companies valued at equity item. The costs of purchasing these interests and goodwill are determined at initial consolidation in accordance with the same principles used for subsidiaries. Future carrying amounts are based on the full IFRS financial accounts of joint ventures and associated companies.

When consolidating debt and earnings and eliminating intragroup earnings from subsidiaries, all receivables and liabilities, income and expenditure and intragroup earnings from transactions within the group are eliminated if they are not of secondary importance.

Shares in subsidiaries not consolidated because of their secondary importance and investments are reported under the investments item and measured at fair value.

(5) Currency translation

Assets and liabilities denominated in a foreign currency are on initial recognition translated into the functional currency at the spot rate applicable on the day of the business transaction. A distinction is made in subsequent periods between monetary and non-monetary items when translating currency. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate on the balance sheet date. In the case of non-monetary items valued at historical cost, currencies are translated at the historical exchange rate. Non-monetary items designated at fair value are translated at the exchange rate on the date the fair value was calculated. Income and expenses in a foreign currency are translated into the functional currency at an average exchange rate. Gains or losses on currency translation are recognised through profit or loss. Currency translation differences from equity instruments in the available-for-sale category are reported under the revaluation reserve and not recognised through profit or loss.

In the case of subsidiaries and foreign entities included in the consolidated financial statements whose annual results are not reported in euros and whose reporting currency is not the euro, the balance sheet items in the consolidated financial statements are translated into euros at the exchange rate of the respective currency on the balance sheet date, while income and expenses are translated at a group-wide average exchange rate. Currency exchange rate differences arising from this translation are reported in the currency translation reserve in equity and not recognised through profit or loss.

(6) Offsetting

Liabilities are set off against receivables if they relate to the same counterparty, are payable on demand and an agreement has been reached with the counterparty that interest and commissions are calculated as if only a single account existed.

(7) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognised in the balance sheet from the date upon which the balance sheet entity becomes a contractual party either entitled to obtain consideration or required to provide consideration in return. Regular way purchases or sales of financial assets (regular way contracts) are normally recognised here using trade date accounting. Derivatives are always recognised on the trade date.

Under IAS 39, all financial instruments, including derivative financial instruments, must be recognised in the balance sheet and assigned to valuation categories. Financial instruments are initially recognised at fair value, which will normally be the cost of purchase.

Financial instruments are subsequently valued according to their assigned category defined as follows:

Financial assets and liabilities at fair value through profit or loss:

These include financial instruments and derivatives held for trading purposes which do not meet hedge accounting criteria under IAS 39 (held-for-trading), as well as financial instruments not held for trading purposes where the fair value option is used (financial instruments at fair value through profit or loss).

- Financial instruments and derivatives held for trading:

  These are measured at fair value and recognised under gains or losses on fair value measurement. Realised and current income are also shown under this item. Current income from derivatives in economic hedges is recognised in net interest income. Derivatives in economic hedges include derivatives to hedge fair value option transactions and derivatives in other economic hedges. These derivatives do not meet hedge accounting criteria under IAS 39. They are used for risk management and have not been concluded for trading purposes. Held-for-trading financial instruments are reported under assets held for trading and under liabilities held for trading.

- Financial instruments at fair value through profit or loss (fair value option):

  The fair value option is used to minimise or eliminate valuation-related inconsistencies and to avoid the separation of embedded, separable derivatives. They are measured at fair value. Gains or losses from measurement are reported under the gains or losses on fair value measurement item, while current income is reported under net interest income. Financial instruments to which the fair value option has been applied (particularly structured issues and liabilities with embedded derivatives) are mainly reported under loans and advances to banks/customers, investments, liabilities to banks/customers, securitised liabilities and subordinated capital.

Held-to-maturity investments:

These are non-derivative financial assets with fixed or determinable payments and fixed maturities traded on an active market that BayernLB has the intention and ability to hold to maturity. They are measured at amortised cost and regularly assessed for permanent impairment. The criteria set out in the available-for-sale category apply here. All realised and unrealised gains or losses are reported under the gains or loss on investments item, and current income under net interest income. Held-to-maturity investments are reported under the investments item.

Loans and receivables:

These include non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and to which the fair value option has not been applied or are not designated as available-for-sale. They are measured at amortised cost. This category includes loans that are mainly reported under cash reserves or as loans and advances to banks/customers. Impairments are treated according to the criteria set out under note (10) on risk provisions. Current income is reported under net interest income.

This category also includes securities that, as at the date of recognition or reclassification, are neither traded on an active market nor held for re-sale in the short term. Any necessary impairments are deducted from the carrying amount of the asset. Checks to detect impairment are regularly carried out. Impairment includes both single loan loss provisions and portfolio provisions. Impairments of securities are determined in the exactly the same way as for risk provisions note (10). Gains or losses from a sale or from an impairment are recognised under gains or losses on investments. Current income is reported under net interest income. Securities classed as loans and receivables are included under the investments item.

Available-for-sale financial assets:

These include any non-derivative financial assets (receivables, securities, investments) that are classified as available for sale or are not assigned to any of the categories described. They are measured at fair value.

Any difference between fair value and amortised cost is shown as a separate item in equity (revaluation reserve) and not recognised through profit or loss, until the asset is either disposed of or permanently impaired. Gains or losses from their sale or permanent impairment are reported under the gains or losses on investments item and current income in net interest income. Available-for-sale financial assets are regularly assessed for impairment, whereby a distinction is made between equity and debt instruments based on the underlying indicators. Equity instruments are classed as impaired if their fair value has fallen permanently or significantly below the cost of purchase. Debt instruments are classed as impaired if their fair value is below (amortised) cost and the loss of future interest and principle payments is expected on the balance sheet date. Where there is no further reason for impairment, debt instruments are reversed on the profit and loss account up to the value of the amortised cost. Reversals of equity instrument writedowns are recognised in the revaluation reserve and not recognised through profit or loss.

Available-for-sale financial instruments are reported under the cash reserves and investments items.

Liabilities measured at amortised cost:

Liabilities measured at amortised cost include financial instruments not used for trading purposes and where the fair value option is not used. They are measured at amortised cost. Current income is reported under interest expenses.

Financial instruments included in this category are mainly reported under liabilities to banks/customers, securitised liabilities and subordinated capital.

Financial assets are derecognised if the contractual rights to cash flows from the assets have expired or the Group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the contractual liabilities are discharged, cancelled or expire.

Fair Value

The fair value of a financial instrument is the amount for which it could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Fair value is calculated where possible by reference to a quoted price on an active market (e.g. stock market price) pursuant to IAS 39 AG 71. A market is considered to be active for a financial instrument if quoted prices are readily and regularly available from an exchange, dealer or similar, and these prices represent actual and regularly occurring market transactions between knowledgeable, willing parties in an arm's length transaction.

If no active market exists, it is more appropriate to calculate fair value using a range of valuation methods including valuation models based on discounted cash flow methods and indicative valuation prices. The goal in this case 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. An inactive market is characterised by severely limited trading volumes, very wide bid/offer spreads and wide price swings with inactive prices. In the reporting year, market inactivity, which was already apparent in 2007 on the ABS market, was detected for a wide range of asset classes.

Measurement of BayernLB's asset-backed securities

As no active market currently exists for asset-backed securities, measurement is generally based on indicative counterparty or indicative broker prices or on indicative prices from providers of market data. These prices are normally verified by using other suppliers of market data or mark-to-matrix models based on externally provided spreads and through the assessment of credit quality.

As at 31 December, 2008, US residual mortgage-backed securities (RMBSs), which are also classed as asset-backed securities, were measured using discounted cash flow methods based on an internal model. This model takes account of forecast cash flows, including estimated losses. Discounting was carried out using a risk-free interest rate curve with suitable liquidity spreads. The maximum deviation from the indicative prices is also taken into account, depending on the number of available indicative prices.

For a nominal value of EUR 3,440 million, the written-down US RMBSs exhibited the following sensitivities to the key input factors in this model

- EUR + 1.7 million (EUR – 1.7 million) in the event of a ten basis-point upward (downward) shift in the USD yield curve
- EUR - 1.3 million (EUR + 1.3 million) in the event of a ten basis-point upward (downward) change in the liquidity spread

All key changes in the valuation of written-down US residential mortgage-backed securities, which are part of the hedged portfolio, were offset by the guarantee agreement with the Free State of Bavaria ("Umbrella"). In the guarantee agreement, this took the form of a financial instrument recognised as a credit derivative pursuant to IAS 39. The countereffect from the measurement of the guarantee agreement is reported under the gains or losses on investments item. Further information on the guarantee agreement is given in the management report.

Measurement of specific securities at Group companies

In one subsidiary, an internal valuation model is used for individual, exclusively fixed-interest securities in the fair value option category for which no active market exists on the balance sheet date. This valuation model is based on the discounted cash flow method. The risk-adjusted rate for discounting cash flows is calculated from the market rates for the corresponding residual maturity as derived from the euro swap curve, plus a liquidity spread derived from the market and an individual risk premium.

For a nominal value of EUR 1,319 million, the securities exhibited the following sensitivities to this model's key input factors

- EUR - 1.8 million (EUR + 1.6 million) in the event of a ten basis-point upward (downward) shift in the USD yield curve
- EUR - 4.5 million (EUR + 4.4 million) in the event of a ten basis-point upward (downward) movement in the spread

Other valuation models

Fair values are also calculated using recognised valuation models based exclusively on observable market data. Valuation models include the present value method, option price models and other methods.

Unless a market price as defined under IAS 39 AG 71 is available, the present value method is used for interest-bearing financial instruments. Valuation is based on cash flow structures, taking account of nominal values, residual maturities and the agreed interest rate calculation method.

For financial instruments with contractually agreed fixed cash flows, the cash flow structure is calculated using the agreed cash flows. For variable rate instruments, cash flows are determined using forward curves. Discounting is carried out using yield curves for matching currencies and maturities, as well as a risk-adjusted spread. Observable market data is used where spreads are publicly available. For interest rate derivatives, the valuation is based on yield curves for matching currencies and maturities. For OTC derivatives, the counterparty-specific credit spread is also taken into account if relevant for the valuation.

Options and other derivative financial instruments with option characteristics are largely valued on the basis of the Black Scholes option pricing model. The following valuation parameters are used in the valuation process: the cumulative probability distribution function for the standard normal distribution, option strike prices, continuously compounding risk-free interest rates (for different currencies and maturities), price volatility, remaining time to option expiry, estimated dividends, interest rate and pricing barriers, discounts, increments and probabilities of occurrence.

Credit derivatives are valued using the Hazard rate model on the basis of current credit spreads.

For options with several possible exercise dates, a binomial model is used. Publicly accessible market data is also used in the valuation.

Summary of the key valuation models by derivative product group:

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

Pursuant to IFRS 7.28, to calculate the fair values of credit business measured at amortised cost, cash flows are discounted using the risk-free interest rate curve adjusted by a transaction-specific spread. The spread comprises a margin maintained at a constant level over the term to cover costs and the expected profit of a credit component that reflects the creditworthiness of the business partner. The initial overall spread is determined on conclusion of a new transaction by interpolation in which the transaction is measured at par. The current expected loss is determined at the end of the following month and used to break down the spread into its margin and creditworthiness portions (on conclusion of the transaction). Fair value is calculated on the balance sheet date using the constant margin spread and the expected loss applicable at the time.

For deposit-taking business, cash flows are discounted using the interest-free interest rate curve, credit spread and liquidity spread. This spread reflects BayernLB’s current credit standing and varies according to the currency and coverage status (covered, uncovered, uncovered with guarantee obligation) of the transaction. The added spreads are based on Asset Liability Management’s internal pricing curves and tested for plausibility independently of Trading using the external market interest rate.

These valuation models are used to calculate the fair values of financial instruments in the held-for-trading, fair value option, loans and receivables, available-for-sale and liabilities measured at amortised cost categories. This includes in particular the following balance sheet items:

- Loans and advances to banks/customers
- Interest rate derivatives with positive fair value reported under assets held for trading as well as hedging derivatives
- Debt securities reported under investments
- Liabilities to banks/customers
- Securitised liabilities
- Interest rate derivatives with negative fair value reported under liabilities held for trading as well as hedging derivatives
- Subordinated capital

Recognised valuation procedures, particularly the discounted cash-flow method, are used to calculate the fair value of equity instruments reported under investments that are not traded on an active market. Expected cash flows are based on the forecasts of the entities in question.

Financial instruments measured at fair value by valuation technique:

	Quoted market price[1]		Valuation based on market data[2]		Valuation not based on market data[3]		Total	
in %	2008	2007	2008	2007	2008	2007	2008	2007
Derivative financial instruments	–	0.2	97.9	98.7	2.1	1.1	**100.0**	**100.0**
Non-derivative financial instruments[4]	43.0	14.5	33.5	72.1	23.5	13.4	**100.0**	**100.0**

1 *Financial instruments are measured using price quotes on active markets. These include exchange-traded derivatives and other financial instruments with quoted prices.*

2 *Pricing of financial instruments is carried out by deriving a price from observable market parameters using an internal valuation model.*

3 *Pricing is carried out on the basis of an internal model based primarily on internal estimates that cannot be directly derived from market observations. This category includes ABSs for which no active market currently exists (measurement based on counterparty or broker prices or prices from providers of market data).*

4 *Not including participations*

Due to the decrease in holdings of assets and liabilities held for trading and the reclassification of securities from the available-for-sale and held-for-trading categories to the loans and receivables category, there was a relative shift within the valuation process.

Embedded derivatives

Embedded derivative financial instruments, which are a component of (structured) products and not used as hedging instruments for fair value option transactions, are recognised on the balance sheet as independent derivatives and measured at fair value where separation from the host contract is required. In such an instance, the host contract is recognised and measured according to its valuation category.

Hedge accounting

Interest rate, currency and credit risks are managed using derivative financial instruments to hedge on-balance sheets assets or liabilities. Hedges that meet hedge accounting criteria within the meaning of IAS 39 currently include only fair value hedges in which all or a portion of an on-balance sheet asset, balance sheet liability or a portfolio of financial instruments is hedged against a change in fair value from the interest rate or currency risk that could affect the result for the period. A high degree of effectiveness is needed here to ensure changes in the fair value of the hedged underlying transaction in terms of the hedged risk and the hedging derivative lie within a range of 80–125 percent. In BayernLB Group, fair value hedge accounting is applied in the form of micro fair value hedges, portfolio hedges in the narrow sense and, from the reporting year, portfolio hedges in the broader sense. Interest rate swaps and currency swaps are the primary hedging instruments. Derivatives used to hedge the fair value of on-balance sheet assets and liabilities are measured at fair value; any resulting changes in value are recognised through profit or loss. The carrying amounts of the underlying transactions in micro hedges and in portfolio hedges in the narrow sense are adjusted in line with the gains or losses from the measurement attributable to the hedged risk and recognised through profit or loss. Where portfolio fair value hedges in the broader sense are carried out, the cumulative gains or losses from measurement attributable to the hedged risk for financial assets are recognised under the portfolio hedge adjustment assets item on the balance sheet and the carrying amounts of the underlying transactions left unchanged at amortised cost.

Derivative financial instruments in economic hedges that do not meet hedge accounting criteria are recognised as held-for-trading and valued according to their category. Unlike current income and expenses of derivative financial instruments held for trading purposes, current income and expenses are reported under net interest income.

(8) Cash reserves

Cash reserves include cash, balances with central banks, debt certificates issued by public entities and bills of exchange eligible for refinancing with central banks and not reported under assets held for trading. They are recognised at nominal value except for debt certificates issued by public entities and bills of exchange that are recognised on the balance sheet at fair value.

(9) Receivables

Loans and advances to banks and customers are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market or held for trading purposes. They are valued at amortised cost provided they are not classified as available for sale and are not fair value option receivables or underlying transactions of an effective fair value hedge. Premiums and discounts are spread over their term and reported under interest income.

Due to a change in business strategy, receivables established since 1 July 2008 that are to be allocated to the money market activities have been reported under these items.

Writedowns of receivables in the loans and receivables category are reported separately under risk provisions and offset against assets. Writedowns in other portfolios are recognised directly by reducing the value of the corresponding assets.

(10) Risk provisioning

Risk provisions for credit products in the loans and receivables category are reported as a separate item on the balance sheet; they cover specific loan loss provisions and portfolio provisions relating to on-balance sheet transactions. BayernLB exercised its option of establishing flat-rate specific loan loss provisions.

Risk provisions are calculated in BayernLB Group by analysing customer relationships at regular intervals and on the balance sheet date. Specific loan loss provisions are established for significant individual credit exposures if objective indications of impairment exist with an impact on future expected cash flows. Objective indications include in particular:

- A rating of 19 or below on a 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
- Deterioration in the value of collateral
- Excessive debt or insufficient cover
- Country-specific problems

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. Unwinding, which refers to the change in the present value of future expected cash flows over the period, is reported as interest income; the current interest payments actually received are accordingly not recognised under net interest income. Flat-rate specific loan loss provisions are established on the basis of collective risk valuations for portfolios comprised of homogeneous, individual non-significant receivables; these are also reported under the specific loan loss provisions based on credit risks.

For all material and immaterial-receivables that do not have to be written down following individual assessment and for which no flat-rate specific loan loss provisions have been established, credit-rating-related portfolio provisions are calculated on the basis of historical probabilities of default and loss rates. A procedure based on regularly assessed parameters from the Basel II system is applied.

To reflect country risks (transfer risk and general political risk), portfolio provisions are also set up based on country risk-specific probabilities of default and loss rates, where these risks have not already been taken into account through specific provisions.

Irrecoverable receivables are derecognised, normally by utilising existing specific loan loss provisions. Bad debt losses for which no or insufficient loan loss provisions have been set up, are charged to existing portfolio provisions (utilisation). An identical amount is allocated to portfolio provisions, reported as a direct write-off in risk provisions for the credit business.

Expenses for additions to risk provisions, income from the reversal of risk provisions and recoveries from written-off receivables are reported in the income statement under risk provisions for the credit business.

(11) Assets held for trading

Assets held for trading include all financial assets held for trading, precious metals, and derivative financial instruments with positive fair value not designated as hedging instruments under hedge accounting criteria within the meaning of IAS 39. In the period to 30 June 2008, BayernLB allocated to the held-for-trading category certain loans and advances to banks/customers from money market transactions, due to its intention to trade these transactions. As the purpose of conducting money market activities – now focused on liquidity management – has changed, loans and advances to banks and customers arising from money market activities are categorised as loans and receivables if they were established after 1 July 2008 and reported under loans and advances to banks and customers. Transactions classed as held-for-trading up to this date are reduced accordingly as they mature.

Gains or losses from the measurement or sale of and current income from held-for-trading assets, with the exception of current income from derivatives in economic hedges, are recognised in profit or loss under gains or losses on fair value measurement.

(12) Positive fair values from derivative financial instruments (hedge accounting)

This balance sheet item contains derivative financial instruments with positive market value that are used as hedges and meet hedge accounting criteria within the meaning of IAS 39. The derivative instruments are measured at fair value. Both changes in the fair value of the hedging instruments and changes in the value of underlying transactions that arise from the hedged risk are reporting under the gains or losses on hedging transactions (hedge accounting). Interest income and expenses from hedging derivatives are reported under net interest income.

(13) Investments

Investments include financial assets categorised as held-to-maturity, loans and receivables and available-for-sale. Interests in non-consolidated subsidiaries, non-consolidated joint ventures and non-consolidated associated companies are classified as available for sale and reported as investments provided they are not classified as held-for-sale. Investments are measured according to their designated category.

(14) Investment property/property, plant and equipment

Investment property leased to third parties or primarily held for capital gain is reported under investment property on the balance sheet. Property, plant and equipment comprise mainly land and buildings for own use, as well as business and office equipment.

Mixed-use property that is separately disposable is allocated proportionately to the investment property and the property, plant and equipment items. If a division of the real property is theoretically impossible, the entire property is only reported as an investment asset if an insignificant proportion (less than 10 percent) of the property is for internal commercial use.

Assets are valued at amortised cost, that is, their purchase or production costs are depreciated on a straight line basis in accordance with their useful life. Any loan loss provisions are also set off. The option under IAS 40 to measure investment property at amortised cost was exercised.

Useful life is based on the following criteria:

- Buildings 25–50 years
- Business and office equipment 3–25 years

Any indication of impairment is reported as an impairment loss. Where there is no further reason for impairment, write-backs are carried out to a maximum of the amortised costs.

Any subsequent costs are recognised if they lead to an increase in the economic benefit of these assets.

Expenditure on maintenance is reported as an expense in the corresponding financial year.

Depreciation of investment property is reported under other income, and depreciation of property, plant and equipment under administrative expenses. Reversals are reported under other income.

(15) Intangible assets

Intangible assets include goodwill from consolidated subsidiaries, intangible assets produced in-house (proprietary software) and other intangible assets that have been purchased (mainly customer relationships).

Costs for software development are capitalised where its production is likely to result in an inflow of economic benefit and costs can be determined reliably. If the criteria for capitalisation are not met, expenses are immediately recognised on the income statement.

Intangible assets produced in-house, other intangible assets and customer relationships are measured at amortised cost. These are all amortised on a straight line basis over an expected useful life of three to five years, except for purchased customer relationships from the takeover of the HGAA subgroup, which are amortised over 14 years.

Any indication of impairment is reported as an impairment loss. Where there is no further reason for impairment, write-backs are carried out to a maximum of the amortised costs.

Goodwill and purchased brand names are allocated to cash-generating units and assessed for impairment at least once annually. The carrying amount of the cash-generating unit including allocated goodwill is compared with its recoverable amount. The recoverable amount is the greater of value in use or net realisable value. If there are objective indications that the original expected benefits are no longer expected, the unit's goodwill is initially written down. Any further writedowns are then charged proportionately against the rest of the unit's assets.

The main addition to goodwill in the previous year, in the amount of EUR 841 million, resulted from the acquisition of the HGAA sub-group. The Group's Strategic Subsidiaries segment was selected as the cash-generating unit (ZGE). Pursuant to IFRS 3.56 and IAS 36, this goodwill was tested for impairment as at 31 December 2008 by determining earnings power based on the current multi-year planning (less estimated costs of a sale) of the HGAA sub-group and that of other subsidiaries allocated to the cash-generating unit. In the calculation, the net method of the discounted cash flow method was used. By comparing the calculated fair values less costs to sell with the pro-rated equity, it was proved that the reported goodwill had retained its value.

In the reporting year, unscheduled depreciation on intangible assets (customer relationships and brand names) amounting to EUR 250 million was taken as part of the first-time consolidation of the HGAA sub-group (see note (44)).

The value of the customer portfolios capitalised at the time of acquisition was also effected by the examination of HGAA's credit portfolio carried out in the reporting year which resulted in significantly higher-than-planned net allocations to risk provisions. The unscheduled depreciation was quantified using a difference calculation, in which, in a discounted cash flow calculation, the actual fall in the value of customer relationships existing on the date of acquisition is calculated and deducted from the amortised earnings power from the first-time consolidation. The difference resulted in a writedown of EUR 128 million.

The events in the reporting year in the banking markets of South Eastern and Eastern Europe that are significant for HGAA had a negative impact on the importance of the brand for customer behaviour. Due to the financial and capital market crisis, the range of banking services, particularly in the credit business, has narrowed, leading, from the customers' perspective, to a pronounced homogenisation of products and a growing lack of differentiation between providers. Based on these findings, we have estimated the value of the brand on these markets, which are characterised by supply shortages, to be immaterial and have fully amortised these intangible assets (EUR 122 million).

Amortisation of goodwill is reported under other income, while amortisation of intangible assets produced in-house and other intangible assets is reported under administrative expenses. Reversals are reported under other income.

(16) Other assets

Other assets include prepaid expenses, leasing assets that have not yet been leased and non-current assets and disposal groups held for sale.

Non-current assets or disposal groups classified as held for sale are stated on the balance sheet date at the lower of carrying amount or fair value less sales costs.

(17) Liabilities

Liabilities to banks and customers and securitised liabilities are shown at amortised cost if they are not classed as a fair value option or are not underlying transactions of effective fair value hedges. Premiums and discounts are spread over their term and reported under interest expenses. Due to a change in business strategy, liabilities established since 1 July 2008 that are to be allocated to the money market portfolios are reported under liabilities to banks and liabilities to customers.

(18) Liabilities held for trading

Liabilities held for trading contain all financial liabilities held for trading and derivative financial instruments with negative market value not designated as hedging instruments under hedge accounting criteria within the meaning of IAS 39. In the period to 30 June 2008, BayernLB allocated to the held-for-trading category certain liabilities to banks/customers from money market transactions, due to its intention to trade these transactions. As the purpose of conducting money market activities – now focused on liquidity management – has changed, liabilities to banks and customers arising from money market activities are categorised as liabilities measured at amortised cost if they were established after 1 July 2008 and are reported under liabilities to banks or liabilities to customers. Transactions classed as held-for-trading up to this date are reduced accordingly as they mature. Current income from derivatives in economic hedges excepted, gains or losses from the measurement or sale of and current income from held-for-trading liabilities are recognised in profit or loss under gains or losses on fair value measurement. In the reporting year, the effect from valuing financial instruments at their middle rate as opposed to their bid and offer price was taken into account and recognised under liabilities held for trading.

(19) Negative fair values from derivative financial instruments (hedge accounting)

This balance sheet item contains derivative financial instruments with negative market value which are used as hedges and meet hedge accounting criteria within the meaning of IAS 39. The derivative instruments are measured at fair value. Both changes in the fair value of the hedging instruments and changes in the fair value of hedged underlying transactions that arise from the hedged risk are reported under the gains or losses on hedging transactions item (hedge accounting). Interest income and expenses from hedging derivatives are reported under net interest income.

(20) Provisions

Provisions for different pensions, similar obligations and other provisions are reported under this item.

Several pension plans exist within the BayernLB Group, some of which are financed by an external pension provider. The defined benefit plans set out the old age, invalidity and surviving dependent's benefits that beneficiaries are entitled to on the occurrence of an insured event (reaching a set age, invalidity, death) and which are dependent on a variety of factors such as age, length of service and salary. One subsidiary also has a multi-employer plan, which is classed as a defined benefit plan under IAS 19. But as the statutory benefit is financed on a pay-as-you-go basis and the subsidiary is exposed to actuarial risks associated with the current and former employees of other members or employers, it is accounted for as if it was a defined contribution plan (IAS 19.30) for simplicity's sake.

Pension obligations are calculated annually using actuarial reports. Directly and indirectly defined benefit obligations are valued, and available fund assets offset against these liabilities.

Pension provisions are calculated on the basis of the following actuarial assumptions:

in %	2008	2007
Calculatory interest rate	6.00	5.50
Estimated returns from plan assets	4.72	3.12
Changes in salary	3.60	4.00
Adjustments to pensions	2.53	3.36

The value of the pension obligations is calculated using the benefit/years of service method (projected unit credit method), whereby the obligations are valued on the basis of the benefit entitlements acquired up to the balance sheet date (defined benefit obligation). In the valuation, account is taken of future trends of set parameters such as salary and pension increase projections that have an impact on the size of the benefit.

The pension provision is calculated by deducting the present value of the pension obligation from the fair value of the plan's assets covering the pension obligation. Actuarial gains or losses arising from the difference between expected and actual figures that have not yet been recognised are also taken into account. Actuarial gains or losses at the end of the reporting period that exceed the limits under IAS 19.92 of 10 percent of the greater of present value of the obligation and fair value of the plan assets are divided by the expected average remaining working lives of the pension beneficiaries and recognised from the subsequent year as an additional component of pension costs.

Provisions in credit business at both individual transaction and portfolio level have been set up to meet contingent liabilities and other liabilities where there is a risk of default.

Other provisions are set up in accordance with IAS 37 for present legal or de facto obligations, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

(21) Other liabilities

Other liabilities includes pre-paid income, accruals, distributions for hybrid capital instruments reported in equity as well as other liabilities arising from disposal groups held for sale.

(22) Hybrid capital instruments

Debt and equity instruments are classified in accordance with IAS 32, taking account of the IDW statement IDW RS HRA 9 on financial instrument accounting under IFRS of 12 April 2007. A financial instrument is therefore recognised in equity if:

- it evidences a residual interest in the assets of an entity after all liabilities are deducted (IAS 32.11)
- and in particular it contains no contractual obligation to deliver cash or other financial assets to the contractual partner (IAS 32.16).

The accounting methods used in the consolidated financial statements for the contractual conditions on hybrid capital instruments used by BayernLB and its subsidiaries are shown below.

Undated silent partnership contributions not recallable by the lender meet the criteria for disclosure under equity.

Dated silent partnership contributions, including those recallable by the lender and profit-participation certificates, must be divided into their equity and debt components (split accounting), as they are compound financial instruments. The fair value of the debt component is initially measured by discounting the nominal value of the compound instrument as a whole by its effective interest rate. The amount is reported under subordinated capital. In subsequent years, interest on the debt component is compounded and the resulting expenses reported in interest income.

The equity component – which, as a residual interest in the sense of IAS 32.11, corresponds to the present value of the expected future distributions – is reported in equity as a hybrid capital instrument. Due to the agreement with the EU Commission on the approval of the recapitalisation measure and contrary to the original intention, no distributions on silent partnership contributions and profit participation rights were made in the reporting year, unless the distribution was contractually required. If the unremitted capital distributions are eligible for distribution at a future date, they are reported in equity as a hybrid capital instrument.

Subordinated bonds are reported as subordinated capital, as are subordinated innovative financial products (e.g. preference shares), which are classified as core capital under banking supervisory law.

(23) Leasing

Under IAS 17, leases are divided into finance leases and operating leases. Agreements are classified on the basis of the distribution of economic risks and rewards from the leased property. A lease is classified as a finance lease if more or less all risks and rewards incident to ownership are transferred to the lessee.

BayernLB Group as lessor

With respect to finance leases, receivables due from the lessee are recognised at net investment value. Lease payments received from the lessee are divided into an interest portion and a principal portion. The interest portion is reported as net interest income on an accrual basis, while the principal portion reduces the receivable with no effect on income.

With respect to operating leases, leased properties and amortised costs are capitalised at amortised cost and recognised as investment property or property, plant and equipment. Lease payments received are reported under other income and depreciation and write-downs in administrative expenses.

BayernLB Group as lessee

With respect to finance leasing, leased items are recognised either as investment property or property, plant and equipment, and the obligations to the lessor as a liability. Lease payments owed are divided into an interest portion and a principal portion. The interest portion is recognised under net interest income, while the principal portion reduces the liability reported.

Lease payments owed by BayernLB Group from operating leasing are recognised under administrative expenses.

(24) Taxes

Current tax assets and liabilities were measured by applying the currently applicable tax rates. Tax receivables and tax liabilities are reported in the amount of the expected refund or payment.

Deferred tax assets and liabilities arise from the difference between the value of an asset or a liability reported on the balance sheet and the respective fiscal value. It is expected this will result in future income tax burden or relief effects, which are classed as temporary differences. They are valued, for each of the companies consolidated within the Group, at the specific applicable income tax rate expected to be valid for the period of the reversal of the temporary differences based on new tax legislation having been passed or come into effect.

Deferred tax assets from unused tax losses carried forward and deductible temporary differences are only reported if it is probable that taxable profit of future periods will be sufficient for the tax benefit to be utilised. In respect of Group companies, if the sum of the loss carryforwards and deductible temporary differences exceed the taxable temporary differences, the amount of deferred tax assets recognised was calculated on the basis of the tax planning for the company in question or consolidated tax group in question. In the reporting year, the impact from the introduction in the corporation tax reform of 2008 of an interest barrier was felt for the first time. When recognising deferred tax assets from interest carryforwards, the same accounting methodology used for deferred tax assets from tax loss carryforwards was applied.

Deferred taxes are not discounted. Deferred tax assets and liabilities which have been recognised in the income statement are established and carried as income; if these items are not relevant to the income statement, they are reported in equity.

Tax expenses and income arising from earnings from ordinary activities are reported in the consolidated income statement under income taxes. Income taxes related to discontinued operations were not incurred in the reporting year. Other taxes, which are not dependent on income, are reported under other operating profit.

Segment reporting

Segment reporting reflects BayernLB Group's business structure. Nine segments comprising the operational business areas, the dependent entities BayernLabo and LBS Bayern, the Group's strategic subsidiaries and the Support Operations/Other segment are shown. In addition to each segment's operating profit, the earnings include the earnings of the consolidated subsidiaries and units allocated to each segment. The members of the Board of Management in charge of each segment are responsible for earnings and serve as segment managers as defined in IFRS 8.8. The Support Operations/Other segment shows the earnings contributions which are not attributable to the 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. In the third quarter of 2008, the Credit Investments Portfolio was established as a separate business area for the purposes of reporting the credit substitute business and other partially problematical portfolios with securities. It is reported as a separate segment and is independently managed and monitored by Credit Risk Management under the responsibility of the Board of Management.

Segment reporting is based on IFRS 8 and therefore on the monthly management reports submitted to the Board of Management, which functions as the chief operating decision maker under IFRS 8.7. The management reports are based on IFRS accounting methodology used in consolidated financial statements; reconciliation of the segment reporting to the IFRS accounting methodology used in the consolidated financial statements is therefore not necessary. Most of the earnings contributions shown under the segments are from financial services. The additional information under IFRS 8.3.2 and 8.33 b is not available and the costs of providing the information would also be disproportionately high.

Segment report as at 31 December 2008

EUR million	Corporates	Real Estate	Financial Markets	Credit Investments Portfolio	Financial institutions & Sovereigns	Savings Banks & Bavarian Market	BayernLabo/ LBS Bayern	The Group's Strategic Subsidiaries	Support Operations/ Other	Consolidation	Group
Net interest income	361	175	111	9	177	79	300	1,525	-127	60	**2,670**
Risk provisions for the credit business	-198	-11	-46	–	-559	-33	-4	-822	6	12	**-1,656**
Net commission income	162	59	11	–	106	30	2	237	-12	-12	**584**
Gains or losses on fair value measurement	75	17	-507	-1,557	28	58	-46	-45	-27	-134	**-2,138**
Gains or losses on hedge accounting	–	–	-172	–	–	–	–	35	2	–	**-136**
Gains or losses on investments	56	-2	-119	-1,354	-14	1	-5	-335	-266	106	**-1,933**
Income from interests in companies valued at equity	1	–	–	–	–	–	–	8	–	–	**9**
Administrative expenses	-219	-131	-163	-2	-97	-137	-129	-1,615	-131	3	**-2,620**
Other income	17	24	-4	–	–	-2	1	154	-22	-26	**141**
Operating profit/loss	255	131	-890	-2,905	-359	-3	119	-858	-578	9	**-5,079**
Restructuring expenses	-4	-1	-16	–	–	-4	–	-8	-55	–	**-87**
Gains or losses on ordinary activities/ Earnings before taxes	251	130	-906	-2,905	-359	-7	119	-865	-633	9	**-5,166**
Segment assets	43,582	18,761	177,355	17,332	64,752	12,737	24,959	137,231	21,067	-96,110	**421,666**
Risk positions	39,555	12,719	25,549	9,028	15,585	3,016	3,377	86,976	1,845	–	**197,650**
Average reported equity	1,732	582	692	426	696	120	3,640	5,525	660	-3,799	**10,273**
Return on equity (RoE) (%)	14.0	18.4	< -100	< -100	-51.6	-1.7	18.2	-16.0	–	–	**-66.9**[1]
Cost-income ratio (CIR) (%)	35.5	47.5	–	–	31.2	82.7	50.2	84.7	–	–	**233.7**
Average number of employees (FTE)	322	304	536	–	126	320	827	14,107	2,863	–	**19,405**

1 *BayernLabo's results and share in Group equity are not included in the return on equity (in percent) at Group level.*

Segment report as at 31 December 2007

EUR million	Corporates	Real Estate	Financial Markets	Credit Investments Portfolio	Financial institutions & Sovereigns	Savings Banks & Bavarian Market	BayernLabo/ LBS Bayern	The Group's Strategic Subsidiaries	Support Operations/ Other	Consolidation	Group[1]
Net interest income	480	222	-58	31	131	80	317	971	134	-119	**2,189**
Risk provisions for the credit business	78	27	-4	–	1	17	-2	-203	-29	–	**-115**
Net commission income	120	34	14	–	61	58	3	108	-19	–	**380**
Gains or losses on fair value measurement	23	13	20	-355	30	28	5	146	-12	-155	**-257**
Gains or losses on hedge accounting	–	–	29	–	–	–	–	-2	–	–	**27**
Gains or losses on investments	-80	18	91	-697	–	–	-29	613	-68	-314	**-466**
Income from interests in companies valued at equity	121	–	–	–	–	–	–	8	–	–	**130**
Administrative expenses	-186	-104	-236	-2	-81	-162	-129	-787	-118	40	**-1,765**
Other income	-2	-1	2	–	–	3	8	63	108	-44	**136**
Operating profit/loss	554	209	-143	-1,023	143	23	175	915	-4	-592	**259**
Restructuring expenses	–	–	–	–	–	–	–	–	-4	–	-4
Gains or losses on ordinary activities/ Earnings before taxes	554	209	-143	-1,023	143	23	175	915	-8	-592	**255**
Segment assets	38,216	16,821	183,268	21,434	47,018	29,307	21,364	123,693	19,585	-85,066	**415,639**
Risk positions	42,237	16,776	56,707	3,539	14,864	8,725	3,803	75,393	-33,156	–	**188,888**
Average reported equity	2,069	776	2,074	164	688	404	4,104	3,546	2,031	-5,025	**10,831**
Return on equity (RoE) (%)	25.9	24.7	-6.9	< -100	19.7	5.5	23.4	24.8	–	–	**0.9**[2]
Cost-income ratio (CIR) (%)	30.0	38.7	>100	–	36.3	96.4	38.5	61.3	–	–	**71.3**
Average number of employees (FTE)	245	167	556	–	106	328	788	12,739	2,962	–	**17,891**

1 *The previous year's figures were adjusted (see note (2)).*

2 *BayernLabo's results and share in Group equity are not included in the return on equity (in percent) at Group level.*

Customer transactions in the Financial Markets segment have been fully allocated to the Corporates, Real Estate, Financial Institutions & Sovereigns and Savings Banks and Bavarian Market segments since 1 January 2008. These earnings, which were previously shown under net interest income, were allocated to the gains or losses on fair value measurement item and netted process costs adjusted. The previous year's figures were adjusted in line with the change in methodology. In the previous year, margins on customers' securities transactions were calculated using a flat rate. From the reporting year, margins are calculated at individual transaction level. The previous year's figures were not adjusted.

Pursuant to the German Solvency Ordinance (SolvV) for 2008 and Principle I (GS I) for 2007, reported equity is allocated to the segments on the basis of risk positions for the purposes of internal management.

From the reporting year, reported return on equity is determined by dividing the operating profit by the higher of average allocated capital or forecast planned capital. The previous year's figures were adjusted accordingly. The cost/income ratio is the ratio of administrative expenses to the sum of net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedging transactions and other income.

Notes on delimitation of segments:

The Corporates segment covers the Corporates Business Area and Kommanditgesellschaft Allgemeine Leasing GmbH & Co., Grünwald (valued at equity), which contributes to the segment's performance. Dorrit Investments (Guernsey) Ltd., Guernsey and Trotwood Investments S.A.R.L., Luxembourg, and the gains or losses on deconsolidation are also allocated to the segment. The Corporates segment serves large SME corporate customers in Germany as well as multinationals in Germany and in the Bank's core markets of Europe, North America and Asia.

The Real Estate segment covers BayernLB's commercial and residential real estate customers in Germany and abroad plus Real I.S. AG Gesellschaft für Immobilien Assetmanagement, Munich, which has been consolidated since 1 January 2008.

The Financial Markets segment combines all trading and issuing activities as well as BayernLB's Asset Liability Management (ALM). The segment also includes the following units subject to consolidation: BayernInvest Kapitalanlagegesellschaft mbH, Munich; Giro Balanced Funding Corporation, Delaware; and Giro Lion Funding Limited, Jersey, as well as the companies Giro Funding US Corporation, Delaware; Giro Multi-Funding Corporation, Delaware; Isar Securities Ltd., Jersey; and Lion Securities Limited, Jersey, which were deconsolidated as at 30 June 2008, which contribute to the segment's performance.

The Credit Investment Portfolio contains investments in asset-backed securities (ABSs), including hedging instruments concluded for them and individual positions of problem security portfolios.

The Financial Institutions & Sovereigns segment covers BayernLB's business relations worldwide with banks, insurance companies and other institutional customers, as well as government and non-Bavarian municipal customers from the public sector.

The Savings Banks & Bavarian Market segment covers all of BayernLB's activities in support of the Bavarian savings banks and of Bavarian corporate customers. The retail banking (retail customers and credit card business) previously allocated to this segment was transferred to the subsidiary Deutsche Kreditbank AG, Berlin, on 1 October 2008. The business with Bavarian municipals that was also previously allocated to the Savings Banks & Bavarian Market segment was transferred at the same time to BayernLabo.

The BayernLabo/LBS Bayern segment covers the legally dependent institutions Bayerische Landesbodenkreditanstalt (BayernLabo) and Bayerische Landesbausparkasse (LBS Bayern). Special fund LBMUE I-III, Munich is also allocated to the segment as a unit subject to consolidation.

The Group's Strategic Subsidiaries segment covers all consolidated strategic subsidiaries of the BayernLB Group: the Deutsche Kreditbank AG sub-group, Berlin; the MKB Bank Zrt. sub-group, Budapest; the Landesbank Saar sub-group, Saarbrücken; Banque LBLux S.A., Luxembourg; and, since October 2007, the Hypo Alpe-Adria-Bank International AG sub-group, Klagenfurt. The subsidiaries concerned are not segmented based on the management approach. Business activities are mainly focused on retail and private banking.

The Support Operations/Other segment comprises the earnings contributions of the Corporate Center, Risk Office, Corporate Services (up to 30 June 2007) and Financial Office support operations. This mainly concerns the earnings from the relevant participations and expenditure on the refinancing and management of these participations. The refinancing costs of the Group's strategic subsidiaries are also allocated to the segment. The segment also includes cross-divisional business transactions whose earnings contributions cannot be allocated to either a business area or a support operation. BayernLB Capital LLC I, Wilmington and sub-group GBWAG Bayerische Wohnungs-AG, Munich, which are subsidiaries subject to consolidation, are also allocated to this segment.

The Consolidation column shows consolidation entries not broken down by segment.

Earnings from normal banking operations after risk provisioning (net interest income and net commission income, gains or losses on fair value measurement, gains or losses on hedging transactions and gains or losses on investments) were EUR 2,600 million (2007: EUR 1,888 million), of which EUR 906 million (2007: EUR 852 million) relates to Europe excluding Germany, EUR -1,732 million (2007: EUR -522 million) to America, and EUR -46 million (2007: EUR 30 million) to Asia/Pacific. The negative result reported for the America region was due in particularly to losses in the ABS portfolio.

Notes to the income statement

(25) Net interest income

EUR million	2008	2007
Interest income	**22,158**	**19,766**
• From credit and money market transactions	13,581	10,778[1]
– of which:		
– from unwinding	70	66
– from the sale of receivables	3	–
• From bonds, notes and other fixed-interest securities	3,141	3,272
• Current income from equities and other non-fixed interest securities	19	25
• Current income from interests in non-consolidated subsidiaries, joint ventures, associated companies and other interests	39	78
• Current income from profit pooling and profit transfer agreements	23	36
• From hedge accounting derivatives	3,308	3,599
• From derivatives in economic hedges	2,047	1,978[1]
Interest expenses	**19,488**	**17,577**
• From liabilities to banks and customers	8,033	6,589[1]
• For securitised liabilities	5,078	4,660
• For subordinated capital	671	524
• For hedge accounting derivatives	3,608	3,747
• For derivatives in economic hedges	2,003	1,947[1]
• Other interest expenses	95	110
Total	**2,670**	**2,189**

1 Previous year's figure adjusted by a total of EUR 19 million due to the change in the method for recognising performance of derivatives in economic hedges used to hedge financial instruments reported at fair value through profit or loss (fair value option) (see note (2)).

Total interest income from financial assets and liabilities not carried at fair value through profit or loss was EUR 16,636 million (2007: 14,108 million), while total interest expenses were EUR 13,658 million (2007: 11,705 million).

(26) Risk provisions for the credit business

EUR million	2008	2007
Additions	2,221	586
Direct write-offs	99	74
Reversals	568	464
Recoveries of amounts written off	101	109
Other risk provision gains or losses	-5	-28
Total	**1,656**	**115**

The amounts include both on-balance sheet and off-balance sheet credit business.

(27) Net commission income

EUR million	2008	2007
Securities business	71	61
Broker fees	-11	-10
Credit business	339	218
Payments	70	42
Foreign commercial operations	6	6
Building savings business	-27	-21
Trust transactions	20	21
Other services	116	63
Total	**584**	**380**

This includes commission income and expenses from financial instruments at fair value.

(28) Gains or losses on fair value measurement

EUR million	2008	2007
Net trading income	**-1,965**	**-226**
• Interest-related transactions	716	-459[1,2]
• Equity-related and index-related transactions with other risks	12	-52[1]
• Currency-related transactions	-124	243
• Credit derivatives	-1,991	377[1]
• Other financial transactions	23	16
• Refinancing of trading portfolios	-587	-337[2]
• Trading-related commission	-14	-14
Fair value gains or losses from the fair value option	**-173**	-31[1]
Total	**-2,138**	**-257**

1 *Previous year's figure adjusted by a total of EUR 19 million due to the change in the method for recognising performance of derivatives in economic hedges used to hedge financial instruments reported at fair value through profit or loss (fair value option) (see note (2)).*

2 *Previous year's figure adjusted due to the separate reporting of refinancing expenses for trading portfolios from this reporting year.*

Net trading income includes realised and unrealised gains or losses attributable to trading activities, the interest and dividend income related to such transactions and gains or losses on foreign currency translation.

Interest income and expenses from the portfolios in the fair value option and derivatives in economic hedges are reported under net interest income.

In the reporting year for the first time, due to a massive widening in spreads with key counterparties, a counterparty-specific credit spread was included in the valuation of OTC derivatives, with an effect of EUR -78 million. The valuation of financial instruments at their middle rate rather than their bid and offer price based on sensitivity analyses was also taken into account for the first time, with an effect of EUR -28 million.

(29) Gains or losses on hedge accounting

EUR million	2008	2007
Value of underlying transactions	-1,067	216
Value of hedging instruments	931	-189
Total	**-136**	**27**

(30) Gains or losses on investments

EUR million	2008	2007
Gains or losses on loans and receivables investments	**-331**	**–**
• gains or losses on sale	-20	–
• expenses from writedowns	311	–
of which:		
– specific loan loss provisions	100	–
– portfolio provisions	211	–
Gains or losses on available-for-sale investments	**-1,622**	**-436**
• gains or losses on sale	-12	220
• income from writebacks	23	47
• expenses from writedowns	1,633	703
Gains or losses on repurchases of own issues	**20**	**-30**
Total	**-1,933**	**-466[1]**

1 Previous year's figure adjusted by EUR 130 million due to the reallocation of the income from interests in companies valued at equity into a separate item on the income statement entitled "income from interests in companies valued at equity" (see note (2)).

Gains or losses from the disposal of underlying transactions from hedge accounting are reported under other income.

(31) Administrative expenses

EUR million	2008	2007
Personnel expenses	**1,069**	**868**
• Salaries and wages	816	677
• Social security contributions	125	84
• Expenses for pensions and other employee benefits	128	107
of which:		
– expenses for defined contribution plans	9	14
Other administrative expenses	**1,031**	**793**
• Land and buildings for own use	136	104
• Data processing costs	230	224
• Office costs	26	17
• Advertising	93	73
• Communication and other selling costs	81	74
• Membership, legal and consulting fees	291	214
• Miscellaneous administrative expenses	174	87
Amortisation, depreciation and writedowns of property, plant and equipment and intangible assets (not including goodwill)	**520**	**104**
Total	**2,620**	**1,765**

Significant items under personnel expenses are other non-current employee benefits in the amount of EUR 4 million (2007: EUR 2 million), and employment termination benefits in the amount of EUR 21 million (2007: EUR 17 million).

(32) Other income

EUR million	2008	2007
Other income	**1,125**	**686**
• Rental income	377	173
of which:		
– rental income from investment property	248	163
• Gains on the sale of property, plant and equipment and intangible assets, investment property and property held as inventory	37	18
• Income from write-backs to property, plant and equipment, intangible assets, investment property and property held as inventory	1	7
• Gains on the sale on non-current assets and disposal groups held for sale	18	18
• Gains on the sale of underlying transactions from hedge accounting	12	26
• Income from the write-back of provisions	52	24
• Sundry other income	628	420
Other expenses	**984**	**550**
• Current expenses from investment property	18	24
– leased property	14	24
• Losses on the sale of property, plant and equipment and intangible assets, investment property and property held as inventory	15	8
• Depreciation of investment property and property held as inventory	112	98
• Amortisation of goodwill	4	–
• Losses on the sale on non-current assets and disposal groups held for sale	–	3
• Losses on the sale of underlying transactions from hedge accounting	19	23
• Expenses from establishing provisions	55	19[1]
• Expenses from loss transfers	7	10
• Expenses from other taxes	27	19
• Sundry other expenses	727	346
Total	**141**	**136**

1 *Previous year's figure adjusted due to the reallocation of restructuring expenses into a separate item on the income statement entitled "Restructuring expenses" (see note (2)).*

The other income and expenses relates in large measure to non-typical banking items by subsidiaries (sales revenues or purchase costs). The income from management property and income and expenses from receivables portfolios account for large shares.

(33) Restructuring expenses

EUR million	2008	2007
Effciency programme	80	–
Other programmes	7	4
Total	**87**	**4**

EUR 80 million of the restructuring expenses relate to BayernLB, specifically personnel reductions due to restructuring. A further EUR 7 million in restructuring expenses corresponds to programmes at Group strategic subsidiaries and relate in the reporting year to Hypo Alpe-Adria-Bank International AG, Klagenfurt.

(34) Income taxes

EUR million	2008	2007
Current income taxes	**423**	**291**
• Domestic and foreign coporate income tax including solidarity surcharge	367	235
• Municipal trade tax / Foreign local taxes	56	56
Deferred income taxes	**-232**	**-211**
• Domestic and foreign coporate income tax including solidarity surcharge	-165	-31
• Municipal trade tax / Foreign local taxes	-67	-180
Total	**191**	**80**

The income tax expenses recognised for the reporting year were EUR 1,896 million higher (2007: EUR 21 million lower) than forecast. The factors determining this variation are shown in the table below:

EUR million	2008	2007
Earnings before tax under IFRS	-5,166	255
Group income tax rate (in %)	33.0	39.6
Estimated income tax	**-1,705**	**101**
• Efffects from differing local tax rates	-204	-186
of which:		
– Effects from the deductibility of municipal trade tax from corporate income tax	–	-17
• Effects from taxes from previous years recognised in the reporting year	257	-1
• Effects from changes in tax rates	-1	56
• Increase in corporation income tax on former EK02	28	–
• Effects from non-deductible income taxes (particularly witholding tax)	2	7
• Impairment of non-tax deductible goodwill	14	–
• Effects from other non-deductible operating expenses	623	368
• Effects from tax-exempt income	-211	-215
• Effects from permanent accounting differences	183	348
• Effects from writedowns/corrections	1,257	-406
• Increase/decrease in deferred tax liabilities from outside basis differences	-83	5
• Other	31	3
Effective income tax expenses(+) / income (-)	**191**	**80**
Effective income tax rate (in %)	**-3.7**	**31.4**

Estimated income tax expenses were calculated using the tax rate applicable to companies that are liable to taxes in Germany. A corporate income tax rate of 15.0 percent (2007: 25.0 percent), solidarity surcharge of 5.5 percent (2007: 5.5 percent) and average municipal trade tax of 17.2 percent (2007: 18.0 percent), resulted in a Group income tax rate of 33.0 percent as at the balance sheet date (2007: 39.6 percent). In the reporting year, the Group income tax rate was calculated on the basis that, unlike the previous year, municipal trade tax can no longer be deducted from corporation tax.

Tax rate changes took place, particularly in Luxembourg. The changes in tax rates reduced tax expenses by EUR 1 million (2007: increased tax expenses by EUR 56 million) in total.

Tax-exempt income includes in particular tax-exempt dividend income. The effects of other non-deductible operating expenses include in particular tax effects from non-deductible interest expenses, the balance of non-deductible interbranch expenses and tax-exempt income (BayernLB's US foreign entities) and the tax effects of individual municipal trade tax add-ons.

Permanent balance sheet differences are primarily the result of unrealised losses from securities of BayernLB's US foreign entities, only a small proportion of which is tax-deductable under US tax law when realised.

Notes to the balance sheet

(35) Cash reserves

EUR million	2008	2007
Cash in hand	**499**	**345**
Deposits with central banks	**2,096**	**1,931**
Debt instruments issued by public-sector entities and bills of exchange eligible for refinancing with central banks.	**1,201**	**1,931**
• treasury bills and non-interest bearing Federal Treasury notes and similar debt issued by public-sector entities	1,186	1,914
• Bills of exchange	15	17
Total	**3,796**	**4,207**

(36) Loans and advances to banks

EUR million	2008	2007
Loans and advances to domestic banks	53,527	37,602
Loans and advances to foreign banks	36,111	30,709
Total	**89,638**	**68,311**

Breakdown by maturity of loans and advances to banks:

EUR million	2008	2007
Payable on demand	**13,772**	**4,542**
With residual maturity of	**75,866**	**63,769**
• up to 3 months	23,975	7,967
• between 3 months and 1 year	15,460	12,034
• between 1 year and 5 years	23,934	26,513
• more than 5 years	12,497	17,255
Total	**89,638**	**68,311**

(37) Loans and advances to customers

EUR million	2008	2007
Loans and advances to domestic customers	106,422	95,789
Loans and advances to foreign customers	96,145	79,778
Total	**202,567**	**175,567**

Breakdown by maturity of loans and advances to customers:

EUR million	2008	2007
With residual maturity of	**200,800**	**171,672**
• up to 3 months	26,672	18,830
• between 3 months and 1 year	19,476	18,668
• between 1 year and 5 years	63,722	50,213
• more than 5 years	90,930	83,961
Undated maturities	**1,767**	**3,895**
Total	**202,567**	**175,567**

(38) Risk provisions

Specific loan loss provisions

	Loans and advances to banks		Loans and advances to customers		Other asset items		Total	
EUR million	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
As at 1 Jan	**7**	**10**	**1,908**	**1,839**	**5**	**–**	**1,920**	**1,849**
Changes recognised in profit or loss	**508**	**-4**	**815**	**48**	**2**	**1**	**1,325**	**45**
• Additions	509	–	1,296	414	4	1	**1,809**	**415**
• Reversals	1	4	410	300	2	–	**413**	**304**
• Unwinding	–	–	71	66	–	–	**71**	**66**
Changes not recognised in profit or loss	**–**	**1**	**-458**	**21**	**-1**	**4**	**-459**	**26**
• Currency-related changes	–	-1	–	-9	–	–	**–**	**-10**
• Changes in the scope of consolidation	–	2	–	633	–	5	**–**	**640**
• Utilisation	–	1	473 [1]	614	1	2	**474**	**617**
• Transfers / Other changes	–	1	15	11	–	1	**15**	**13**
As at 31 Dec	**515**	**7**	**2,265**	**1,908**	**6**	**5**	**2,786**	**1,920**

1 *Includes a EUR 19 million adjustment of a subsidiary relating to the previous year (see note (2)).*

Specific loan loss provisions by sector:

EUR million	2008	2007
Sector groups		
• Banks/financial services providers	681	40
• Real estate	393	413
• Retail customers	174	303
• Construction	174	294
• Food and beverages	145	145
• Wholesale and retailing	140	145
• Chemicals	95	27
• Automotive	89	36
• Consumer durables	72	29
• Hotels	63	35
• Healthcare	62	61
• Pulp + paper	55	40
• Aviation	45	45
• Tourism	40	49
• Logistics	38	33
• Technology	35	39
• Manufacturing + engineering	34	19
• Media	30	57
• Utilities/waste management	28	13
• Non-ferrous metals/coal and steel	24	28
• Textiles + apparel	18	19
• Steel	9	6
• Countries/public sector	5	7
• Other sector groups	337	37
Total	**2,786**	**1,920**

Portfolio provisions

	Loans and advances to banks		Loans and advances to customers		Other asset items		Total	
EUR million	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
As at 1 Jan	**32**	**25**	**353**	**277**	**2**	**–**	**387**	**302**
Changes recognised in profit or loss	**70**	**–**	**260**	**92**	**-1**	**-7**	**329**	**85**
• Additions	75	16	342	182	1	–	**418**	**198**
• Reversals	5	16	82	90	2	7	**89**	**113**
Changes not recognised in profit or loss	**1**	**7**	**-64**	**-16**	**–**	9	**-63**	**–**
• Currency-related changes	–	–	3	-4	–	–	**3**	**-4**
• Changes in the scope of consolidation	–	7	–	62	–	9	**–**	**78**
• Utilisation	–	–	99	74	–	–	**99**	**74**
• Transfers / Other changes	1	–	32	–	–	–	**33**	**–**
As at 31 Dec	**103**	**32**	**549**	**353**	**1**	**2**	**653**	**387**

Risk provisions for contingent liabilities and other liabilities are shown as provisions for credit business risks (see note (51)).

(39) Assets held for trading

EUR million	2008	2007
Bonds, notes and other fixed-interest securities	**9,001**	**15,044**
• money market instruments	363	709
• bonds and notes	8,638	14,335
Equities and other non-fixed interest securities	**131**	**168**
• Equities	131	168
Receivables held for trading	**3,360**	**53,857**
• Promissory notes	660	612
• Money market transactions	2,700	53,245
Positive fair values from derivative financial instruments (not hedge accounting)	**34,857**	**15,743**
Total	**47,349**	**84,812**

Assets held for trading includes the fair value from the guarantee agreement with the Free State of Bavaria (“Umbrella”) in the amount of EUR 1,837 million. Further information on the guarantee agreement is given in the Management Report.

Breakdown by maturity of assets held for trading:

EUR million	2008	2007
With residual maturity of	**47,279**	**84,715**
• up to 3 months	5,346	46,850
• between 3 months and 1 year	4,818	13,033
• between 1 year and 5 years	18,686	11,743
• more than 5 years	18,429	13,089
Undated maturities	**70**	**97**
Total	**47,349**	**84,812**

(40) Investments

EUR million	2008	2007
Held-to-maturity investments	**40**	**41**
• bonds, notes and other fixed-interest securities	40	41
Loans and receivables investments	**35,709**	**–**
• bonds, notes and other fixed-interest securities	35,709	–
Available-for-sale investments	**25,175**	**65,603**
• bonds, notes and other fixed-interest securities	24,079	63,727
• equities and other non-fixed interest securities	262	761
• interests in non-consolidated subsidiaries, joint ventures, associated companies and other interests	834	1,115[1]
Fair value option investments	**1,531**	**2,058**
• bonds, notes and other fixed-interest securities	1,430	1,931
• equities and other non-fixed interest securities	101	127
Total	**62,455**	**67,702[2]**

1 *Previous year's figure adjusted due to the reallocation from interests in companies valued at equity to interests in non-consolidated subsidiaries, joint ventures, associated companies, and other interests.*

2 *Previous year's figure adjusted due to reallocation of interests in companies valued at equity into a separate item on the balance sheet (see note (2)).*

Investments in the loans and receivables category arose from the reclassification of securities from the available-for-sale and held-for-trading categories. Further information is given under note (58).

The items bonds and other fixed-interest securities as well as equities and other non-fixed interest securities are broken down as follows:

EUR million	2008	2007
Bonds, notes and other fixed-interest securities	**61,258**	**65,699**
• money market instruments	2,009	60
• bonds and notes	59,249	65,639
Equities and other non-fixed interest securities	**363**	**888**
• equities	73	162
• investment units	279	642
• other non-fixed interest securities	11	84

Investments broken down by maturity:

EUR million	2008	2007
With residual maturity of	**61,031**	**66,245**
• up to 3 months	5,418	1,815
• between 3 months and 1 year	4,261	3,303
• between 1 year and 5 years	16,931	19,475
• more than 5 years	34,421	41,652
Undated maturities	**1,424**	**1,457[1]**
Total	**62,455**	**67,702**

1 *Previous year's figure adjusted due to reallocation of interests in companies valued at equity into a separate balance sheet item and to the reallocation from interests in companies valued at equity into to interests in non-consolidated subsidiaries, joint ventures, associated companies, and other interests (see note (2)).*

(41) Interests in companies measured at equity

EUR million	2008	2007
Joint ventures	68	55
Associated companies	38	70
Total	**106**	**125**[1]

1 Previous year's figure adjusted due to reallocation to interests in non-consolidated subsidiaries, joint ventures, associated companies and other interests" (investments) (see note (2))

Summary of financial information on joint ventures valued at equity:

EUR million	2008	2007
Current assets	485	353
Non-current assets	1,352	1,536
Current liabilities	367	211
Non-current liabilities	1,336	1,502
Earnings	175	132
Expenses	168	152

Summary of financial information on associated companies valued at equity:

EUR million	2008	2007
Total assets	1,003	1,123
Equity	161	237
Revenues	108	144
Volumes of discontinued operations	1	3,174

(42) Investment property

EUR million	2008	2007
Land and buildings leased	3,456	3,286
Undeveloped land	39	52
Unused buildings	22	37
Total	**3,517**	**3,375**

Changes to investment property:

EUR million	2008	2007
Cost of purchase		
As at 1 Jan	**3,503**	**2,632**
• Change from exchange rates	1	-2
• Changes in the scope of consolidation	38	566
• Additions	355	511
• Transfers	-18	41
• Disposals	146	245
As at 31 Dec	**3,733**	**3,503**
Depreciation and reversals		
As at 1 Jan	**128**	**61**
• Change from exchange rates	-1	–
• Changes in the scope of consolidation	-1	16
• Depreciation	67	46
• Impairments	41	12
• Reversals	1	6
• Transfers	-2	9
• Disposals	15	10
As at 31 Dec	**216**	**128**
Carrying amount		
As at 1 Jan	**3,375**	**2,571**
As at 31 Dec	**3,517**	**3,375**

Additions to investment property include one purchase of EUR 300 million (2007: 422 million) and the capitalisation of EUR 55 million (2007: EUR 69 million) in subsequent purchase costs.

No restrictions on disposals or earning income or profits from sales existed on the balance sheet date (2007: EUR 237 million).

Expenditure on construction in progress in the reporting year of EUR 41 million (2007: EUR 70 million) was capitalised.

The fair value of investment property was EUR 3,810 million (2007: 3,588 million). Calculations were mostly based on the discounted cash value method based on market data and geodata from external experts.

(43) Property, plant and equipment

EUR million	2008	2007
Land and buildings for own use	1,217	1,121
Business and office equipment	263	282
Equipment leased under operating leases	471	383
Total	**1,951**	**1,786**

Changes in property, plant and equipment:

EUR million	Land and buildings for own use 2008	2007	Business and office equipment 2008	2007	Equipment leased under operating leases 2008	2007	Total 2008	2007
Cost of purchase								
As at 1 Jan	1,221	627	662	345	470	–	**2,353**	**972**
• Change from exchange rates	-7	-1	-11	-4	-5	–	**-23**	**-5**
• Changes in the scope of consolidation	–	569	4	242	–	389	**4**	**1,200**
• Additions	179	41	87	106	328	116	**594**	**263**
• Transfers	13	106	1	51	2	54	**16**	**211**
• Disposals	31	121	59	78	206	89	**296**	**288**
As at 31 Dec	1,375	1,221	684	662	589	470	**2,648**	**2,353**
Depreciation and reversals								
As at 1 Jan	100	34	380	221	87	–	**567**	**255**
• Change from exchange rates	-1	–	-6	-2	-3	–	**-10**	**-2**
• Changes in the scope of consolidation	–	44	2	109	–	112	**2**	**265**
• Depreciation	30	17	70	36	92	17	**192**	**70**
• Impairments	30	–	9	–	16	5	**55**	**5**
• Reversals	–	–	–	–	10	14	**10**	**14**
• Transfers	1	11	–	32	-2	–	**-1**	**43**
• Disposals	2	6	34	16	62	33	**98**	**55**
As at 31 Dec	158	100	421	380	118	87	**697**	**567**
Carrying amount								
As at 1 Jan	1,121	593	282	124	383	–	**1,786**	**717**
As at 31 Dec	1,217	1,121	263	282	471	383	**1,951**	**1,786**

Property, plant and equipment with restricted rights of disposal was valued at EUR 6 million (2007: EUR 7 million) on the balance sheet date.

Expenditure on construction in progress in the reporting year of EUR 50 million (2007: EUR 40 million) was capitalised.

Liabilities incurred from the acquisition of property, plant and equipment amounted to EUR 206 million (2007: EUR 387 million).

(44) Intangible assets

EUR million	2008	2007
Goodwill	970	998
Intangible assets produced in-house	16	7
Other intangible assets	1,227	1,566
Total	**2,213**	**2,571**

Changes in intangible assets:

EUR million	Goodwill		Intangible assets produced in-house		Other intangible assets		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Cost of purchase								
As at 1 Jan	1,005	130	11	8	1,748	220	**2,764**	**358**
• Changes from exchange rates	-18	1	–	–	-6	1	**-24**	**2**
• Changes in the scope of consolidation	–	846	7	2	8	1,485	**15**	**2,333**
• Additions	–	28	2	–	80	95	**82**	**123**
• Transfers	-6	–	8	1	-13	1	**-11**	**2**
• Disposals	–	–	3	–	47	54	**50**	**54**
As at 31 Dec	981	1,005	25	11	1,770	1,748	**2,776**	**2,764**
Depreciation and reversals								
As at 1 Jan	7	3	4	1	182	108	**193**	**112**
• Changes from exchange rates	–	–	–	–	-3	–	**-3**	**–**
• Changes in the scope of consolidation	–	4	–	–	4	33	**4**	**37**
• Depreciation	–	–	4	2	127	49	**130**	**51**
• Impairments	4	–	–	–	250	–	**254**	**–**
• Transfers	–	–	–	1	-3	1	**-3**	**2**
• Disposals	–	–	–	–	13	9	**13**	**9**
As at 31 Dec	11	7	8	4	544	182	**563**	**193**
Carrying amount								
As at 1 Jan	998	127	7	7	1,566	112	**2,571**	**246**
As at 31 Dec	970	998	17	7	1,226	1,566	**2,213**	**2,571**

Goodwill in the amount of EUR 841 million arose from the acquisition of the HGAA sub-group in 2007. Other intangible assets include EUR 1,049 million in customer relationships (2007: EUR 1,270 million) and EUR 2 million in technology-related assets (2007: EUR 3 million), arising from the consolidation of HGAA. In the reporting year, HGAA's customer relationships were reduced by a scheduled amortisation of EUR 93 million and an unscheduled write down of EUR 128 million. The entire goodwill amount for the Hypo Group Alpe Adria brand name was amortised in the reporting year (EUR 122 million).

(45) Current and deferred tax assets

EUR million	2008	2007
Current tax assets	**269**	**362**
• Germany	172	320
• Abroad	97	42
Deferred tax assets	**4,390**	**5,035**
• Germany	3,793	3,842
• Abroad	597	1,193
Total	**4,659**	**5,397**

The following deferred taxes under assets and liabilities relate to recognition and measurement differences in each balance sheet item, tax loss carryforwards and tax credits:

EUR million	2008 Deferred tax assets	2008 Deferred tax liabilities	2007 Deferred tax assets	2007 Deferred tax liabilities
Loans and advances to banks and customers including risk provisions	416	487	422	258
Assets held for trading	728	6,821	1,171	508
Positive fair values from derivative financial instruments (hedge accounting)	–	1,240	25	620
Investments	582	62	487	119
Property, plant and equipment	14	115	7	86
Other assets	1,520	263	1,570	284
Liabilities to banks/customers	72	869	40	1,919
Securitised liabilities	81	21	85	124
Liabilities held for trading	6,724	14	196	4
Negative fair values from derivative financial instruments (hedge accounting)	845	18	605	26
Provisions	449	50	454	14
Other liabilities	76	1,614	67	1,285
Subordinated capital	–	149	4	332
Interests in subsidiaries and joint ventures	–	31	–	115
Tax loss carryforwards/Interest carryforwards	266	–	626	–
Other	–	–	56	1
Sub-total	11,773	11,754	5,815	5,695
Less netting	7,383	7,383	780	780
Total deferred taxes less provisions and netting	**4,390**	**4,371**	**5,035**	**4,915**

The EUR - 101 million change (2007: EUR 261 million) in the balance of deferred tax assets and liabilities does not correspond to deferred tax income of EUR 232 million (2007: EUR 211 million). Most of this was due to the changes in deferred taxes not recognised through profit or loss; this was primarily the result of:

- EUR -101 million (2007: EUR 263 million) booked against the revaluation reserve,
- the guarantee agreement with the Free State of Bavaria ("Umbrella") in the amount of EUR -212 million

The effects from the tax deduction of hybrid capital distributions from current income taxes in the amount of EUR 3 million (2007: EUR 138 million) was not recognised through profit or loss.

Tax loss carryforwards, interest carryforwards and instalments, for which a deferred tax asset has been recognised, not recognised or for which a loan loss provision has been established, are listed separately in the table below for all types of tax loss and interest carryforwards relevant to the Group. The period of time in which unrecognised loss carryforwards and interest carryforwards may still be used according to the tax law applicable in each case is also shown. Tax loss carryforwards and interest carryforwards of companies liable to tax in Germany may be used indefinitely.

EUR million	2008	2007
Interest carryforwards		
• interest carryforwards	40	–
• interest carryforwards for which a deferred tax asset has been recognised	17	–
• interest carryforwards for which no deferred tax asset has been recognised	23	–
– may be used indefinitely	23	–
Corporate income tax		
• Loss carryforwards	5,578	2,683
– loss carryforwards for which a deferred tax asset has been recognised	868	1,970
– loss carryforwards for which a provision has been established	808	2
– loss carryforwards for which no deferred tax asset has been recognised	3,902	711
– expire within 5 years	61	23
– expire after 10 years	29	–
– may be used indefinitely	3,812	688
Municipal trade tax		
• Loss carryforwards	3,069	2,932
– loss carryforwards for which a deferred tax asset has been recognised	547	1,346
– loss carryforwards for which a provision has been established	521	–
– loss carryforwards for which no deferred tax asset has been recognised	2,001	1,586
– expire after 10 years	29	–
– may be used indefinitely	1,972	1,586

No deferred tax assets were recognised for deductible temporary differences of EUR 2,934 million (2007: EUR 902 million). In the case of Group companies generating a tax loss in the current or previous financial year, deferred tax assets of EUR 289 million (2007: EUR 592 million) were recognised, for which the utilisation of the deferred income tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. The amount recognised is based on the tax planning for the consolidated tax group or the company in question.

No deferred tax liabilities were recognised (2007: no recognition of deferred tax assets of EUR 15 million) for the EUR 11 million in taxable temporary differences from interests in subsidiaries and joint ventures, as it is improbable that the temporary differences will be reversed in the foreseeable future

In the reporting year, in the sub-group GBWAG, Munich, around EUR 28 million in tax liabilities, due to EK02 portfolios from the period the corporation tax imputation system was in force, was recognised based on the 2008 German Annual Tax Act (Jahressteuergesetz). The application for subsequent taxation through dividends was not made before the legal deadline on 30 September 2008 expired.

(46) Other assets

EUR million	2008	2007
Prepaid expenses	120	147
Other assets	1,555	1,393
Leasing assets not yet leased	671	604
Non-current assets held for sale and disposal groups	32	4
Total	**2,378**	**2,148**

(47) Liabilities to banks

EUR million	2008	2007
Liabilities to domestic banks	92,507	60,470
Liabilities to foreign banks	49,973	32,976
Total	**142,480**	**93,446**

Breakdown by maturity of liabilities to banks:

EUR million	2008	2007
Payable on demand	**7,873**	**5,501**
With residual maturity of	**134,587**	**87,921**
• up to 3 months	60,926	33,783
• between 3 months and 1 year	21,753	14,882
• between 1 year and 5 years	24,159	16,784
• more than 5 years	27,749	22,472
Undated maturities (building-saving deposits)	**20**	**24**
Total	**142,480**	**93,446**

(48) Liabilities to customers

EUR million	2008	2007
Liabilities to domestic customers	69,350	66,252
Liabilities to foreign customers	21,957	26,365
Total	**91,307**	**92,617**

Breakdown by maturity of liabilities to customers:

EUR million	2008	2007
With residual maturity of	**82,644**	**84,021**
• up to 3 months	37,937	43,483
• between 3 months and 1 year	10,155	7,847
• between 1 year and 5 years	12,356	10,810
• more than 5 years	22,196	21,881
Undated maturities (building-saving deposits)	**8,663**	**8,596**
Total	**91,307**	**92,617**

(49) Securitised liabilities

EUR million	2008	2007
Bonds and notes issued	**108,802**	**109,588**
• mortgage-backed Pfandbriefs	3,484	4,788
• public Pfandbriefs	35,747	37,989
• other bonds	69,571	66,811
Other securitised liabilities	**8,677**	**13,307**
• money market instruments	5,791	10,523
• Miscellaneous securitised liabilities	2,886	2,784
Total	**117,479**	**122,895**

Breakdown of securitised liabilities by maturity:

EUR million	2008	2007
With residual maturity of		
• up to 3 months	14,703	13,591
• between 3 months and 1 year	17,522	18,744
• between 1 year and 5 years	51,794	50,452
• more than 5 years	33,460	40,108
Total	**117,479**	**122,895**

(50) Liabilities held for trading

EUR million	2008	2007
Trading portfolio liabilities	**704**	**54,153**
• money market transactions	294	53,220
• liabilities from short sales	410	933
Negative fair values from derivative financial instruments (no hedge accounting)	**33,350**	**14,415**
Total	**34,054**	**68,568**

Breakdown by maturity of liabilities held for trading:

EUR million	2008	2007
With residual maturity of		
• up to 3 months	2,530	51,691
• between 3 months and 1 year	3,942	5,653
• between 1 year and 5 years	12,512	5,145
• more than 5 years	15,070	6,079
Total	**34,054**	**68,568**

(51) Provisions

EUR million	2008	2007
Provisions for pensions and similar obligations	**2,401**	**2,320**
Other provisions	**711**	**696**
• provisions for the credit business	217	210
• restructuring provisions	86	5
• miscellaneous provisions	408	481
Total	**3,112**	**3,016**

Provisions for pensions and similar obligations

Breakdown of reported pension provisions:

EUR million	2008	2007
Present value of pension obligations	**1,776**	**2,057**
• non-funded plans	357	680
• funded plans	1,419	1,377
Fair value of plan assets	**-79**	**-92**
Actuarial gains and losses not yet entered	**704**	**355**
Reported pension provisions	**2,401**	**2,320**

Change in the present value of pension obligations:

EUR million	2008	2007
As at 1 Jan	**2,057**	**2,104**
Current service expense	60	68
Interest expense	110	93
Actuarial gains and losses	-372	-161
Changes from exchange rates	-12	-4
Changes in the scope of consolidation	4	25
Benefits paid	-71	-68
As at 31 Dec	**1,776**	**2,057**

Change in the fair value of the plan assets and reimbursement rights reported as an asset:

	Fair value of plan assets	
EUR million	**2008**	**2007**
As at 1 Jan	**92**	**89**
Estimated returns	4	4
Actuarial gains and losses	-11	-1
Changes from exchange rates	-11	-5
Changes in the scope of consolidation	1	–
Employer contributions	6	9
Employee contributions	3	–
Benefits paid	-5	-4
As at 31 Dec	**79**	**92**

Plan assets comprise equity instruments (EUR 23 million; 2007: EUR 36 million), debt instruments (EUR 30 million; 2007: EUR 38 million), and other assets (EUR 26 million; 2007: EUR 18 million). Other assets mainly comprise funds in a time deposit account.

Expected income from plan assets is calculated based on long-term yields on the capital market and historical capital market growth. Actual income from plan assets in the reporting year stood at EUR 9 million (2007: EUR 0 million).

Over the past three years, the changes in the present value of pension obligations, the fair value of plan assets and the surplus/deficit in obligations were as follows:

EUR million	**2008**	**2007**	**2006**
Present value of pension obligations	1,776	2,057	2,104
Fair value of plan assets	79	92	89
Surplus/deficit in obligations	**-1,697**	**-1,965**	**-2,015**
Experience-based adjustments to the value of the obligation	27	20	2

Contributions to the plan in financial year 2009 are estimated at EUR 6 million.

Expenses for the pension obligations reported in the income statement are broken down as follows:

EUR million	**2008**	**2007**
Current service expense	60	68
Interest expense	110	93
Estimated returns from plan assets	4	4
Actuarial gains and losses	-7	-1
Total	**167**	**164**

Except for interest expense, which is reported under net interest income, the expenses for pension obligations are reported under administrative expenses.

Other provisions

	Provisions for the credit business			
EUR million	**Individual transaction level**	**Portfolio level**	**Restructuring provisions**	**Other provisions**
As at 1 Jan 2008	**94**	**116**	**5**	**481**
Changes from exchange rates	–	–	1	–
Changes in the scope of consolidation	–	–	–	19
Utilisation	–	–	1	88
Reversals	21	45	–	52
Additions	83	10	80	103
Transfers / Other changes	-20	–	1	-55
As at 31 Dec 2008	**136**	**81**	**86**	**408**

Other provisions include in particular personnel-related provisions (EUR 203 million), litigation costs (EUR 34 million) and risks that are not directly associated with credit risks (EUR 37 million). A further key component in the annual financial statements is EUR 58 million in provisions for participations.

(52) Current and deferred tax liabilities

EUR million	2008	2007
Current tax liabilities	**531**	**277**
• Germany	394	225
• Abroad	137	52
Deferred tax liabilities	**4,371**	**4,915**
• Germany	3,599	3,634
• Abroad	772	1,281
Total	**4,902**	**5,192**

A breakdown of deferred tax liabilities is given in note (45), alongside the breakdown for deferred tax assets.

(53) Other liabilities

EUR million	2008	2007
Pre-paid income	642	688
Other liabilities	994	1,335
Accruals	524	431
Total	**2,160**	**2,454**

(54) Subordinated capital

EUR million	2008	2007
Subordinated liabilities	8,163	8,233
Profit participation certifications (debt component)	1,862	2,264
Capital contributions of silent partners (debt component)	906	1,131
Hybrid capital	890	825
Total	**11,821**	**12,453**

Breakdown by maturity of subordinated capital:

EUR million	2008	2007
With residual maturity of		
• up to 3 months	662	139
• between 3 months and 1 year	1,470	2,233
• between 1 year and 5 years	2,771	3,085
• more than 5 years	6,918	6,996
Total	**11,821**	**12,453**

(55) Equity

EUR million	2008	2007
Equity excluding minority interests	**8,693**	**10,835**
• Subscribed capital	3,556	3,082
– statutory nominal capital	2,300	1,800
– undated capital contributions of silent partners	1,256	1,282
• Specific-purpose capital	612	612
• Hybrid capital instruments	545	621
– profit participation certifications (equity component)	365	420
– dated capital contributions of silent partners (equity component)	180	201
• Capital reserve	1,476	476
• Retained earnings	4,909	6,547
– statutory reserve	1,268	1,268
– other retained earnings	3,641	5,279
• Revaluation reserve	-2,265	-672
• Foreign currency translation reserve	-141	43
• Consolidated net profit/loss	–	126
Minority interests	**2,573**	**2,058**
Total	**11,265**	**12,893**

Capital measures in the reporting year

BayernLB's nominal capital as laid down by the Statutes was increased by EUR 500 million.

In the first tranche of recapitalisation measures by the Free State of Bavaria, the capital reserve was increased by EUR 3,000 million. To balance the negative consolidated performance in the reporting year, EUR 2,000 million of capital reserve and EUR 3,034 million of retained earnings were released. In addition, the fair value of the guarantee agreement concluded on 19 December 2008 with the Free State of Bavaria ("Umbrella") in the amount of EUR 1,824 million, or EUR 1,612 million after deduction of deferred taxes, was recognised under retained earnings and not through profit or loss. Further information on the guarantee agreement is given in the management report.

The EUR 900 million recapitalisation at Hypo Alpe-Adria Bank International AG, Klagenfurt, by the Republic of Austria increased minority interests.

Subscribed capital

BayernLB Holding AG holds 100 percent of BayernLB's nominal capital. Due to the capital measures that took place in the reporting year, the Free State of Bavaria's share was 88 percent and the Association of Bavarian Savings Banks' share was 12 percent share as at the balance sheet date.

Specific-purpose capital

The specific-purpose capital was created by a contribution in kind by the Free State of Bavaria in the form of development loans in 1994/1995. Its legal basis was the act of 23 July 1994 on the formation of special-purpose assets through the transfer of the Free State of Bavaria's trustee receivables to the liable capital of the Bayerische Landesbank Girozentrale, last amended by law on 9 May 2006, and the contribution agreements of 15 December 1994 and of 28 December 1995, both last amended by an agreement on 23 December 2005. The transferred specific-purpose assets are used for the purposes of social housing construction.

Capital reserve

The capital reserve comprises additional contributions to the parent company's equity.

Retained earnings

Allocations to the reserves from earnings generated in previous years and from the negative performance of the current year are reported in the retained earnings. They are divided into BayernLB's statutory reserve and other retained earnings.

Revaluation reserve

Gains or losses not recognised through profit or loss from the measurement of available-for-sale financial instruments are reported in the revaluation reserve.

EUR million	2008	2007
As at 1 Jan	**-672**	**329**
Changes from exchange rates	2	–
Changes in the scope of consolidation	30	42
Changes in value not recognised in profit or loss	-2,023	-1,228
Changes in deferred taxes not recognised in profit or loss	-124	65
Changes in value/realisations recognised in profit or loss	326	-29
Minority interests and other changes	196	149
As at 31 Dec	**-2,265**	**-672**

Foreign currency translation reserve

The foreign currency translation reserve mostly comprises the exchange rate differences arising from the translation of the annual accounts of subsidiaries and foreign entities consolidated within the Group that were prepared in a foreign currency.

Consolidated profit

The consolidated profit/loss corresponds to BayernLB's net profit/loss after changes in reserves.

(56) Fair value of financial instruments

EUR million	Fair value 2008	Carrying amount 2008	Fair value 2007	Carrying amount 2007
Assets				
• Cash reserves	3,796	3,796	4,207	4,207
• Loans and advances to banks[1]	91,175	89,638	67,858	68,311
• Loans and advances to customers[1]	205,145	202,567	173,487	175,567
• Assets held for trading	47,349	47,349	84,812	84,812
• Positive fair values from derivative financial instruments (hedge accounting)	3,929	3,929	1,944	1,944
• Investments	59,373	62,455	67,674[2]	67,702[2]
Liabilities				
• Liabilities to banks	143,468	142,480	93,418	93,446
• Liabilities to customers	90,305	91,307	92,633	92,617
• Securitised liabilities	117,689	117,479	123,096	122,895
• Liabilities held for trading	34,054	34,054	68,568	68,568
• Negative fair values from derivative financial instruments (hedge accounting)	3,086	3,086	2,104	2,104
• Subordinated capital	11,498	11,821	12,606	12,453

1 *Carrying amounts not including deductions of risk provisions for loans and advances to banks in the amount of EUR 618 million (2007: EUR 39 million) and loans and advances to customers in the amount of EUR 2,814 million (2007: EUR 2,261 million).*

2 *Previous year's figure adjusted due to reallocation of interests in companies valued at equity into a separate item on the balance sheet (see note (2)).*

Information on the fair value measurement of financial instruments recognised at amortised cost is given under note (7).

In the case of loans and advances to banks and customers and liabilities to banks and customers with residual maturities of less than a year, the fair value was considered to be that shown in the balance sheet for simplicity's sake.

The difference between fair value and carrying amount is EUR 1,033 million (2007: EUR -2,561 million) for assets and EUR -127 million for liabilities (2007: EUR 342 million).

The fair value could not be calculated reliably for either unquoted equity instruments reported under investment assets or their linked derivatives in the amount of EUR 142 million (2007: EUR 114 million). No fair value has therefore been given for these financial instruments; they are valued at cost less any writedowns.

(57) Financial instrument valuation categories

EUR million	2008	2007
Assets		
• Financial assets at fair value through profit or loss	50,322	88,616
– fair value option	2,973	3,804
– loans and advances to banks	88	71
– loans and advances to customers	1,354	1,675
– investments	1,531	2,058
– assets held for trading	47,349	84,812
– assets held for trading	47,349	84,812
• Held-to-maturity investments	40	41
– investments	40	41
• Loans and receivables	326,395	242,078
– loans and advances to banks[1]	89,550	68,240
– loans and advances to customers[1]	201,136	173,838
– investments	35,709	–
• Available-for-sale assets	29,048	69,864
– cash reserves	3,796	4,207
– loans and advances to customers	77	54
– investments	25,175	65,603[2]
• Positive fair values from derivative financial instruments (hedge accounting)	3,929	1,944
Liabilities		
• Financial liabilities at fair value through profit or loss	41,921	76,624
– fair value option	7,867	8,056
– liabilities to banks	862	871
– liabilities to customers	2,626	2,395
– securitised liabilities	4,106	4,438
– subordinated capital	273	352
– liabilities held for trading	34,054	68,568
– liabilities held for trading	34,054	68,568
• Liabilities measured at amortised costs	355,220	313,356
– liabilities to banks	141,618	92,575
– liabilities to customers	88,681	90,634
– securitised liabilities	113,373	118,046
– subordinated capital	11,548	12,101
• Negative fair values from derivative financial instruments (hedge accounting)	3,086	2,104

1 Not including deductions of risk provision

2 Previous year's figure adjusted due to the reallocation from interests in companies value at equity to interests in non-consolidated subsidiaries, joint ventures, associated companies, and other interests.

(58) Reclassification of financial assets

Pursuant to the IASB's amendments to IAS 39 and IFRS 7 – "Reclassification of Financial Assets" – and to Commission Regulation 1004/2008, BayernLB reclassified selected available-for-sale and held-for-trading securities as loans and receivables. This has affected most of the ABS portfolio and other bonds.

No active market exists for the securities included in the reclassification from the available-for-sale category to the loans and receivables category. There is no short-term intention to sell or trade them either. Instead, BayernLB has the intention and the ability to hold them for the foreseeable future. The securities reclassified from the held-for-trading category to the loans and receivables category were subject to, the rare market circumstances defined under IAS 39.50B.

The fair value of the securities in the available-for-sale and held-for-trading categories was EUR 35,541 million and EUR 243 million respectively as at the date of reclassification (1 July 2008). These amounts were recognised as new (amortised) costs in the securities portfolios within the loans and receivables category. The revaluation reserve was EUR -2,298 million and the nominal volume EUR 37,958 million as at the date of reclassification.

The fair values and the carrying amounts of the reclassified securities, broken down by category, as at the balance sheet date pursuant to IAS 39 and IFRS 7.12A (b) were:

EUR million	Fair value 2008	Carrying amount 2008	Fair value / carrying amount 2007
Available-for-sale securities reclassified as loans and receivables	32,021	35,169	36,090
Held-for-trading securities reclassified as loans and receivables	224	250	252
Total	**32,245**	**35,419**	**36,342**

Effective interest rates as at the date of reclassification were between -2.38 percent and +14.24 percent. Incoming cash flows in the amount of the nominal volume plus interest was expected on the same date.

The changes in value of reclassified securities recognised and not recognised in profit or loss pursuant to IAS 39 and IFRS 7.12A (d) were:

EUR million	2008	2007
Reclassification from the available-for-sale category		
• Gains or losses on hedging transactions (hedge accounting)	156	-64
– value of underlying transactions	156	-64
• Gains or losses on investments	-331	–
– gains or losses on sales	-20	–
– expenses from writedowns	311	–
• Change in the revaluation reserve (without amortisation effects)	-1,714	-942
Total	**-1,889**	**-1,006**
Reclassification from the held-for-trading category		
• Gains or losses on fair value measurement	-4	-5
– net trading income for interest-related transactions	-4	-5
Total	**-4**	**-5**

In the following table, pursuant to IAS 39 and IFRS 7.12A, the changes in value recognised and not recognised in profit or loss and current income "without reclassification" are compared with the corresponding "with reclassification" figures. In contrast to the previous table, all earnings effects including current earnings components are included.

EUR million	2008 Without reclassification[1]	2008 With reclassification[2]
Reclassification from the available-for-sale category		
• Interest income	1,729	1,729
– interest income from bonds and other fixed-interest securities	1,729	1,729
• Gains or losses on hedging transactions (hedge accounting)	156	156
– value of underlying transactions	156	156
• Gains or losses on investments	-120	-331
– value of underlying transactions	-20	-20
– expenses from writedowns	100	311
• Change in the revaluation reserve	-4,449	-1,410
Total	**-2,684**	**144**
Reclassification from the held-for-trading category		
• Interest income	12	13
– interest income from bonds and other fixed-interest securities	12	13
• Gains or losses on fair value measurement	-29	-4
– net trading income for interest-related transactions	-29	-4
Total	**-17**	**9**

1 *Taking account of former categories*

2 *Taking account of categories after reclassification*

(59) Loans and receivables and financial liabilities at fair value

The maximum default risk from loans and receivables at fair value through profit or loss was EUR 265 million (2007: EUR 596 million) on the balance sheet date. Rating-related changes in the fair value of financial assets in the reporting year was EUR -8 million (2007: EUR 0 million), and EUR -7 million (2007: EUR 0 million) since designation.

Rating-related changes in the fair value of financial liabilities in the reporting year was EUR 258 million (2007: EUR 19 million), and EUR 269 million (2007: EUR 13 million) since designation.

Rating-related changes in fair value are determined by performing a difference calculation, in which the fair value based on the credit spreads at the end of the reporting year is compared with the fair value at the beginning of the reporting year.

The difference between the carrying amount of the financial liabilities and the redemption amount at maturity is EUR 182 million (2007: EUR 57 million).

(60) Net profit or loss from financial instruments

The net profit or loss from financial instruments in each category includes gains or losses from measurement and sale.

EUR million	2008	2007
Financial assets or financial liabilities at fair value through profit or loss	**-2,138**	**-237**
• fair value option	-173	-83
• assets held for trading[1]	-1,965	-154
Loans and receivables	**-1,951**	**-88**
Available-for-sale financial assets	**-1,614**	**-436**
Liabilities measured at amortised cost	**20**	**-30**

1 *Including gains or losses from currency translation*

In addition, the effect from the fair value measurement of available-for-sale financial assets in the amount of EUR -2,023 million (2007: EUR -1,228 million) is reported in the revaluation reserve under equity (see note (55)) and not recognised through profit or loss.

(61) Derivatives transactions

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

Volumes

EUR million	Nominal value 2008	Nominal value 2007	Positive fair value 2008	Negative fair value 2008
Interest rate risks				
• Interest rate swaps	890,158	863,370	24,643	22,307
• FRAs	178,879	121,636	489	444
• Interest rate options	32,685	35,572	560	1,672
– call options	12,214	12,582	560	–
– put options	20,471	22,990	–	1,672
• Caps/ floors	33,994	30,003	253	336
• Exchange-traded contracts	60,462	27,159	2	1
• Other interest-based forward transactions	4,134	3,943	3	19
Total interest rate risks	**1,200,312**	**1,081,683**	**25,950**	**24,779**
Currency risks				
• Forward exchange deals	71,626	83,040	2,830	2,815
• Currency swaps/cross-currency swaps	61,963	45,624	3,489	2,582
• Foreign exchange options	9,199	6,242	300	223
– call options	4,726	3,129	300	–
– put options	4,473	3,113	–	223
• Exchange-traded contracts	45	161	9	–
• Other currency-based forward transactions	2,331	1,888	54	15
Total currency risks	**145,164**	**136,955**	**6,682**	**5,635**
Equity and other price risks				
• Equity forward contracts	42	–	–	9
• Equity/index options	611	5,914	156	142
– call options	253	5,755	131	–
– put options	358	159	25	142
• Exchange-traded contracts	396	1,396	4	4
• Other forward transactions	876	376	608	604
Total equity and other price risks	**1,925**	**7,686**	**768**	**759**
Credit derivative risks				
• Protection buyer	56,955	65,460	4,910	275
• Protection seller	65,683	71,002	476	4,989
Total credit derivative risks	**122,638**	**136,462**	**5,386**	**5,264**
Total	**1,470,039**	**1,362,786**	**38,786**	**36,436**

Breakdown of maturities

	Nominal value							
	Interest rate risks		Currency risks		Equity and other price risks		Credit derivative risks	
EUR million	2008	2007	2008	2007	2008	2007	2008	2007
Residual maturities								
• up to 3 months	127,148	126,007	47,814	58,975	842	6,165	4,410	5,239
• up to 1 year	328,295	271,234	28,969	29,160	662	1,266	8,814	15,634
• up to 5 years	418,837	356,768	54,437	29,491	420	235	77,309	70,757
• more than 5 years	326,032	327,674	13,944	19,329	1	20	32,105	44,832
Total	**1,200,312**	**1,081,683**	**145,164**	**136,955**	**1,925**	**7,686**	**122,638**	**136,462**

Breakdown of counterparties

	Nominal value		Positive fair value	Negative fair value
EUR million	2008	2007	2008	2008
OECD banks	744,138	725,858	18,456	19,557
Non-OECD banks	618,391	526,229	13,236	12,605
Public-sector entities within the OECD	9,414	6,503	1,962	79
Other counterparties[1]	98,096	104,196	5,132	4,196
Total interest rate risks	**1,470,039**	**1,362,786**	**38,786**	**36,437**

1 *Including exchange-traded contracts*

Trading transactions

	Nominal value		Positive fair value	Negative fair value
EUR million	2008	2007	2008	2008
Interest rate-based contracts	1,114,948	985,995	22,098	21,738
Currency-based contracts	144,685	133,930	6,605	5,591
Equity-based contracts	1,925	7,686	768	761
Credit derivative-based contracts	122,618	136,083	5,386	5,260
Total trading transactions	**1,384,176**	**1,263,694**	**34,857**	**33,350**

Notes to the cash flow statement

(62) Notes to items in the cash flow statement

The cash flow statement shows the cash flows of the reporting year classified into operating activities, investing activities and financing activities.

The reported financial resources balance corresponds to the cash reserves item in the balance sheet and contains the cash balance, deposits with central banks, debt instruments issued by public-sector entities and bills of exchange eligible for funding with central banks. The reported financial resources balance is subject to drawing restrictions in the amount of EUR 87 million.

Payments from loans and advances to banks and customers, from securities (unless investments), derivatives and other assets are reported as cash flows from operating activities. Payments from liabilities to banks/customers, from securitised liabilities and other liabilities are also assigned to operating activities. Interest and dividend payments resulting from operating activities are also included under cash flows from operating activities.

Payments for investments, interests in companies valued at equity, investment property and property, plant and equipment (including intangible assets) are reported under cash flows from investment activities. Effects resulting from changes to the scope of consolidation are also taken into account under this item.

Cash flow from financing activities comprises to proceeds from capital increases and changes in subordinated capital and minority interests. Distributable profit that has been transferred and payments that have been made to holders of participatory rights, silent participations and minority interests are also reported here.

In 2007, interests in subsidiaries and special business units were acquired for a purchase price of EUR 315 million, resulting in cash outflow of EUR 313 million. The sale of interests in subsidiaries and special business units generated EUR 1 million, resulting in a cash inflow of EUR 1 million.

The assets and liabilities of the subsidiaries acquired and disposed of are broken down as follows:

EUR million	Purchase	Sale
Assets		
Loans and advances to banks	1	–
Loans and advances to customers	9	–
Other assets	4	1
Liabilities		
Liabilities to banks	5	1
Other liabilities	2	–
Equity	7	–

(63) Subordinated assets

The following balance sheet items contain subordinated assets:

EUR million	2008	2007
Loans and advances to banks	619	504
Loans and advances to customers	105	65
Assets held for trading	4	105
Investments	3,407	3,063
Total	**4,135**	**3,737**

(64) Assets and liabilities in foreign currency

EUR million	2008	2007
Foreign currency assets	**108,164**	**105,541**
• CAD	1,301	1,735
• CHF	18,794	16,190
• GBP	16,541	18,516
• HKD	1,132	1,021
• JPY	4,307	3,731
• USD	55,638	57,415
• Other currencies	10,451	6,933
Foreign currency liabilities	**98,045**	**96,406**
• CAD	4,121	3,051
• CHF	17,259	13,269
• GBP	18,233	17,644
• HKD	1,096	1,628
• JPY	4,934	6,098
• USD	43,165	48,761
• Other currencies	9,237	5,955

(65) Assets pledged as collateral and other pledged assets not derecognised

The collateral comprises refinancing funds borrowed for specific purposes, securities repurchase transactions and securities lending transactions, tender transactions with the European Central Bank (ECB), transactions on the European Exchange (EUREX), European Energy Exchange (EEX), Clearstream Banking Frankfurt/Main, Clearstream Banking Luxembourg and other stock exchange and clearing systems.

The carrying amounts of assets pledged as collateral are as follows:

EUR million	2008	2007
Loans and advances to banks	12,792	8,756
Loans and advances to customers	18,063	11,841
Assets held for trading	2,637	4,991
of which:		
• collateral received that may be sold or pledged on	814	836
Investments	18,725	17,910
of which:		
• collateral received that may be sold or pledged on	2,029	2,769
Total	**52,217**	**43,498**

The transactions were executed at standard market terms and conditions.

Liabilities in the amount of EUR 36,235 million (2007: EUR 38,935 million) are set against the transferred assets.

Transferred assets with a carrying amount of EUR 7,460 million were also recognised on the balance sheet. The assets are allocated to the balance sheet items assets held for trading (EUR 175 million; 2007: 0 million) and investments (EUR 7,285 million; 2007: EUR 1,223 million). The corresponding liabilities are EUR 7,192 million (2007: 1,192 million).

In these cases, all significant risks and opportunities associated with the ownership of the transferred assets remain largely with the BayernLB Group.

(66) Collateral received that may be sold on or pledged on

As part of securities repurchase transactions and securities lending transactions, we have received assets as collateral that may be sold on or pledged on even if the collateral provider has not defaulted. Their fair value amounts to EUR 19,784 million (2007: EUR 23,217 million).

Of this collateral received, EUR 15,034 million (2007: 19,863 million) was either sold on or pledged on. An obligation to return the collateral exists.

The transactions were executed at standard market terms and conditions.

(67) Leasing

Finance leases

As a lessor, the BayernLB Group recognised receivables with a net investment value in the amount of EUR 7,244 million (2007: EUR 5,855 million). The net investment value is calculated as follows:

EUR million	2008	2007
Gross investment value	**9,392**	**7,814**
• Minimum lease payments with residual maturity of	9,381	7,814
– up to 1 year	1,632	1,319
– between 1 year and 5 years	4,231	3,263
– more than 5 years	3,518	3,232
• Unguaranteed residual value	11	–
Unrealised financial income (by residual maturity)	**2,148**	**1,959**
• Up to 1 year	394	305
• Between 1 year and 5 years	960	798
• More than 5 years	794	856
Net investment value (by residual maturity)	**7,244**	**5,855**
• Up to 1 year	1,240	1,014
• Between 1 year and 5 years	3,276	2,467
• More than 5 years	2,728	2,374

Loan loss provisions on lease receivables were EUR 14 million (2007: EUR 32 million).

Most assets leased under finance lease agreements were real estate (EUR 3,772 million) (2007: EUR 3,153 million) and motor vehicles (EUR 1,660 million) (2007: EUR 1,211 million).

As a lessee, the BayernLB Group recognises both the leased property and the lease payments owed on the balance sheet.

Carrying amounts of the leased property:

EUR million	2008	2007
Investment property	37	37
Property, plant and equipment	123	31
Total	**160**	**68**

The present value of the minimum lease payments is calculated as follows:

EUR million	2008	2007
Future minimum lease payments (by residual maturity)	**201**	**49**
• Up to 1 year	15	9
• Between 1 year and 5 years	56	31
• More than 5 years	130	9
Unrealised financial liability (by residual maturity)	**95**	**4**
• Between 1 year and 5 years	11	2
• More than 5 years	84	2
Present value of minimum lease payments (by residual maturity)	**106**	**45**
• Up to 1 year	14	9
• Between 1 year and 5 years	45	29
• More than 5 years	47	7

In the reporting year, contingent lease payments in the amount of EUR 4 million (2007: EUR 4 million) were recognised as an expense.

Most leasing agreements relate to the sale and lease back of property.

Operating leases

BayernLB Group as lessor:

EUR million	2008	2007
Future minimum lease payments under non-cancellable leasing agreements (by residual maturity)	**812**	**651**
• Up to 1 year	126	121
• Between 1 year and 5 years	337	328
• More than 5 years	349	202

Most of the items leased were real estate and motor vehicles.

BayernLB Group as lessee:

EUR million	2008	2007
Future minimum lease payments under non-cancellable leasing agreements (by residual maturity)	**191**	**116**
• Up to 1 year	13	13
• Between 1 year and 5 years	35	28
• More than 5 years	143	75

In the reporting year, minimum lease payments in the amount of EUR 10 million (2007: EUR 8 million) were recognised.

Most leasing agreements relate to the leasing of property.

(68) Trust transactions

Trust transactions are broken down as follows:

EUR million	2008	2007
Assets held in trust	**10,692**	**10,372**
• Loans and advances to banks	167	189
• Loans and advances to customers	6,989	7,235
• Other assets	3,536	2,948
Liabilities held in trust	**10,692**	**10,372**
• Liabilities to banks	204	207
• Liabilities to customers	6,852	7,118
• Other liabilities	3,636	3,047

(69) Contingent liabilities and other liabilities

EUR million	2008	2007
Contingent liabilities	**22,495**	**23,636**
• Contingent liabilties arising from negotiated and discounted bills	3	4
• Liabilities from guarantees and indemnity agreements	22,404	23,632
• Liabilities from collateral furnished for third-party obligations	88	–
Other liabilities	**44,622**	**60,418**
• Placement and underwriting commitments	336	–
• Sale and repurchase agreements	206	387
• Irrevocable credit commitments	44,080	60,031
Total	**67,117**	**84,054**

(70) 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 102 million. There were uncalled liabilities from limited partnership relationships of EUR 31 million. There were also additional funding obligations amounting to EUR 49 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 subsidiaries not included in the consolidated financial statements totalled EUR 58 million.

In addition, other financial obligations worth EUR 178 million arise in connection with Deutsche Kreditbank Aktiengesellschaft, Berlin, notably regarding its joint and several liability and other warranties related to the residential housing business.

BayernLB's liability as a member of the guarantee fund of the Landesbanks and central giro institutions stood at EUR 373 million on the balance sheet date. 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), the Bank has undertaken to exempt the VÖB from any losses which may be suffered due to measures taken in favour of credit institutions which are majority-owned by the Bank. Moreover, under the terms of the statutes of the deposit insurance fund run by the Landesbanks/central giro institutions, Landesbank Saar, Saarbrücken, has undertaken to exempt the German Savings Bank Association, as the owner of the guarantee fund of the Landesbanks/central giro institutions, from any losses which may be suffered due to measures taken in favour of credit institutions in which Landesbank Saar holds shares. As members of deposit protection schemes, individual consolidated institutions are also liable under the provisions governing those schemes.

(71) 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.

Name and legal domicile of the affiliated company:

- Banque LBLux S.A., L - Luxembourg
- Deutsche Kreditbank Aktiengesellschaft, Berlin
- Hypo Group Netherlands Corporate Finance B.V., NL - Amsterdam
- Hypo Group Netherlands Finance B.V., NL - Amsterdam
- Landesbank Saar, Saarbrücken
- LB-Re S.A., L - Luxembourg
- LB(Swiss) Privatbank AG, CH - Zurich
- SKB Bank AG, Saarbrücken

(72) Shareholdings (extract)

The complete inventory of shareholdings under Section 313 (2) HGB is listed separately.

Name and location of the investee	Percentage held	Equity/ fund assets in EUR '000	Income /net earnings in EUR '000
Subsidiaries included in the consolidated financial accounts			
Banque LBLux S.A., L - Luxembourg	75.0	438,938	23,880
BayernInvest Kapitalanlagegesellschaft mbH, Munich	100.0	14,791	–[1]
BayernLB Capital LLC I, USA - Wilmington	100.0	27	-32
Subsidiaries included in the BayernLB Capital LLC I sub-group:			
• BayernLB Capital Trust I, USA - Wilmington	100.0	577,407	–
Deutsche Kreditbank Aktiengesellschaft, Berlin	100.0	1,785,163	-126,172
Subsidiaries included in the Deutschen Kreditbank Aktiengesellschaft sub-group:			
• Aufbaugesellschaft Bayern GmbH, Munich	100.0	2,910	–
• Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich	94.5	-10,106	–
• DKB Finance GmbH, Berlin	100.0	5,432	469
• DKB Grundbesitzvermittlungsgesellschaft mbH, Berlin	100.0	100	–
• DKB Immobilien AG, Berlin-Charlottenburg	100.0	113,515	8,750
• DKB PROGES GmbH, Berlin	100.0	17	-4
• DKB Wohnen GmbH, Potsdam	94.5	-10,516	–
• DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin	100.0	25,000	–
• DKB Wohnungsgesellschaft Berlin-Brandenburg mbH, Potsdam	100.0	2,017	-2,513
• DKB Wohnungsgesellschaft Sachsen mbH, Döbeln	100.0	5,025	–
• DKB Wohnungsgesellschaft Thüringen Lusan Brüte GmbH & Co.KG i.G., Gera	100.0	3,681	211
• DKB Wohnungsgesellschaft Thüringen Lusan Zentrum GmbH & Co.KG i.G., Gera	100.0	11,965	734
• DKB Wohnungsgesellschaft Thüringen mbH, Gera	94.0	55,273	-2,816
• FMP Forderungsmanagement Potsdam GmbH, Potsdam	100.0	1,000	–
• MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin	100.0	5,303	23
• SKG BANK AG, Saarbrücken	100.0	20,994	380
• Stadtwerke Cottbus GmbH, Cottbus	74.9	10,505	-522
GBWAG AG, Munich	91.9	329,239	3,238
Subsidiaries included in GBW AG sub-group:			
• GBW-Beteiligungs GmbH, Munich	100.0	17,888	-8,861
• GBW Franken GmbH, Würzburg	73.6	22,650	–
• GBW Gebäudemanagement GmbH, Munich	100.0	64	39
• GBW Management GmbH, Munich	100.0	753,717	-136
• GBW Niederbayern und Oberpfalz GmbH, Regensburg	74.0	11,980	–
• GBW Oberbayern und Schwaben GmbH, Munich	89.0	20,316	5,712

Name and location of the investee	Percentage held	Equity/ fund assets in EUR '000	Income /net earnings in EUR '000
HYPO ALPE-ADRIA-BANK INTERNATIONAL AG, A - Klagenfurt am Wörthersee	67.1	2,147,881	-657,366
Subsidiaries included in the HYPO ALPE-ADRIA-BANK INTERNATIONAL AG sub-group:			
• Hypo Alpe-Adria-Bank A.D. Banja Luka, BIH - Banja Luka	99.6	67,910	4,824
• HYPO ALPE-ADRIA-BANK AD BEOGRAD, RS - Belgrade	99.9	234,272	17,583
• HYPO ALPE-ADRIA-BANK A.D. PODGORICA, ME - Podgorica	100.0	21,455	-10,621
• HYPO ALPE-ADRIA-BANK AG, A - Klagenfurt am Wörthersee	100.0	221,121	-16,949
• HYPO ALPE-ADRIA-BANK d.d., BIH - Mostar	100.0	91,769	8,737
• HYPO ALPE-ADRIA-BANK d.d., HR - Zagreb	100.0	146,620	20,760
• HYPO ALPE-ADRIA-BANK d.d., SLO - Ljubljana	100.0	620,288	11,296
• HYPO ALPE-ADRIA-BANK S.P.A., I - Udine	100.0	363,929	31,956
• Slavonska banka d.d. Osijek, HR - Osijek	100.0	257,453	11,550
• ALFA CAR PROJEKT d.o.o., HR - Zagreb	100.0	2,475	64
• ALFA NEKRETNINE d.o.o., HR - Zagreb	100.0	1,653	26
• ALPE ADRIA BETEILIGUNGS GMBH, A - Klagenfurt am Wörthersee	100.0	8,029	-2
• ALPE ADRIA CENTAR d.o.o., HR - Zagreb	100.0	-3,842	-3,440
• Alpe-Adria Investments d.o.o., HR - Zagreb	100.0	-607	-566
• Alpe-Adria poslovodstvo d.o.o., HR - Zagreb	100.0	49	-236
• Alpe Adria Snow Fun Park Grundstücks GmbH, Wittenburg	100.0	-3,545	-4,054
• Alpe Adria Venture Fund GmbH & Co KEG, A - Vienna	99.3	11,167	-218
• ALUFLEXPACK, d.o.o., HR - Zadar	82.3	2,845	-6,733
• BETA NEKRETNINE d.o.o., HR - Zagreb	100.0	-273	-271
• Brokersko dilerska kuća HYPO ALPE-ADRIA-VRIJEDNOSNICE d.o.o., Sarajevo, BIH - Sarajevo	100.0	1,348	473
• BROKERSKO-DILERSKO DRUŠTVO HYPO ALPE-ADRIA-SECURITIES AD BEOGRAD, RS - Belgrade	100.0	2,269	741
• Carinthia II Limited, GBJ - St. Helier - Jersey	100.0	333,835	-37,093
• Carinthia I Limited, GBJ - St. Helier - Jersey	100.0	252,143	-148,935
• CASTELLUM d.o.o., HR - Zagreb	100.0	1,328	2,939
• Društvo za upravljanje dobrovoljnim penzijskim fondom HYPO a.d. Beograd, RS - Belgrade	100.0	1,206	-96
• D.S. car d.o.o., HR - Zagreb	100.0	-456	-351
• Grundstücksgesellschaft Kleine Seilerstraße 1 mbH & Co. KG, Munich	100.0	25	-250
• Grundstücksgesellschaft HLG Achilles mbH & Co. KG, Munich	6.0	226	-138
• HBInt Credit Management Limited, GBJ - St. Helier - Jersey	51.0	585,978	-186,028
• HILLTOP Holding Anstalt, FL - Vaduz	100.0	5,525	205
• HYPERIUM DOOEL Skopje, MK - Skopje	100.0	-102	-107
• HYPO ALPE-ADRIA-AUTOLEASING EOOD, BG - Sofia	100.0	80	276
• HYPO ALPE-ADRIA-BEDARFSFLUG GmbH, A - Klagenfurt am Wörthersee	100.0	43	-3,496
• HYPO ALPE-ADRIA-BEDARFSFLUG GmbH & Co KG, A - Klagenfurt am Wörthersee	100.0	-466	-540

Name and location of the investee	Percentage held	Equity/ fund assets in EUR '000	Income /net earnings in EUR '000
• HYPO ALPE-ADRIA-BETEILIGUNGEN GMBH, A - Klagenfurt am Wörthersee	100.0	-14,375	-15,505
• HYPO Alpe-Adria-Consultants Aktiengesellschaft in Liquidation, FL - Schaan	100.0	-139	-4,241
• HYPO ALPE-ADRIA-CONSULTANTS S.R.L., I - Udine	100.0	2,239	14
• HYPO ALPE-ADRIA-DEVELOPMENT D.O.O. PODGORICA, ME - Podgorica	100.0	-185	-185
• Hypo Alpe-Adria-Immobilien AG, A - Klagenfurt am Wörthersee	100.0	7,898	7,756
• HYPO ALPE-ADRIA-IMMOBILIEN-BETEILIGUNGS GMBH, A - Klagenfurt am Wörthersee	100.0	62,936	2
• HYPO ALPE-ADRIA-Insurance Services GmbH, A - Klagenfurt am Wörthersee	100.0	884	467
• HYPO ALPE-ADRIA-INVEST d.d., HR - Zagreb	100.0	5,109	1,204
• HYPO-ALPE-ADRIA-INVEST d.o.o. Mostar, BIH - Mostar	100.0	1,264	226
• Hypo Alpe Adria IT Holding GmbH, A - Klagenfurt am Wörthersee	100.0	63	-12
• Hypo Alpe-Adria (Jersey) II Ltd., GBJ - St. Helier - Jersey	100.0	–	–
• Hypo Alpe-Adria Jersey Ltd., GBJ - St. Helier - Jersey	100.0	–	–
• HYPO ALPE-ADRIA-LEASING DOO BEOGRAD, RS - Belgrade	100.0	31,314	13,951
• HYPO ALPE-ADRIA-LEASING DOOEL Skopje, MK - Skopje	100.0	-385	-456
• HYPO ALPE-ADRIA-LEASING D.O.O. - PODGORICA, ME - Podgorica	100.0	1,069	732
• HYPO-ALPE-ADRIA-LEASING d.o.o. Sarajevo, BIH - Sarajevo	100.0	10,520	570
• HYPO ALPE-ADRIA-LEASING EOOD, BG - Sofia	100.0	-40	386
• HYPO ALPE-ADRIA-LEASING GMBH, A - Klagenfurt am Wörthersee	100.0	24,828	12,172
• HYPO ALPE-ADRIA-LEASING GmbH, Munich	100.0	-305	-711
• HYPO ALPE-ADRIA-LEASING HOLDING AG, A - Klagenfurt am Wörthersee	75.2	683,871	42,745
• HYPO Alpe-Adria Leasing Kft., H - Budapest	100.0	7	7
• HYPO ALPE-ADRIA-LEASING S.R.L., I - Udine	100.0	1,000	-226
• HYPO ALPE-ADRIA-LEASING TOV, UA - Kiev	100.0	534	-421
• HYPO Alpe-Adria Leasing Zrt., H - Budapest	100.0	581	272
• HYPO ALPE-ADRIA-MARKETING UND ADVERTISING GmbH, A - Klagenfurt am Wörthersee	100.0	322	30
• HYPO ALPE-ADRIA-NEKRETNINE d.o.o., HR - Zagreb	100.0	738	27
• HYPO ALPE-ADRIA-Objektverwaltung GmbH, Munich	100.0	92	110
• HYPO ALPE-ADRIA-RENT DOO BEOGRAD, RS - Belgrade	100.0	2,323	1,416
• HYPO ALPE-ADRIA-ULAGANJE d.o.o., HR - Zagreb	100.0	4,512	803
• HYPO CENTER - 2 d.o.o., SLO - Ljubljana	100.0	17	10
• HYPO CENTER - 3 d.o.o., SLO - Ljubljana	100.0	-124	-133
• HYPO Consultants Holding GmbH, A - Klagenfurt am Wörthersee	100.0	67,460	57,547
• HYPO DVA d.o.o., SLO - Ljubljana	100.0	589	4

Name and location of the investee	Percentage held	Equity/ fund assets in EUR '000	Income /net earnings in EUR '000
• HYPO Facility Services GmbH, A - Klagenfurt am Wörthersee	100.0	37	2
• Hypo Group Netherland Holding B.V., NL - Amsterdam	100.0	4,178	-120
• Hypo Group Netherlands Corporate Finance B.V., NL - Amsterdam	100.0	2,019	19
• Hypo Group Netherlands Finance B.V., NL - Amsterdam	100.0	2,117	117
• HYPO Grund- und Bau-Leasing Gesellschaft m.b.H., A - Klagenfurt am Wörthersee	100.0	20,592	5,457
• HYPO HOUSE D.O.O. - PODGORICA, ME - Podgorica	100.0	-96	-16
• HYPO Immobilien- und Bauconsult GmbH, A - Klagenfurt am Wörthersee	100.0	–	-357
• HYPO INGATLAN Kft., H - Budapest	100.0	11	–
• HYPO INVESTMENTS a.d. Beograd, RS - Belgrad	100.0	445	-178
• HYPO KASINA DOO BEOGRAD, RS - Belgrade	100.0	1	–
• HYPO LEASING d.o.o., SLO - Ljubljana	100.0	106,607	20,567
• HYPO-Leasing Kärnten GmbH & Co KG, A - Klagenfurt am Wörthersee	100.0	5,766	1,892
• HYPO-LEASING KROATIEN d.o.o., HR - Zagreb	100.0	5,477	472
• HYPO Luftfahrzeuge Leasing GmbH, A - Klagenfurt am Wörthersee	100.0	2,381	1,189
• HYPO PC d.o.o., SLO - Ljubljana	100.0	57	-2
• HYPO Projektentwicklungs GmbH, A - Klagenfurt am Wörthersee	100.0	8	-16
• HYPO TC-BB DOO BEOGRAD, RS - Belgrade	100.0	1	–
• HYPO ULAGANJA d.o.o., HR - Zagreb	100.0	-18	-21
• HYPO Vermögensverwaltung Gesellschaft m.b.H., A - Klagenfurt am Wörthersee	100.0	75,678	27,527
• HYPO Wohnbau GmbH, A - Klagenfurt am Wörthersee	100.0	291	-32
• JADRAN JAHTE d.o.o., HR - Zagreb	100.0	-333	-400
• KÄRNTNER HOLDING BETEILIGUNGS-AG, A - Klagenfurt am Wörthersee	100.0	68,237	-2,546
• Lamplhof Betriebs GmbH, A - Klagenfurt am Wörthersee	95.0	13,403	-33
• MAGUS d.o.o., HR - Zagreb	100.0	-4	-1
• MM SIGMA d.o.o., SLO - Ljubljana	100.0	133	160
• MM THETA d.o.o., SLO - Ljubljana	100.0	7	-1
• MM ZETA d.o.o., SLO - Ljubljana	100.0	-5	-9
• NAGELE NEPREMIČNINE d.o.o., SLO - Ljubljana	100.0	5	-2
• NIVA GRADNJA d.o.o., HR - Zagreb	100.0	1,480	-80
• NORICA INVESTMENTS LIMITED, GBJ - St. Helier - Jersey	51.0	513,986	16,630
• ORGOVÁNYI IMMO Ingatlanforgalmazó Kft., H - Budapest	100.0	-152	-153
• PIPER d.o.o., HR - Zagreb	100.0	-288	-219
• PROJEKT NEKRETNINE d.o.o., HR - Zagreb	100.0	2	-1
• Schlosshotel Velden GmbH, A - Klagenfurt am Wörthersee	100.0	16,951	-10,991
• Schloss Velden Appartementerrichtungs GmbH, A - Klagenfurt am Wörthersee	100.0	5,816	2,094

Name and location of the investee	Percentage held	Equity/ fund assets in EUR '000	Income /net earnings in EUR '000
• SINGULUS d.o.o., HR - Zagreb	100.0	-3,481	-336
• Snow-Fun-Park Wittenburg GmbH & Co. Besitz KG, A - Wittenburg	–	-40,339	-44,968
• S.P.C. 03 d.o.o., SLO - Ljubljana	67.0	237	173
• TRP Projektentwicklungs GmbH, A - Klagenfurt am Wörthersee	100.0	2,411	-282
• Verwaltungsgesellschaft HLG Achilles mbH, Munich	100.0	28	2
• Verwaltungsgesellschaft Kleine Seilerstraße 1 mbH, Munich	100.0	26	1
• WS Liegenschaftsverwaltungs GmbH, A - Klagenfurt am Wörthersee	100.0	8,720	694
• ZAJEDNIČKI INFORMACIJSKI SUSTAVI d.o.o., HR - Zagreb	100.0	-5	-7
• ZAJEDNIČKI INFORMACIONI SISTEM DOO BEOGRAD, RS - Novi Belgrade	100.0	1,383	-310
Landesbank Saar, Saarbrücken	75.1	573,782	–
Subsidiaries included in the Landesbank Saar sub-group:			
• SaarLB-Bankenbeteiligungsgesellschaft mbH, Saarbrücken	100.0	259	5
MKB Bank Zrt., H - Budapest	89.6	773,236	1,965
Subsidiaries included in the MKB Bank Zrt. sub-group:			
• CB MKB Unionbank AD, BG - Sofia	60.0	48,705	3,843
• MKB Romexterra Bank SA , RO - Targu Mures	80.5	63,169	3,215
• Exter-Immo Zrt., H - Budapest	100.0	1,440	–
• MKB Befektetési Alapkezelõ Zrt., H - Budapest	100.0	423	–
• MKB - Euroleasing Autóhitel Zrt., H - Budapest	43.7	21,393	–
• MKB - Euroleasing Autólízing Szolgáltató Zrt., H - Budapest	100.0	4,070	-54
• MKB Üzemeltetési Kft., H - Budapest	100.0	230,790	201
• Resideal Zrt., H - Budapest	100.0	2,052	488
• Romexterra Leasing S.A., RO - Bucharest	92.9	7,992	920
• S.C. Corporate Recovery Management S.R.L., RO - Bucharest	100.0	332	-156
Real I. S. AG Gesellschaft für Immobilien Assetmanagement, Munich	100.0	26,299	–[1]
Special-purpose entities and special funds included in the consolidated financial statements			
Special-purpose entities and special funds included in the Deutsche Kreditbank Aktiengesellschaft sub-group:			
• BayernInvest DKB I-Fonds, L - Luxembourg	–	56,909	1,318
Giro Balanced Funding Corporation, USA - Delaware	–	-18,238	14,436
Giro Lion Funding Limited , GB - Jersey	–	-217	-443
Special-purpose enities and special funds included in the HYPO ALPE-ADRIA-BANK INTERNATIONAL AG sub-group:			
• Hypo 111, A - Klagenfurt	–	141,618	-3,951

Name and location of the investee	Percentage held	Equity/ fund assets in EUR '000	Income /net earnings in EUR '000
LBMUE I, Munich	–	108,278	4,899
LBMUE II, Munich	–	107,919	4,860
LBMUE III, Munich	–	163,339	6,647
Special-purpose entities and special funds included in the Landesbank Saar sub-group:			
• LB Immo Invest Saar-Fonds, Hamburg	–	49,665	1,683
• SaarLB 1-Fonds, Munich	–	185,824	5,910
• SaarLB 2-Fonds, Munich	–	177,189	5,332
• SBLB-Fonds, Munich	–	81,399	2,798
Joint ventures valued at equity			
Joint ventures included in the HYPO ALPE-ADRIA-BANK INTERNATIONAL AG sub-group:			
• HYPO-BA Leasing Süd GmbH, A - Klagenfurt am Wörthersee	50.0	1,273	171
LB(Swiss) Privatbank AG, CH - Zurich	50.0	87,110	7,801
Joint ventures included in the MKB Bank Zrt. sub-group:			
• Ercorner Kft., H - Budapest	50.0	-2,022	-1,152
• MKB - Euroleasing Autópark Zrt., H - Budapest	50.0	1,883	–
• MKB - Euroleasing Zrt., H - Budapest	50.0	26,750	1,124
Affiliated companies valued at equity			
Affiliated companies included in the HYPO ALPE-ADRIA-BANK INTERNATIONAL AG sub-group:			
• Alpe Adria Privatbank AG, FL - Schaan	49.0	39,380	2,525
• Bergbahnen Nassfeld Pramollo AG, A - Hermagor	29.5	13,916	350
• DOSOR d.o.o., SLO - Radenci	50.0	1,731	11
• Pramollo S.p.A., I - Udine	47.6	38	-46
• REZIDENCIJA SKIPER d.o.o., HR - Savudrija	25.0	-7,421	2,901
Kommanditgesellschaft Allgemeine Leasing GmbH & Co., Grünwald	27.0	97,648	438,420
Affiliated companies included in the MKB Bank Zrt. sub-group:			
• Giro Elszámolásforgalmi Zrt., H - Budapest	22.2	22,633	1,605
• Pannonhalmi Borház Kft., H - Pannonhalma	45.5	2,627	-142

Comments

Foreign currency amounts were converted to euros at the respective spot exchange rate at the end of the year.

1 A profit and loss transfer agreement has been concluded with the company.

(73) Administrative bodies of BayernLB

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 Division[1]

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.*

(74) Related party disclosures

BayernLB Group maintains business relations with related companies and persons. Related companies are subsidiaries, joint ventures and associated companies, together with the Free State of Bavaria and the Association of Bavarian Savings Banks (indirect interests in BayernLB of 88 percent and 12 percent respectively).

A list of BayernLB's affiliated companies can be found in the breakdown of shareholdings.

Related persons include the members of BayernLB's Board of Management and Board of Administration as well as close members of their families. Business with related parties is transacted in the course of ordinary activities at standard market terms and conditions.

Loans and advances to/(contingent) liabilities to the Free State of Bavaria and the Association of Bavarian Savings Banks

EUR million	2008	2007
Loans and advances	**2,497**	**2,257**
• Free State of Bavaria	2,497	2,251
• Association of Bavarian Savings Banks	–	6
Assets held for trading	**1,841**	**21**
• Free State of Bavaria	1,841	20
• Association of Bavarian Savings Banks	–	1
Investments	**21**	**20**
• Free State of Bavaria	21	20
Other assets	**–**	**6**
• Association of Bavarian Savings Banks	–	6
Liabilities	**972**	**861**
• Free State of Bavaria	913	834
• Association of Bavarian Savings Banks	59	27
Liabilities held for trading	**8**	**16**
• Free State of Bavaria	7	14
• Association of Bavarian Savings Banks	1	2
Other liabilities	**–**	**8**
• Free State of Bavaria	–	8
Subordinated capital	**–**	**163**
• Free State of Bavaria	–	163
Assets held in trust	**6,105**	**6,270**
• Free State of Bavaria	6,105	6,270
Contingent liabilities	**3**	**–**
• Free State of Bavaria	1	–
• Association of Bavarian Savings Banks	2	–
Other liabilities	**–**	**516**
• Free State of Bavaria	–	516

Loans and advances to/(contingent) liabilities to affiliated companies

EUR million	2008	2007
Loans and advances to banks	**1,859**	**327**
• Joint ventures	118	89
• Associated companies	1,407	18
• Other investees	334	220
Loans and advances to customers	**1,668**	**1,407**
• Non-consolidated subsidiaries	297	224
• Joint ventures	56	178
• Associated companies	379	277
• Other investees	936	728
Risk provisions	**89**	**79**
• Non-consolidated subsidiaries	32	38
• Joint ventures	3	8
• Associated companies	54	32
• Other investees	–	1
Assets held for trading	**212**	**507**
• Non-consolidated subsidiaries	60	–
• Joint ventures	1	20
• Associated companies	3	–
• Other investees	148	487
Positive fair values from derivative financial instruments (hedge accounting)	**18**	**9**
• Other investees	18	9
Investments	**2,828**	**1,150**
• Non-consolidated subsidiaries	161	113
• Joint ventures	1	14
• Associated companies	51	40
• Other investees	2,615	983
Other assets	**48**	**45**
• Non-consolidated subsidiaries	31	42
• Associated companies	15	3
• Other investees	2	–
Liabilities to banks	**8,101**	**703**
• Joint ventures	–	1
• Associated companies	7,763	242
• Other investees	338	460
Liabilities to customers	**456**	**474**
• Non-consolidated subsidiaries	44	55
• Associated companies	24	41
• Other investees	388	378
Securitised liabilities	**2,389**	**–**
• Joint ventures	3	–
• Associated companies	2	–
• Other investees	2,384	–
Liabilities held for trading	**213**	**143**
• Non-consolidated subsidiaries	6	1
• Associated companies	13	25
• Other investees	194	117
Provisions for the credit business	**–**	**-2**
• Non-consolidated subsidiaries	–	-2

EUR million	2008	2007
Other liabilities	**7**	**5**
• Non-consolidated subsidiaries	4	3
• Joint ventures	–	1
• Associated companies	2	1
• Other investees	1	–
Subordinated capital	**44**	**47**
• Non-consolidated subsidiaries	–	5
• Other investees	44	42
Assets held in trust	**–**	**1**
• Other investees	–	1
Liabilities held in trust	**–**	**1**
• Other investees	–	1
Contingent liabilities	**402**	**71**
• Non-consolidated subsidiaries	12	3
• Joint ventures	127	–
• Associated companies	148	66
• Other investees	115	2
Other liabilities	**70**	**248**
• Non-consolidated subsidiaries	43	20
• Associated companies	1	8
• Other investees	26	220

Loans to members of the Board of Management and Board of Administration of BayernLB

Loans and advances to/liabilities assumed for the members of the Board of Management and Board of Administration as at the balance sheet date totalled:

EUR '000	2008	2007
Members of the BayernLB Board of Management	773	2,635
Members of the BayernLB Board of Administration	430	563

Remuneration of members of BayernLB's Board of Management and Board of Administration

EUR '000	2008	2007
Members of the BayernLB Board of Management	**6,069**	**8,552**
• short-term benefits	4,913	6,048
• post-employment benefits	1,156	2,504
– defined contribution plan costs	1,137	2,475
– other post-employment benefits	19	29
Members of the BayernLB Board of Administration	**423**	**398**
• short-term benefits	423	398
Former members of the BayernLB Board of Management and their surviving dependents	**6,546**	**4,803**
Pension provisions established for former members of the Board of Management	**10,116**	**17,940**
Pension provisions established for former members of the BayernLB Board of Management and their surviving dependents	**56,371**	**54,466**

(75) External auditors' fees

External auditors' fees recorded as expenses in the reporting year comprise:

EUR million	2008	2007
Financial statements audit	7	8
Other certification and valuation services	1	1
Tax consultancy services	–	–
Other services	3	2
Total	**11**	**11**

(76) Human resources

Average headcounts for the reporting year were:

	2008	2007
Full-time employees (excluding trainees)	**17,782**	**16,364**
• Female	10,134	9,215
• Male	7,648	7,149
Part-time employees (excluding trainees)[1]	**1,913**	**1,850**
• Female	1,603	1,551
• Male	310	299
Trainees	**235**	**236**
• Female	145	145
• Male	90	91
Total	**19,930**	**18,450**

1 Part-time staff numbers correspond to 1,141 (2007: 1,099) full-time equivalents.

(77) Significant events after the balance sheet date

As part of the recapitalisation by the Free State of Bavaria, EUR 3 billion in silent partnership contributions were made available in January 2009. A further EUR 4 billion indirect capital increase by the Free State of Bavaria was carried out at the end of March 2009.

Responsibility statement by the Board of Management

To the best of our knowledge and in accordance with the applicable principles for financial reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Management Report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Munich, 31 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 consolidated financial statements prepared by Bayerische Landesbank, Anstalt des öffentlichen Rechts, München, (BayernLB) comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2008. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) as well as 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 consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by BayernLB Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group 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 consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB as well as 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 the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group position and suitably presents the opportunities and risks of future development.

Munich, 31 March 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Burkhard Eckes	Eberhard Feil
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)