

Key regulatory data for Sachsen LB

	Bank	
	2007	2006
	€ bn	€ bn
Total assets	62.1	62.3
Receivable from banks	20.2	20.1
Receivable from customers	17.2	14.8
Securities portfolio	23.8	26.4
Liabilities to banks	31.9	26.7
Liabilities to customers	6.2	6.5
Securitized liabilities	20.2	25.1
	€ m	€ m
Net interest income	243.5	227.4
Net commission income	-7.7	2
Net result from financial transactions	-40.1	9.3
Other operating income/loss	-0.6	0.4
Administrative expenses	100.8	85
Cost/income ratio	51.7 %	35.5 %
Return on equity	n/a	9.7 %
Operating income before risk provisioning/valuation	94.3	154.1
Risk provisioning/valuation result	-735.9	-73.7
Profit from ordinary business activities	-641.6	80.4
Extraordinary income/loss	641.4	-21.6
Taxes	0.2	-5.8
Surplus of the year	0.0	53.0
Average number of employees for the year	359	354
Long-term/short-term rating (as of December 31, 2007)		
Standard & Poor's		BBB+/A-2
Fitch Ratings		A+/F1+
Moody's Investors Service		Aa2/Prime-1

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Dear Ladies and Gentlemen,

The 2007 fiscal year brought far-reaching changes for Sachsen LB. After a strong first half in which the bank was able to outperform its business volume and earnings targets in some cases, the lingering financial market turmoil led to significantly increased liquidity requirements that could only be met sustainably by integrating Sachsen LB into Landesbank Baden-Württemberg (LBBW) and obtaining support from Sparkassen-Finanzgruppe.

Sachsen LB's profitability was also impacted heavily by the crisis on the financial markets. The negative result from operations was primarily due to the high level of expenses for risk provisioning and the loss from financial investments. During the period under review, the business with corporate customers made a positive contribution to the bank's results, but could not compensate for the severe strain on the capital market business.

After the acquisition by Landesbank Baden-Württemberg (LBBW), a stronger Sachsen LB can now look forward to a new future as a regional bank with roots in central Germany able to offer customers the full range of products and services of an international financial group. While making this fresh start, the bank will retain its Saxon identity, a fact underscored by our new name, Sachsen Bank.

In the future, we will pursue a sustainable business model with clear responsibilities within the LBBW Group. Since April, we have been serving the LBBW Group's corporate and high net-worth private clients in Saxony and adjacent regions. The successful corporate and private banking activities in Germany's new states conducted by BW Bank, which is part of the LBBW Group, will also be brought under the umbrella of Sachsen Bank. In addition, Sachsen Bank will be the Group's center of excellence for activities in neighboring Eastern European regions.

Business areas without a regional connection, such as capital market, real estate or special financing activities, will be the responsibility of LBBW, which will open a branch in Leipzig. In addition, Landesbank Baden-Württemberg will serve as a central bank to the savings banks in Saxony.

This division of responsibilities reinforces Sachsen Bank's role as a customer-focused bank. The presence of a local Board of Management ensures not only rapid decision-making at a high level of responsibility, but also represents a clear commitment to Saxony and Central Germany as a business location. We aim to continue to be a reliable, effective, and expert partner to the region's business community in the future.

We would like to thank our business partners, customers, and investors for their support on behalf of the Board of Management and all of our employees, and look forward to a continued successful partnership based on a foundation of trust.

Sincerely,



Harald R. Pfab



Wolf-Dieter Ihle

Report by the Supervisory Board for the Period from October 26, 2007 to December 31, 2007

The legal form of Landesbank Sachsen Girozentrale was changed to an Aktiengesellschaft (German public limited company) on October 26, 2007, after which the Supervisory Board began its activities. The period under review was marked by material changes and extraordinary events caused by the subprime crisis. This also affected the work of the Supervisory Board.

Key discussion points

In the period from October 26, 2007 to December 31, 2007, the Supervisory Board carried out the duties incumbent upon it pursuant to the law, the articles of association, and the by-laws. We regularly advised the Board of Management on the management of the company and monitored its activities. The Supervisory Board was directly involved in all decisions of fundamental importance to the company. The Board of Management regularly presented detailed and timely reports, both verbally and in writing, concerning business performance and the current situation of the group. To the extent that this was deemed relevant and useful during the period under review, deviations in business performance from planned figures were discussed and the company's strategic direction decided. We extensively discussed the company's important business transactions based on the reports by the Board of Management. After thorough review and consultation, the Supervisory Board approved the resolutions suggested by the Board of Management. In the short period during which the Supervisory Board was active in 2007, three meetings were held in November and December during which reports were presented to us on Sachsen LB's business and financial performance, risk management, and significant business transactions. During this difficult time, the Board of Management transitioned from quarterly reporting in accordance with § 90 AktG (German Stock Corporation Act) to monthly reporting of the company's results of operations, and asset and risk situation. All issues of fundamental importance were discussed in depth.

Both State Minister Tillich (as Chairman until February 27, 2008) and I were in regular contact with the Board of Management between Supervisory Board meetings and were informed about the current business performance and material business transactions of the bank. The respective Chairman of the Supervisory Board met with the Board of Management in separate strategy meetings to discuss the prospects and future direction of each of Sachsen LB's businesses.

The Supervisory Board initially had 6 members and subsequently 3 members; the Supervisory Board was therefore able to work efficiently without forming committees.

Audit of the annual financial statements for 2007

The Sachsen LB annual financial statements for the 2007 fiscal year prepared by the Board of Management, the management report, and the dependent company report were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and received an unqualified audit opinion. The aforementioned documents were distributed by the auditors to the Supervisory Board in a timely manner. The Supervisory Board discussed the audit reports on the results of the audits in detail with the auditors. In its meeting on March 25, 2008, the Supervisory Board completed its review of Sachsen LB's annual financial statements for the 2007 fiscal year, the management report and the dependent company report in the presence of the auditor and, based on its own review, agreed with the results of the audit by the auditors of the financial statements. After completing its review, the Supervisory Board did not raise any objections and approved the annual financial statements for 2007, the management report, and the dependent company report, which were thereby adopted.

Personnel

The Supervisory Board would like to thank its former members State Minister Tillich, State Minister Jurk, District Administrator Uhlig, Ministry Director Reidner, Savings Bank Director Dr. Landefeld, Mayor Jung and Ms. Boragk for their dedication to their work on this Board.

The Supervisory Board also gratefully acknowledges the hard work and immense personal contributions of the Board of Management and all employees during the past fiscal year.

Leipzig, March 2008

Michael Horn

Chairman of the Supervisory Board

Business Trends and Environment

> Overall Economic Environment

The US real estate crisis and the resulting sustained disruptions of international financial markets consistently shaped the economic environment, and particularly the business opportunities of banks on the capital market, from the middle of fiscal year 2007 onward. Against this backdrop, the expectations of economists, which had still been high for the global economy at the beginning of the year, had to be progressively rolled back over the course of the year and growth forecasts revised downward.

Nonetheless, the effects of the financial market turbulence on the real economy remained modest in 2007 on the whole due to the good general condition of the global economy and particularly the stability of emerging economies, especially China, India and Russia. Despite the decline in economic growth in the United States from 2.9% (in 2006) to 2.2%, the International Monetary Fund (IMF) believes that the increase in global GDP will be 4.9% for the fiscal year as a whole. In the coming fiscal year, the effects of the US real estate crisis will have a more pronounced effect.

In the Eurozone, the economy was very robust overall despite the downward pressure exerted by the strong euro, interest rate increases, and sharply rising crude oil prices. GDP growth is expected to be around 2.6% for the year as a whole.

The German economy in particular reported real economic growth of 2.5% thanks to a favorable price and consumer confidence situation. The economic upswing in Germany is broad-based. Stable domestic demand in Germany due to a seasonally adjusted decline in unemployment figures from 4.8 million in early 2006 to 3.5 million in December 2007 and the optimistic mood among German businesses, which was given a boost by investments, provided sustainable support to economic growth in Germany. In addition, impetus for growth in the economy as a whole came primarily from foreign trade.

As in previous years, the prior fiscal year's projected GDP growth of 3.3% in Saxony again exceeded the average for Germany's eastern states, as well as outperforming the national average for Germany. The excellent performance of the manufacturing sector is a key reason for the ongoing fast pace of growth in the Free State of Saxony. Due to this growth, the labor market situation in Saxony eased considerably, which is in turn boosting overall consumer confidence.

During the period under review, the continuing mortgage crisis in the United States adversely affected not only the US, but also the financial systems in the UK, Switzerland, Ireland, and Germany. The loss of market confidence caused by the crisis had an ongoing impact principally on the funding situation of banks active in the securitization business. On the whole, the financial markets presented a very diverse picture. Whereas stock markets performed well overall despite a nearly steady level of volatility and a downturn in the second six months, the interest rate and credit markets saw a significant jump in volatility and an extreme widening of credit spreads.

The performance of international bond markets was twofold in 2007. Strong economic data and rising key rates led to increases in capital market yields in many economies up to mid-year. A sharp decrease in yields set in during the second six months, which was particularly pronounced in the United States at around 160 basis points, but much more modest in the Eurozone. The yields of 10-year German federal government bonds ("Bunds") dropped by only approximately 70 basis points.

A parallel trend was observed on stock markets. Until mid-year, positive corporate news was the main reason for a bull market. In July, the DAX reached a new all-time high of 8,151 points. However, the onset of the subprime crisis placed pressure on stock markets as well. The price of stocks of financial services providers in particular experienced large corrections. In contrast, the winners were industrial companies, with export-oriented German companies benefiting mainly from the strong economy in East Asia.

> Business Activities

In 2007, Sachsen LB's operations included the Corporate Finance and Capital Markets business segments.

Corporate Finance

The Corporate Finance segment encompasses the domestic and international credit business, including subsidized loans. This segment also includes leasing and rental transactions, along with equity investments in unlisted companies. Corporate Finance is also home to the bank's financial engineering activities.

Capital Markets

Capital Markets encompasses the activities in Treasury, money market and currency trading, and trading in equities, bonds and derivatives. This is the segment where the results of liquidity management, interest rate, and currency management and the management of the capital structure are reported. It also covers the business with savings banks/other banks and institutional investors, and the activities of the subsidiary company Sachsen LB Europe plc.

> Fiscal Year 2007 in Review

Key trends at a glance:

- > In the 2007 fiscal year, Sachsen LB was heavily impacted by the effects of the subprime crisis. This necessitated fundamental changes in the bank's strategy and business policies.
- > Discussions concerning a partnership with WestLB were halted. The provision of a liquidity facility by the Landesbanks and close cooperation with Landesbank Baden-Württemberg (LBBW) enabled Sachsen LB to be stabilized in August, and the conditions for the planned integration into LBBW to be put into place. The framework for the future strategic direction and business activities of the bank were defined when a Foundation Agreement was signed between the shareholders of Sachsen LB and LBBW. New members were appointed to Sachsen LB's Board of Management.
- > The requirements of the Umwandlungsgesetz (Reorganization Act) passed by the Saxon State Parliament in July were met with Sachsen LB's change in legal form to a German public limited company in October. A contract was signed that governs the rights arising from the transfer of Sachsen LB's shares in trust to LBBW. During further negotiations in December 2007, the owners of Sachsen LB and LBBW reached an agreement on the purchase price and a risk shield for the portfolio. The measures required for the risk shield mainly include transferring the Ormond Quay (assets under management of €15.7bn) and Sachsen Funding (assets under management of €1.5bn) conduits previously managed by Sachsen LB Europe plc into a new special purpose entity financed by LBBW and the Landesbanks that are members of the Guarantee Fund. Future losses by the special purpose entity will be covered by a fixed liability guarantee totaling €2.75 billion furnished by the Free State of Saxony. Based on these measures, Sachsen LB and Sachsen LB Europe plc will be released from the risks associated with this special purpose entity.
- > Key business developments:
 - The result from ordinary business activities declined to €-641.6m (prior year: profit of €80.4m).
 - The result for the year showed neither a profit nor a loss due to direct and indirect injections of earnings by the new shareholder. Interest was not paid on dormant partner contributions or profit participation rights due to the terms of the contract, because paying these distributions would have led to a net loss for the year.
 - The loss from ordinary business activities was due to the losses incurred by the Capital Markets segment, which in turn resulted from developments on the capital markets.
 - During the period under review, the result generated by Corporate Finance made a positive contribution to the bank's result, but was unable to compensate for the negative contribution of Capital Markets.
 - Income from equity investments remained at the previous year's level, amounting to €146.7m due to the distributions by Sachsen US Real Estate GmbH and EastMerchant GmbH.

Profit overview

– € millions –	Sachsen LB			
	2007	2006	Change in €	Year-on-year change in %
Net interest income	243.5	227.4	+16.1	7.1
Net commission income/loss	-7.7	2.0	-9.7	<-100
Net result from financial transactions	-40.1	9.3	-49.4	<-100
Other operating income/loss	-0.6	0.4	-1.0	<-100
Total operating income	195.1	239.1	-44.0	-18.4
Staff costs	33.3	30.3	+3.0	9.9
Operating costs	67.5	54.7	+12.8	23.4
Administrative expenses (inc. depreciation)	100.8	85.0	+15.8	18.6
Operating profit before risk provisioning	94.3	154.1	-59.8	-38.8
Net risk provisioning	-515.7	-73.8	-441.9	<-100
Result from financial investments	-220.2	0.1	-220.3	<-100
Profit/loss from ordinary business activities	-641.6	80.4	-722.0	<-100
Extraordinary income/loss	641.4	-21.6	+663.0	>+100
Taxes	0.2	-5.8	+6.0	>+100
Surplus for the year	0.0	53.0	-53.0	-99.9

Profit trends

Net interest income

Sachsen LB's net interest income rose by €16.1m from €227.4m to €243.5m. Whereas the current income of €146.7m included in net interest income remained nearly unchanged from the previous year's level (€147.7m), the balance of interest income/interest expense grew by €17.1m from €79.7m to €96.8m. The net interest income item first of all reflects the adverse effects of the turbulence on the money and capital markets, as well as the support measures for the conduits and the strategic investment portfolio that led to a significant increase in funding costs. Net interest income increased over the previous year solely due to the non-recurring special effect of interest not being paid on dormant partner contributions and profit sharing certificates in the year under review (which reduced the interest expense by €68.5m).

Net commission income

Net commission income/loss was €-7.7m, which is €9.7m below the prior year's figure. This downturn in the result was mainly due to the expenses incurred in connection with securing funding for the conduits from other contractual partners amounting to around €14.7m.

Net result from financial transactions

The net result from financial transactions of €-40.1m represents a decrease of €49.4m compared to the previous year's figure of €9.3m, resulting primarily from the valuation of repo transactions in the trading portfolio in the course of securing liquidity for the Ormond Quay structure.

Balance of other operating income/expenses

Other operating income/expenses amounted to €-0.6m. This figure is €1.0m less than the previous year's figure of €0.4m. Income exceeded the prior year's figure by €0.3m, but was offset by expenses, which rose by €1.3m. The previous year's result was influenced by positive non-recurring effects amounting to €1.1m; this figure was minimal in fiscal year 2007. The increase in expenses was the result of the recognition of interest on taxes.

Administrative expenses

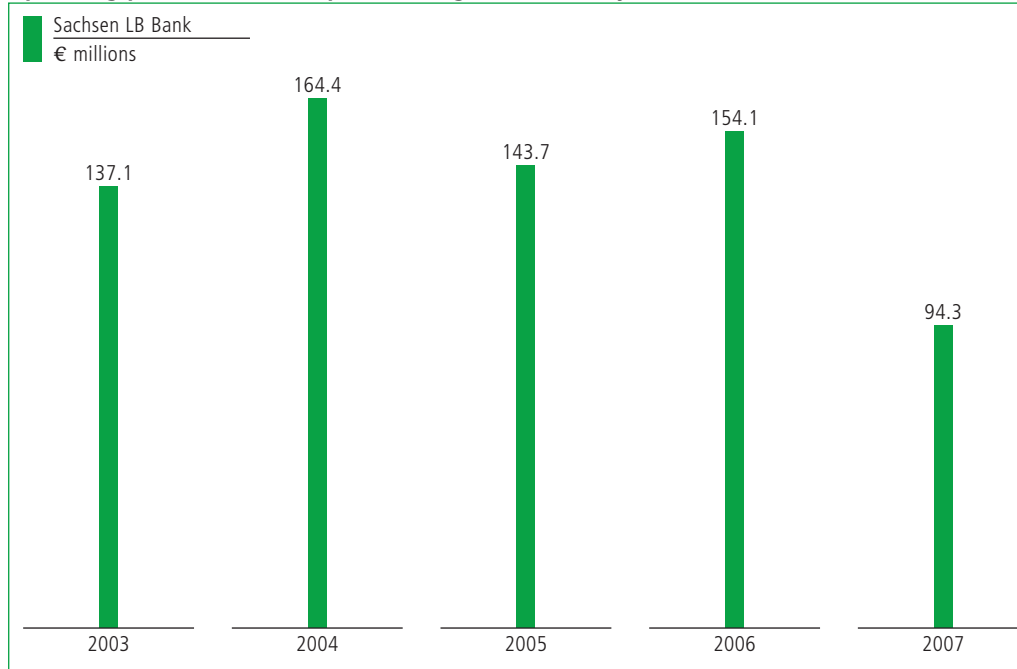
Administrative expenses rose by €15.8m, or 18.6%, to €100.8m in 2007.

Staff costs account for roughly 33% of administrative expenses; The increase by €3.0m to €33.3m (prior year: €30.3m) was due primarily to the planned hiring of 20 additional employees and the general salary trend, which included an increase in collectively agreed wages during the year.

Operating costs rose by €12.8m to €67.5m (prior year: €54.7m), which resulted mainly from the sharp rise in consulting fees during the fiscal year in connection, among other things, with company valuations, formation of the public limited company (AG), the development of a strategy process, and the fulfillment of statutory requirements (IFRS), as well as the strong year-on-year increase in write-downs of intangible assets due to capitalization of the "FlexFinance" IFRS software.

The cost/income ratio rose from 35.5% to 51.7% because of the decrease in operating income and increase in administrative expenses.

Operating profit before risk provisioning and value adjustments



Risk provisioning and value adjustments

During the year under review, expenses for risk provisioning climbed by €441.9m from €-73.8m to €-515.7m. This includes risk provisions for lending, portfolio value adjustments, and the result from securities held in the liquidity reserve. Additional information is contained in the Risk Report.

The heavy loss from financial investments in the amount of €-220.2m (prior year: income of €0.1m) resulted from the write-down of the book value of the equity investment in Sachsen LB Europe plc totaling €116.3m and from write-downs of securities in the investment portfolio required due to permanent impairment. In addition to the impairment identified, additional write-downs were recognized in the amount of €54.0m based on reasonable business judgment.

Extraordinary income

LBBW paid the shareholders of Sachsen LB (Sachsen-Finanzgruppe and the Free State of Saxony) anticipated cash compensation of €250.0m that the shareholders of Sachsen LB made available as an earnings injection. The shareholders provided an additional injection of earnings of €391.4m to compensate for valuation losses. This is reported as extraordinary income.

Taxes

Tax refunds of €0.2m relate to income taxes from prior periods.

Surplus for the year

The result from ordinary business activities dropped to a loss of €-641.6m (prior year: profit of €80.4m). The surplus for 2007 of Sachsen LB is €0.0m (prior year: €53.0m) due to earnings injections.

Volume trends

Total assets and business volumes

The bank's total assets at the reporting date amounted to €62.1bn, which is slightly lower than the previous year (-€0.2bn).

– € billions –	Sachsen LB			
	Dec. 31, 2007	Dec. 31, 2006	Change in €	Year-on-year change in %
Total assets	62.1	62.3	-0.2	-0.3
Business volumes	62.3	60.5	1.8	3.0

The bank's business volume rose by €1.8bn to €62.3bn from the prior year. In addition to the increase in the receivables from customers item, the reason for this trend at Sachsen LB is the opposite effects from the reduction in the own bonds item.

Asset business

– € billions –	Sachsen LB			
	Dec. 31, 2007	Dec. 31, 2006	Change in €	Year-on-year change in %
Receivables from banks	20.2	20.1	0.1	0.5
of which: affiliated savings banks	3.6	3.5	0.1	2.9
Receivable from customers	17.2	14.8	2.4	16.2
Securities	23.8	26.4	-2.6	-9.8

Sachsen LB's receivables from banks of €20.2bn increased only minimally from the previous year. Whereas the reverse repo business grew again in this fiscal year, term deposits and receivables from credit and loans declined to a similar extent.

Receivables from customers saw marked changes. Compared to the previous year, this figure grew by € 2.4bn, or 16.2%, to € 17.2bn. In addition to the extraordinary increase in the reverse repo business due to the difficult funding situation on the capital markets for conduits and in the area of money market transactions, the opposite effect was seen to a lesser extent in the credit and loan business.

On December 31, 2007, Sachsen LB held 9.8% fewer bonds and other non-interest-bearing securities in its portfolio than at the reporting date in the prior year. This is due in particular to a reduction in own bonds by € 2.3bn. The portfolio of equities and other non-interest-bearing securities also decreased slightly (-€ 0.2bn).

Sachsen LB's derivative transactions declined on the whole with the nominal volume falling by 6.9% to € 44.7bn. The main reason for this is the decrease in interest rate derivatives by € 4.6bn. Derivatives help Sachsen LB to meet the needs of its customers, and especially its affiliated partners. These off-balance-sheet financial instruments are offered to corporate customers in particular. The bank also uses them to manage interest rate risk and generate trading income.

Refinancing

– € billions –	Sachsen LB			
	Dec. 31, 2007	Dec. 31, 2006	Change in €	Year-on-year change in %
Liabilities to banks	31.9	26.7	5.2	19.5
of which:				
affiliated savings banks	5.2	4.4	0.8	18.2
Liabilities to customers	6.2	6.5	-0.3	-4.6
Securitized liabilities	20.2	25.1	-4.9	-19.5

Sachsen LB Group obtains funding mainly via liabilities to banks and customers, and securitized liabilities. Whereas during the past year securitized liabilities dropped substantially by €4.9bn due to expiration of contracts, liabilities to customers declined only slightly by €0.3bn. Borrowings from banks again became more important, growing by €5.2bn to €31.9bn.

A key element of Sachsen LB's funding is the group asset-liability management program of Sachsen-Finanzgruppe, which provides Sachsen LB with liquidity facilities of over €5bn. This allowed Sachsen LB to obtain rating-independent funding drawn from the resources of affiliated institutions in the first half of 2007. In addition, Sachsen LB continued to act as an issuer on the capital markets for the purpose of serving its customers and raising its brand profile.

In the second half of the year, Sachsen LB's funding situation deteriorated due to the financial crisis. The Bank was able to obtain significant amounts of liquid funds only from the liquidity facilities of affiliated banks, the European Central Bank, and Landesbank Baden-Württemberg, as well as the Free State of Saxony. As was the case with other market participants, issuing activities ceased for the most part. The Ormond Quay conduit received funding help from a liquidity facility totaling approximately €17.5bn obtained through the Landesbank pool.

Equity

Since Sachsen LB reported neither a profit nor a loss for the year as of December 31, 2007, the equity reported on the balance sheet remained at the previous year's level totaling €1.4bn. The dormant partner contributions included in core capital also held steady at €553.3m. The regulatory data for Sachsen LB is illustrated in the following table.

– € millions –	Sachsen LB		
	Dec. 31, 2007	Dec. 31, 2006	Year-on-year change in %
RWA	18,836	16,692	12.8
Equity	1,870	2,102	-11.0
of which: core capital	1,193	1,368	-12.8
	in %	in %	absolute in %
Equity ratio (total)	9.9	12.6	-2.7
Tier I ratio (without market risk position)	6.6	8.6	-2.0
Tier I ratio (with market risk position)	6.3	8.2	-1.9
ACE ratio	4.6	5.3	-0.7

The ACE ratio is a rating-related capital ratio that measures the ratio of adjusted common equity (ACE) to qualifying items in accordance with Principle I.

The qualifying items in accordance with Principle I (KWG – German Banking Act) are known as RWA (risk-weighted assets). These are composed of weighted risk assets plus risk asset equivalents from market risk positions.

The equity backing of at least 8% required under Principle I was maintained at all times at Sachsen LB during the fiscal year. The bank was above the Principle II liquidity ratio on an annual average basis. This was 1.3 compared to the mandatory 1.0.

RWA and capital ratios at Sachsen LB



Financial position

The basic principles behind the financing instruments used are outlined in the “Liquidity risk” section of the Risk Report. During the year under review, the financial position and liquidity situation of Sachsen LB was marked by the support measures required, particularly for the Ormond Quay conduit. The banks belonging to the pool, LBBW, and Deutsche Bundesbank provided secured liquidity facilities at market conditions to support Sachsen LB.

Overall situation

In fiscal 2007, the net assets, financial position, and results of operations of Sachsen LB were influenced by the financial market crisis. The support measures granted – provision of liquidity facilities, the acquisition by LBBW in conjunction with the indirect and direct restructuring subsidies provided by LBBW, and the risk shield – stabilized Sachsen LB’s net assets, financial position, and results of operations. Please see the explanation in the Forecast Report for more information about the risks still existing in connection with the European Commission’s state aid procedures.

HR Report

Compared to the prior year, the bank's average number of employees rose by around 3.5% to 359 employees and 14 BA students in 2007. The group employed an average of 619 employees (including 15 BA students) during the year.

The effects of the worldwide financial crisis and the planned integration of Sachsen LB into Landesbank Baden-Württemberg posed new challenges for the bank's HR policy during the reporting period. Detailed information about HR risks and the measures carried out to reduce/avoid these risks is provided in the "Operating risk" section of the Risk Report.

The signing of the Foundation Agreement by the owners of Sachsen LB and Landesbank Baden-Württemberg in August laid down the framework for the future role of Sachsen LB within the LBBW Group. The foundation for current and future HR activities is defined by the assurance contained in the agreement to retain the jobs existing to date in Leipzig and to position Sachsen LB as a bank serving SMEs (small- and medium-sized enterprises) and acting as a center of excellence within the LBBW Group for business with neighboring Eastern European countries. The objective of these activities is to provide employees high-quality continuing education opportunities to prepare them to react flexibly to changes in requirements and therefore take advantage of the chances provided by the bank's new business strategy. These measures include language courses, as well as updating of the modules aimed at improving sales expertise in Corporate Banking.

Equity Holdings

Sachsen LB's equity holdings have been managed based on a new portfolio structure since 2006. With a view to creating a clear and transparent investment structure, management of equity holdings was therefore focused not only on general portfolio controlling and monitoring but also more specifically on structural tasks.

The investment portfolio was systematically reviewed for synergies and cross-selling potential in relation to the core business areas on the one hand, and for margin strength and sustainable earning power on the other. This approach allowed the portfolio to be oriented specifically towards improving earning power over the long term and reducing exposures not in line with the strategy.

In this context, several sales transactions were successfully completed in the course of the 2007 fiscal year. In addition to the sale of the 13.11% interest in Beteiligungsgesellschaft der Sparkassen des Freistaates Sachsen mbH, which was carried out in the first half of 2007, the second six months saw the sale of MDL Mitteldeutsche Leasing GmbH and the fund investment in SHS Gesellschaft für Beteiligungen mbH & Co. Mittelstand KG.

In addition, shortly before the beginning of this year, the sale of SachsenFonds Holding GmbH, in which Sachsen LB held an indirect interest via EastMerchant GmbH, was completed successfully and profitably as part of an extensive and professionally conducted bidding process.

A particular focus in 2007 was Sachsen LB Europe plc (SLBE), a wholly owned subsidiary of Sachsen LB. The main responsibility of SLBE, which holds a full banking license, is the management of the Sachsen LB Group's international capital market activities, including management of the synthetic asset portfolio of Sachsen LB in Leipzig and the portfolio in Dublin, the international funding of the group by way of the EMTN program, and the asset management and consulting business.

Since mid-2007, the international capital and financial markets have experienced strong turbulence caused by the crisis on the US real estate market. This development also had a material adverse effect on SLBE's earnings performance.

In view of the scope of the international financial market crisis and the prevailing high degree of market uncertainty, a short-term market upturn, and therefore a return to normalcy, cannot be expected at this time. Against this backdrop, SLBE will also be reorganized and adapted to these changes in market conditions.

In addition to the continued operation and management of the sufficiently stable investment structures, attention is being centered on the design and implementation of new, less complex product structures. A key objective in the coming years will be to focus on developing and expanding the range of services to be provided within the Group and to third-party customers. By using existing competencies to meet the challenges of the new market environment and customer requirements, the previously defined business segments can be gradually replaced, and the existing potential can be leveraged to develop new sources of earnings. The key here is to secure the existing employee expertise in these areas.

An additional capital increase amounting to €100m was performed in February 2008 in view of these circumstances and to provide the capital needed to cover SLBE's risk assets as stipulated by regulators.

The equity investment strategy undertaken in the previous year aiming on the one hand for further streamlining and focusing of Sachsen LB's portfolio of equity holdings and on the other hand for the selective expansion and reinforcement of investments that are compliant with the bank's strategy and offer support to the business segments will continue to be pursued in fiscal 2008.

Risk Report

During negotiations on the takeover of Sachsen LB by LBBW, the owners of Sachsen LB and LBBW reached agreement on matters including a risk shield for which the Free State of Saxony has provided a fixed liability guarantee totaling €2.75bn. The measures required for the risk shield mainly include transferring the Ormond Quay (assets under management of €15.7bn) and Sachsen Funding (assets under management of €1.5bn) conduits previously managed by Sachsen LB Europe plc into a new special purpose entity financed by LBBW and the Landesbanks that are members of the Guarantee Fund. The fixed liability guarantee issued by the Free State of Saxony will cover payment defaults experienced by the special purpose entity in the future, if any, up to the maximum amount of €2.75bn.

Information on the guarantee is presented in the section on the bank's risk situation.

> Basic Principles of Risk Management

The assumption of risks in pursuit of return targets is a key element of the corporate strategy of banks. As a specialist bank within a larger group, Sachsen LB concentrates on the areas of Corporate Banking and Capital Markets.

Sachsen LB reviews its processes for identifying, quantifying, controlling, monitoring, and communicating risks on an ongoing basis and continually updates these processes in a focused way, including against the backdrop of the insights gained from the US subprime crisis.

The risks faced by Sachsen LB include market price and liquidity risks arising from the international capital market and synthetic loan businesses in particular, in addition to default risks.

The US subprime crisis materially affected and changed the development of the risks to which Sachsen LB is exposed during the year under review.

In addition to the bank, the present combined risk report includes the conduits, structures and material equity investments of Sachsen LB, particularly Sachsen LB Europe, EastMerchant, and Sachsen LB Corporate Finance Holding (CFH). The nature and extent of the risks in equity investments are regularly identified by means of a risk assessment. From an overall risk standpoint, the bank's key subsidiaries are treated differently depending on the level of risk and scope of their business activities.

The risk positions of Sachsen LB Europe, a bank and a key subsidiary, are included in risk reporting at individual transaction level. The activities of EastMerchant, which carries out transactions in the name of and on behalf of Sachsen LB Bank as part of an outsourcing agreement under § 25a KWG (German Banking Act), are also examined at the level of individual transactions. The portfolios of other group companies are managed as part of default risk, based on the book value of the investment and on the amount of debt furnished by Sachsen LB.

> Risk Management Organization

Committees

The Board of Management has overall responsibility for risk management at Sachsen LB. It sets the risk strategy and annual operational risk planning based on the business strategy, determining the scope within which the business areas can take on risk.

In 2006, the Board of Management introduced a committee structure at the bank. This committee structure was reviewed by LBBW after establishment of the trust. The Risk Committee remains the central committee for risk management issues. It comprises representatives of the front-office areas, Risk Control, and Credit Risk Management. The responsibilities of the Risk Committee were streamlined, and loan cases are no longer handled by the Risk Committee. The Risk Committee analyzes and discusses the risk position of the bank's operations, as well as strategic and specific event-driven questions in relation to the risk management process.

The Ad Hoc Committee considers whether an item of information represents insider information and needs to be disclosed in an ad hoc announcement under § 15 WpHG (Securities Trading Act).

When the trust was formed, the other committees (the Project and IT, Cost-Income, Asset-Liability and Investment Committees) lost their practical purpose.

The conduct of the Board of Management in managing the business is monitored by the Supervisory Board.

Separation of functions

Sachsen LB makes a functional distinction between risk management and risk monitoring.

Risk management at Sachsen LB means decentralized implementation of the risk strategy by deliberately taking on or cutting back risks in the front-office areas. These make their own decisions on operating risk management in line with the centrally imposed framework and risk limits.

As required by the provisions of the MaRisk (Minimum Requirements for Risk Management), those areas which have a risk monitoring function (Credit Risk Management and Risk Control) are functionally and organizationally separate from the front-office areas up to the level of the Board of Management.

Risk Control independently measures and supervises all key types of risk at regular intervals and is responsible for refining the methodology and systems used in measurement and reporting. Risk Control also has the task of determining the risk strategy and carrying out operational risk planning, and recommends action to the Board of Management as regards the allocation of economic capital, bearing in mind risk capacity. Credit Risk Management is a back-office unit that performs credit risk analysis and monitoring at individual transaction level and has a right of veto. Special Credit Management is a part of Credit Risk Management that deals with difficult and problem loans. Moreover, Credit Risk Management is responsible for the methodology and further development of the internal risk classification procedures used.

Internal Audit is an independent unit which monitors the appropriateness, functionality, and effectiveness of risk management, submits regular reports to the Board of Management on the results of its audits and assessments, and issues recommendations.

Managing risk

The main risk management variable used at Sachsen LB is economic capital. A risk limit is set for the entire bank and risk capital provided for the main types of quantifiable risk based on the amount of capital available. There are global limits to restrict wider-ranging default and market price risks. Within these global limits, sublimits are set for front-office areas to manage units on an operating basis. Default risk and market price risk are quantified by means of value-at-risk models. Sachsen LB manages liquidity risk by limiting aggregated payment balances. Economic capital for operating risks is based on the Basel provisions. Risk limits for the bank as a whole are complemented by regular scenario and stress testing.

In addition to daily reporting to the Board of Management, Risk Control also provides summaries of the major risk types monthly. Detailed portfolio-specific analyses are conducted quarterly.

> Portfolio in Detail

Leveraged structures

The Sachsen LB Group has in some cases invested in leveraged products. Leveraged structures are defined as structures that expose the value of the capital invested to the risks of a significantly larger reference portfolio due to the leverage effect. The reference portfolio is funded by third parties. If external partners are no longer willing to provide funding, there is a risk that positions would have to be sold on the market, or the bank itself would have to provide funding. As a rule, leveraged structures also feature what is known as a market trigger, which generally leads to the mandatory liquidation of the structure, and therefore the realization of losses, in the event of a correspondingly unfavorable market movement. The mandatory liquidation can, however, be prevented by an additional contribution of equity, additional collateral, or the assumption of the funding obligation.

In most cases, investments in leveraged structures at Sachsen LB are equity investments in a reference portfolio increased by the leverage factor. As a rule, the maximum possible loss is determined from the amount of invested capital. A loss can result from loan defaults or market movements that can result in liquidation of the structure. If the bank is no longer able to ensure funding from investors or its own resources, there is a risk of loss from the forced unwinding of the structure for liquidity purposes.

ABS exposure

The Bank's key leveraged investments are in ABS funds and conduits, most of which are managed by the Dublin-based subsidiary Sachsen LB Europe. In the case of ABS funds and conduits, the bank invested in or funded the associated portfolios with equity (funds) or a liquidity facility (conduits). As a result, the bank is generally exposed to the risk of loss of the associated reference portfolio up to the amount of equity invested or liquidity facility provided.

For this reason, a distinction is drawn between the volume of the investment and the volume of the reference portfolios of the conduit and leveraged ABS funds in the overview of the bank's exposures. If the reference portfolios of the conduits and these funds are included, the result is an "aggregate risk volume" that affects the bank. The aggregate risk volume does not determine the maximum possible default amount. Due to the fact that the maximum possible default amount in the case of conduits and structured vehicles is generally limited to the investment volume, this amount is much lower than indicated by the "aggregate risk volume."

In the case of direct investments by the bank, which mostly consist of senior CDO transactions, the reference portfolio is not included in the presentation of aggregate risk volume due to the different structuring of the mechanisms and different seniority of the investments.

In the following overview of risk volume as of December 31, 2007, the share of the portfolio that falls under the risk shield provided by the fixed liability guarantee is identified as such.

Aggregate risk volume, including reference portfolios of the conduits and leveraged ABS funds of the SLB Group

Portfolios per 31.12.2007	Investment volume	Leveraged reference volume	Aggregate risk volume
– € millions –			
Corporate Finance	14,696		
Capital Markets	39,984		
of which: Synthetic assets	11,110		
of which: Conduits/SIV/liquidity facilities	2,469	23,264	
of which: ABS funds	956		
Corporate Services and other	502	8,033	
	1,220		
Total	55,899	31,297	84,225
covered by risk shield	1,869	17,132	
Total less fixed liability guarantee	54,030	14,165	67,093

The investment volume (liquidity facilities and equity) of the Sachsen LB Group including all ABS funds and conduits in the Capital Markets portfolio as of December 31, 2007 amounts to approximately €2.965bn, while the associated reference portfolios totaled €31.297bn as of the same reporting date.

All of the reference portfolios continue to carry good to very good ratings issued by external rating firms.

The Ormond Quay structure is subject to a special provision by which Sachsen LB Europe has agreed to assume an obligation as part of a valuation agreement to sell securities at a weighted acquisition price of 97% and to be liable for a loss if this management contract is breached, i.e., if securities can only be sold below a 96% price threshold. This obligation refers exclusively to the volume of the Ormond Quay structure financed with commercial paper. The portion of the Ormond Quay structure funded with commercial paper declined substantially during the course of the year, amounting to €154m as of December 31, 2007. The fixed liability guarantee covers the Ormond Quay structure.

Due to the collapse of ABS markets, the US subprime crisis had a sustained adverse effect on the ABS funds and conduits, particularly with regard to liquidity (especially in the case of Ormond Quay), as well as on their market value. This issue is described below in the descriptions of each individual risk type.

> Default Risk

Managing and supervising individual risks

Individual positions are managed using loan documentation and annual loan monitoring forms in the front office. The amount of risk in a transaction (the size of a loan and its rating) and whether it is new or existing business affects the depth of the credit analysis and the need for a second vote of approval or an independent back-office rating. In these cases Credit Risk Management submits the loan documentation and loan monitoring forms produced by the front office which are relevant to risk assessment to its own scrutiny as to content and form.

Trading transactions are carried out within limits arranged by maturity. The same guidelines apply as to the lending business. Transactions are set against the limits using loan-equivalent amounts.

In addition to regular monitoring in all business segments, ongoing early warning procedures are in place. This includes systematic and event-driven analysis of internal and external data.

Sachsen LB uses different methods to reduce risk depending on the financing structure. These include taking collateral, using structures that reduce risk, and syndication. The bank uses close-out netting and collateral agreements to reduce default risk in OTC derivatives transactions.

Portfolio-based management and monitoring

Total portfolio

The default risk to which the bank's investments are exposed at portfolio level is managed using quantitative guidelines and subject to an overall global limit. The major reference portfolios of the conduits and the leveraged structures are included in the portfolio analyses at the individual transaction level by means of the look-through approach.

Cross-divisional diversification guidelines are designed to minimize concentration risks.

Management by size category involves setting volume-based upper limits for total exposure to one counterparty, depending on rating and maturity. These limits restrict the approval of new transactions. This applies to both existing and new business. Recovery rates take account of structural specifics such as collateral and degree of subordination in the event of insolvency. Concentrations of risk in specific industries and regions are avoided by means of general requirements applicable to the portfolio structure (sector/region matrix).

Country risks are controlled by means of a limit system using parameters including country rating, gross domestic product of the country in question, and the bank's equity position. Maximum maturities for transactions are based on country risk category; an escape clause for certain types of business ensures sufficient market flexibility. The volume and maturity limits calculated can be further restricted by the qualitative assessment of Credit Risk Management or supplemented by conditions on the structure of commitments.

The exposure applies to the limit for the country where the legal registered office of the counterparty is located; this is the way transfer risk from foreign currency loans is managed. The system of country limits also serves as an instrument for regional diversification, complementing the broader breakdown of the sector/region matrix. Compliance with country limits is monitored constantly.

Risk measurement

As a rule, risk measurement covers all of Sachsen LB's exposures, as well as the business conducted by Sachsen LB Europe plc at the level of individual transactions, in the amount of the investment volume in each case. Major leveraged investments are included at the level of individual transactions by means of the look-through approach. This means that in the portfolio model, the unexpected loss of key leveraged transactions with regard to possible loan defaults is modeled using the individual fund positions or reference portfolios of the structured products. The amount of detail in the data provided and the frequency of updating depends on the complexity of the product.

The portfolios of other group companies are not necessarily included at the level of individual transactions; this depends on the business activities of the company and the size of the individual default risk position. These companies are carried at the book value of the equity investment (ownership risk, in the case of direct equity investments) or at the amount of debt provided by Sachsen LB (credit risk, in the case of direct and indirect equity investments) when measuring default risk. Where there is a profit/loss transfer agreement, potential losses arising from these are included in the risk potential (ownership risk).

Risk potential is quantified by means of expected and unexpected loss. Expected loss is calculated using a one-year probability of default and taking recovery rates into account. Unexpected loss is determined using a credit risk model based on the credit value-at-risk approach with a 99% or 99.97% confidence interval and a one-year time horizon. The calculation is carried out with a CreditMetricsTM model run in default mode and taking account of sector and regional correlations in the portfolios. The model is also used to set risk capacity for default risk. Quantification of risks to monitor the management of size categories, the sector/region matrix, and the country limits is carried out via credit equivalent amounts.

In order to quantify risks, every counterparty must be assigned a rating. For the purposes of internal risk classification (even for counterparties with an external rating), the bank issues an in-house rating for project financing and foreign real estate lending. For the German real estate and SME business, Sachsen LB uses the rating procedure of the DGSV. A corporate customer rating developed in cooperation with Standard & Poor's Risk Solutions is also used. Credit ratings for investment companies are always produced using one of the procedures mentioned. All ratings are based on a master scale. Country risk is included when issuing a rating for an individual counterparty.

The implementation of a stress test process represented a major step forward in the calculation of default risk at the portfolio level in 2007. The stress test investigates the extent to which an adverse change in a relevant risk parameter of the portfolio model (including rating changes, increases in default probabilities, increases in loss given default, etc.) can be absorbed by the bank's risk capacity. Moreover, the partial inclusion of the CDO structures in the look-through further refined the process for measuring this risk.

Risk trends during the year

At the end of the fiscal year, default risk under the credit value-at-risk method was €306.2m (prior year: €407.5m). This represented 56% utilization of the global limit set for all business segments.

Initially, the bank's portfolio is analyzed based on the investment volume (not including reference portfolios). Subsequently, the structures of the relevant reference portfolios of the conduits and ABS funds are evaluated. The rating distribution of the bank's investment volumes (table excluding reference portfolios) continues to underscore the excellent credit quality of the portfolio. Investment grade rating categories 1 – 11 and loans secured on property together made up 94.3% (prior year: 96.0%) of the entire portfolio.

Exposure by rating category

	Master rating	S&P rating	Dec. 31, 2007		Dec. 31, 2006	
			€ m	%	€ m	%
Investment grade	1	State risk	25,098	44.9	28,844	46.1
	2 - 5	AAA bis AA-	7,300	13.1	10,558	16.9
	6 - 8	A+ bis A-	11,210	20.1	13,510	21.6
	9 - 11	BBB+ bis BBB-	5,868	10.5	3,698	5.9
	Secured property		1,335	2.4	1,478	2.4
Sub-investment grade	12 - 17	BB+ bis B-	1,858	3.3	1,756	2.8
	18 - 22	CCC+ bis C	26	0.0	59	0.1
	23	Default	269	0.5	383	0.6
	Secured property		754	1.3	951	1.5
Not rated	Unsecured		1,060	1.9	297	0.5
	Secured property		1,121	2.0	988	1.6
Total			55,899	100.0	62,522	100.0

The share of the bank's investment volume that is sub-investment grade remains nearly unchanged from the previous year (3.5%) at 3.8%. These rating categories include some of the SME business, structured lending such as export and project finance, and difficult and problem loans (rating category 17 and below), which are tracked closely by specialists.

Loan commitments with lower credit ratings that are no longer compatible with strategy and that were consolidated in a separate disposal portfolio (the "legacy portfolio") for the first time in fiscal 2006 were reduced in line with medium-term planning, which stipulates nearly complete elimination of this category by 2009.

The significant reduction in commitments in the rating structure, particularly in the upper investment grade category, is mainly the result of a decline in commitments with banks and the public sector. The increase in the category of unrated commitments is attributable to fund investments by the bank.

The following overview illustrates the distribution of the investment volume by customer and by sector (with comparable figures for the prior year adjusted accordingly based on the new industry breakdown introduced in 2007) and highlights the bank's business focus in the segments:

Exposure by customer group and sector

Customer group	Dec. 31, 2007		Dec. 31, 2006	
	€ m	%	€ m	%
Corporates	10,996	19.7	12,727	20.3
Banks	28,190	50.4	32,493	52.0
Public sector	10,688	19.1	12,797	20.5
Private households	70	0.1	86	0.1
ABS	5,955	10.7	4,419	7.1
Total	55,899	100.0	62,522	100.0
of which: corporates by sector				
Aviation and logistics	1,071	9.7	1,186	9.3
Construction	102	0.9	95	0.7
Chemicals	188	1.7	242	1.9
Electronics, semiconductors	194	1.8	244	1.9
Utilities	1,926	17.5	2,063	16.2
Health care and pharmaceuticals	96	0.9	140	1.1
Property	2,635	24.0	3,032	23.8
Retail, culture, hospitality, media	303	2.8	306	2.4
Engineering and automotive	256	2.3	376	3.0
Raw materials	330	3.0	387	3.0
Other services for companies	993	9.0	929	7.3
Other industrial	435	4.0	440	3.5
Telecom	447	4.1	524	4.1
Insurance/financials	2,020	18.4	2,763	21.7
Total	10,996	100.0	12,727	100.0

Corporate Finance is dominated by the property sector (mainly international real estate), utilities (including renewable energy), and transportation and aircraft financing in the aviation and logistics sector.

Despite the decreases in the case of banks and the public sector, the regional diversification of the bank's investments continues to reflect the high share attributable to the Capital Markets business. In the old federal states and Western Europe, the exposure is mainly the result of receivables from banks. The exposure is similar in Saxony, where the bank is the leading partner to the savings banks in capital market products and an affiliated partner in the lending business.

Regional breakdown of exposure

Region	Dec. 31, 2007		Dec. 31, 2007	
	€ m	%	€ m	%
Saxony	8,914	15.9	9,886.4	15.8
New federal states	1,141	2.0	1,341.5	2.1
Old federal states	25,903	46.3	28,854.2	46.2
Western Europe	13,581	24.3	17,073.9	27.3
North America	4,755	8.5	3,579.4	5.7
Other	1,604	2.9	1,786	2.9
Total	55,899	100.0	62,522	100.0

To supplement the analyses of the investment volume, the structural characteristics of the reference portfolios of the conduits and leveraged ABS funds are described below.

The reference portfolios of the leveraged ABS funds and conduits continue to carry good to very good ratings. Over 99% of these reference portfolios possess an AAA rating issued by external rating agencies, which is the highest rating assigned.

Rating structure of the reference portfolios of the leveraged ABS structures and conduits

As of Dec. 31, 2007 – € millions –	Rating category	Volume
	AAA	31,031
	AA+	74
	AA	174
	AA-	18
	A+ and below	0
	Total	31,297

The impairment tests conducted as part of the audit of the annual financial statements confirm the overall robust credit quality in the ABS structures. Since the start of the subprime crisis, only five individual assets have been downgraded by rating agencies, all within the investment grade category.

Subprime exposure

The regional structure of the reference portfolios of the conduits and leveraged ABS funds indicates a strong focus on Western Europe. The share of exposures accounted for by North America amounted to the equivalent of €11.19bn as of December 31, 2007. The reference portfolios contain shares of US subprime and UK non-conforming papers. The share of US subprime paper held via the conduits and leveraged ABS funds amounted to the equivalent of €3.59bn as of December 31, 2007.

Regional breakdown of reference portfolios of the leveraged ABS structures and conduits

Dec. 31, 2007 – € millions –	Regions						Total
	Germany	Gesamt	Western Europe of which: Spain	of which: UK	North Amerika	Other regions	
RMBS	188	8,996	1,832	4,030	9,465	451	19,100
of which: US subprime					3,593		3,593
of which: UK non- conforming		3,132		3,132			3,132
CMBS	675	4,850	66	3,091	394	214	6,132
CDO	0	8	0	0	30	300	338
Other ABS-industries	93	4,305	1,259	654	1,304	24	6,726
Total	955	18,159	3,156	7,776	11,193	989	31,297

In addition to the exposure from the reference portfolios of the conduits and the leveraged ABS funds in the amount of €3.59bn, the bank also had other, mostly AAA-rated, subprime exposure from direct investments, such as senior tranches of CDO transactions, totaling €405m as of December 31, 2007. This exposure is included in the analysis of the bank's investment volume. The share of the associated reference portfolios relating to US subprime investments amounts to €5.54bn. As a rule, the loss amount in this case is limited to the investment volume of €405m.

The bank has a manageable exposure insured with monoline insurance. Generally, the insured ABS structures themselves possess an investment-grade rating, even without monoline insurance. Except for one case, there have been no rating downgrades in this category.

> Risk Provisioning and Value Adjustments

Net risk provisioning rose sharply overall from €73.8m to €515.7m in the year under review. This includes risk provisions for lending, general allowances, collective value adjustments, and the result from securities held in the liquidity reserve.

Nonetheless, Sachsen LB's expenses for covering risks in the lending business developed positively. This figure dropped considerably again by €16m, or 22.9%, compared to the prior year to around €54m. As in the past year, risk provisions in the lending business relate almost exclusively to loan commitments no longer in line with Sachsen LB's strategy (the "legacy portfolio") and are an expression of the Corporate Banking division's satisfactory market position and credit quality developed gradually over the years.

Net risk provisioning includes an amount totaling €153.6m that is attributable to the initial write-down of impaired clearing items reported as assets.

Due to the fact that selected US RMBS papers in a conduit performed less favorably than expected despite being relatively new in some cases, a risk provision of approximately €37m was set up as a precaution for the result from a valuation of these securities as of the reporting date, although no impairment was identified.

Moreover, collective value adjustments for the securities contained in certain off-balance sheet conduits were recognized in the amount of €36m based on statistical probabilities of default ("expected losses" which take into account the current ratings of the relevant securities).

€6.3m was allocated to the general allowance, while the precautionary reserves according to § 340f HGB (German Commercial Code) amounting to €59m were reversed in full and recognized in income.

The decline in earnings by €272.9m from securities held in the liquidity reserve is due mainly to the market-driven changes in the value of the strategic investment portfolio resulting from the capital market crisis.

> Problem Loans and Risk Provisioning

If a loan commitment becomes subject to an increased default risk (e.g., there is a significant rating downgrade), it is categorized as a difficult or problem loan. The criteria for identifying these loans and the principles for dealing with them are set down in strict and uniform rules.

All loans being handled by the Special Credit Management unit and other exposures requiring attention but not yet needing provisioning are monitored on a monthly watchlist and reported to the Board of Management and the Supervisory Board.

The volume of loans at risk of default was again sharply reduced in fiscal 2007. Non-performing loans as defined under Basel II totaled €355m (prior year: €514m) at year-end. Sufficient risk provisioning was made in the form of specific value adjustments and provisions for the lending business to cover the remaining identifiable credit risks.

Loans where the risk of default is acute are subject to specific value adjustments. The extent of the individual value adjustment or provision also depends on the value of the collateral provided, which is generally assessed using the IFRS impairment procedure.

Portfolio value adjustments are made for default risks which may already have occurred but had not yet been individually identified on the balance sheet date.

The risk provisioning on lending in fiscal 2007 was €53.8m (prior year: €70.6m).

> Equity Investment Risk

Adequate and efficient management of investment risk requires total and consistent reporting of the relationships between reward and risk that arise as a result of ownership. Equity investments involved in the active management and monitoring of the portfolio therefore include all companies where Sachsen LB holds a direct equity stake and/or has signed a control agreement or profit transfer agreement, or issued a letter of comfort. Indirect holdings are included to the extent that they are of strategic significance or subject to special reporting requirements by the relevant committees. The bank also protects its rights as shareholder and owner by appointing its representatives to the boards of companies.

Sachsen LB manages its portfolio of equity holdings in line with strategic considerations. To this end, investments were allocated to the target portfolio if they were compatible with strategy; holdings which were not compatible with strategy were allocated to the restructuring, disposal, or transfer portfolios. Trends in the book value of equity investments and loans to companies where investments are held are included in risk reporting. This takes account of the increased risk when loans are granted to equity investments. The contribution the individual investment portfolios make to expected and unexpected loss is also quantified.

The capital market crisis, which erupted in mid-July due to events on the US real estate market and continues to this day, shaped performance in 2007. The portfolio of equity holdings was affected by the crisis due to its effect on the Dublin-based wholly owned subsidiary Sachsen LB Europe plc (SLBE), which is significant in terms of its book value and contribution to earnings. The situation at this subsidiary is therefore described in detail below. The overall situation of Sachsen LB's portfolio of equity holdings is described subsequently.

As part of its strategy, SLBE invested in CDOs and capital-backed CPPI products. These products are structured to include embedded derivatives. If these derivatives are not separated out, both Irish GAAP and IFRSs require that the entire product be measured at fair value and this amount reported in the income statement. This had a material adverse effect on SLBE's results during the year under review.

SLBE's earnings performance

– € millions –	Mar. 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007
EBT planned	13.8	27.6	41.4	55.2
EBT actual*	8.8	25.2	-81.3	-162.6

* Earnings before tax according to Irish law, preliminary figures for Dec. 31, 2007 (as of Feb. 29, 2008)

In view of the reduced earnings expected for the current and subsequent years, the carrying amount of the equity investment in SLBE reported in the balance sheet of Sachsen LB was reviewed in September 2007. The conclusion reached was that the value of the company calculated fell below the carrying amount of the equity investment. Considering the extent of the international financial market crisis and the high level of market uncertainty, a sustained and permanent impairment was assumed. For this reason, the carrying amount as of September 30, 2007 was corrected by an initial amount of €13.2m from €176.3m to €163.1m.

As a result of the Sachsen LB Group's overall situation and the fair value loss recognized at SLBE, a decision was made in December of the year under review to recognize not only the credit risk of the aforementioned products in regulatory terms, but also to fully recognize in regulatory terms the negative effects of this market value measurement on the income statement. As a result, a variable figure amounting to approximately €171m at the time was recognized for reasons of prudence along with the already identified impairments of €57m, which led to a reduction in SLBE's liable capital. These circumstances were to be addressed with a capital increase in the amount of the impairment losses recognized. SLBE was initially provided with a capital increase in the amount of the impairment losses recognized (€60.0m), which covered its default risks accordingly. The capital increase had the corresponding effect on Sachsen LB's equity capital, which necessitated an immediate write-down at Sachsen LB in the amount of the capital increase. The valuation on December 31, 2007 led to the carrying amount of SLBE being written down by an additional €43.1m. The total write-downs recognized on the carrying amount of SLBE therefore totaled €116.3m in 2007.

An additional capital increase amounting to €100m was performed in February 2008 to ensure the capital backing for SLBE's risk assets required by regulators, which increased the carrying amount from €120.0m to €220m.

The risks to which SLBE could be exposed in its portfolios due to possible market turbulence in the future are described via look-through analyses in the sections in this Report covering the individual risk types.

Apart from the risk arising from SLBE, default risk is the main risk present in Sachsen LB's equity investment business; this risk arises mainly from the provision of equity capital and any associated collateral that may have been provided to third parties.

Default risks are identified, analyzed, and managed by the Equity Holdings area on the basis of the investment strategy using an ongoing and systematic process. The major tools used in the standardized monitoring of investments include a monthly comparison against budget to check current profitability; a procedure for classifying investments to collect and analyze qualitative findings about management, strategy and the sector; and a quarterly risk assessment to estimate current and future risks. This information and the results of the assessments are aggregated every quarter to form a risk early-warning system, which provides an overall view of risks to individual investments and at portfolio level in the form of a traffic light scheme.

Equity investment management forms part of the mandate of the Risk Committee.

The book value of companies included in portfolio management and supervision as of December 31, 2007 came to a total of €670.3m (€728.5m as of December 31, 2006) and was broken down as follows:

Book value of equity investments

	Dec. 31, 2007		Dec. 31, 2006*	
	€ m	%	€ m	%
Target portfolio	599.9	89.5	639.0	87.7
Restructuring portfolio	11.7	1.7	10.9	1.5
Disposal portfolio	52.1	7.8	67.6	9.3
Transfer portfolio	6.6	1.0	11.0	1.5
Book value of equity investments	670.3	100.0	728.5	100.0

* Based on portfolio allocations as of December 31, 2007

> Market Price Risk

The central task of Treasury/Markets is the operating management of market price risk. Risk Control identifies, quantifies, and monitors market price risk and is responsible for developing the methods used for this.

Sachsen LB manages market price risk by means of a limit system which restricts market price risk on two levels: firstly, all market price risks are subject to a global limit set by an analysis of risk capacity using a 99% or 99.97% confidence interval and a ten-day holding period; secondly, within the global limit, portfolio-specific stop-loss limits for operating management purposes are calculated by setting a scale based on a 95% confidence level and a one-day forecast holding period to cap the value-at-risk. The stop-loss limits are the upper limit for losses. Limits are set for all categories of market price risk.

Market price risk management and monitoring covers all trading business as defined in MaRisk and all transactions to manage interest rate exposure in the investment book. It also extends to all transactions carried out by Sachsen LB Europe plc. Investments by Sachsen LB in funds as part of its strategic capital market activities and Sachsen LB's conduits are included in the monitoring of market price risk on a look-through basis.

Risk Control checks that the operating market price risk limits are complied with on a daily basis; risk reports are sent to the relevant Board of Management members and the units that manage the positions on the risk data produced, utilization of limits, and the income generated. If the set limits are exceeded, an escalation process is initiated immediately. Monthly and quarterly risk reports also show the results of the stress test analyses.

Risk measurement

Sachsen LB quantifies market price risk using the value-at-risk approach. Under the variance-covariance approach, value-at-risk considers both the correlations between the relevant risk categories and also the correlations of the risk factors (interest rates, exchange rates and equity prices) with each other. Credit spread risk and "other market price risk" are also added on to the value-at-risk. "Other market price risk" includes risks that cannot be attributed to the traditional categories of market price risk.

The risk forecasting period is based on the length of time required to close out market price risk positions. For operating management purposes, a holding period of one day is assumed. For some parts of the strategic capital markets portfolio a holding period of sixty days is assumed. Value-at-risk for the operating management of front-office areas is calculated using a 95% confidence interval. To calculate and allocate the risk capital required for market price risk as part of the overall management of the bank in line with the idea of risk capacity, value-at-risk is based on a 99% or 99.97% confidence interval and a ten-day holding period. All market price risks are included in economic capital. The credit spread risks to which subportfolios are exposed are not reflected in the market price risks included in economic capital if the intention is to hold the portfolio to maturity. This applies in particular to Sachsen LB's synthetic loan business (synthetic assets), which includes the conduits. In this case, the maximum amount of risk that can be assumed is limited.

Clean backtesting is carried out regularly to verify that the risk measurement methods are appropriate. This involves comparing the risk forecast with what actually occurred and examining the quality of the forecasting models and parameters used. Strong movements in the credit markets, particularly in the short-term interest rate segment and securitized products, have led to changes in value that have considerably exceeded the forecast values used to date. In order to compensate for these weaknesses in this model, add-on factors were used in risk quantification, and scenario analyses were increasingly applied that are based on extreme historical changes. Due to the increase in the historical volatility of spread movements observed over time, the number of backtesting outliers is down sharply.

Sachsen LB complements daily risk measurement with monthly scenario and stress tests to examine the impact of exceptional market movements on the group's risk positions. The effects on portfolios of possible historical crash scenarios, unexpected interest rate decisions by central banks and ballooning credit spreads are simulated. When selecting the scenarios for the portfolios, Sachsen LB distinguishes between standardized and situation-related scenarios, as well as between "probable" and "extreme" scenarios. The relevance of the situation-related scenarios to the actual risk positions is confirmed at regular intervals. The widening of credit spreads during the second half of the year exceeded the calculations in the simulations. Since spring 2007, the scenario analyses have also included the possible effects of market disruptions on the bank's income statement.

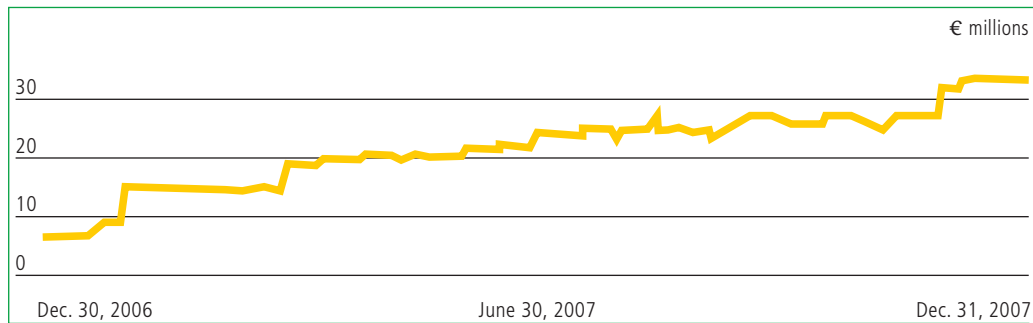
Risk trends during the year

Market trends varied in 2007. Whereas stock markets performed well overall with a nearly steady level of volatility, the interest rate and credit markets saw a significant jump in volatility and ballooning of credit spreads.

During 2007, value-at-risk (95%/1 day) rose by €23.6m to €31.0m. The primary reasons for this are the escalation in risk in the first half of the year along with the intensification of market volatility. The increase in risk reported of €5.9m in the fourth quarter in particular is mainly due to a sharp increase in market volatility, especially in credit spreads.

The following chart shows the changes in the bank's market price risk during fiscal 2007 based on value-at-risk (95%/1 day). The difference in the risk figure at the start of 2007 compared to the year-end figure in last year's report is the result of the application of VaR according to the variance-covariance approach for managing and limiting risks.

VaR trend SLB/SLBE



The risk structure continues to be shaped by other market price risks, which account for 56.6% and reflect the market price risks of the fund of hedge funds strategies, followed by credit spread risks (26.5%) and interest rate risks (12.1%).

Currency and volatility risk are of secondary significance for Sachsen LB. The following chart illustrates the breakdown of market price risk of portfolios managed using present values by individual risk categories:

Breakdown of market price risks

– € millions –	Dec. 31, 2007	Δ Prior quarter	Δ Prior year	Share in %
Interest rate risk	3.88	0.41	1.70	12.1
Currency risk	0.62	0.25	0.42	1.9
Equity price risk	0.77	-0.40	0.07	2.4
Volatility risk	0.06	0.03	-0.04	0.2
Commodity risk	0.11	0.05	0.11	0.4
Credit spread risk	8.54	4.60	7.54	26.5
Other market price risk	18.22	0.70	13.94	56.6

The developments on the US real estate market led to massive losses on securitization transactions. Whereas at the beginning only the US subprime sector was affected by the severe widening of credit spreads, this trend had spread to the market as a whole in the second half of the year. The resulting lack of liquidity in the markets and the subsequently limited opportunities for the bank to react led to significant valuation losses in present value terms in strategic capital market positions based on indicative prices and resulted in stop-loss limits being exceeded.

The declines in market value in present value terms amounted to a total of €1.8bn, €184m of which is attributable to SLBE as of the reporting date of December 31, 2007. Realized losses and permanent impairment were reflected in Sachsen LB's income statement in the amount of €371m. A significant portion of these realized losses resulted from an ABS fund, the forced liquidation of which resulted in a deficit of €190m (investment volume: €200m). The €1.2bn in negative market value changes incurred by Sachsen LB remaining at Sachsen LB are mainly due to conduits and fund investments by the bank and to some direct investments in CDO transactions. If the market recovers, there is potential for these investments to recover as well. A substantial portion of the negative market value changes are attributable to the portfolios shielded by the fixed liability guarantee.

The entire amount of economic capital made available for market price risks was used up by the negative market value changes. The bank reacted by freezing risk positions and deciding to close out positions without impacting the market.

> Liquidity Risk

The management of liquidity risk is carried out by Treasury/Markets on the basis of financial and strategic targets, while strictly observing regulatory requirements. Risk Control carries out its monitoring independently of Trading. There is separation of functions at both Sachsen LB and Sachsen LB Europe.

Liquidity risk in the narrower sense is seen as the most important for Sachsen LB; this is restricted by setting limits on the net liquidity gaps for the short, medium and long-term maturity bands. The remaining mismatches have to be covered by unsecured borrowing. The limits per maturity band are therefore set according to the potential refinancing available on the market.

Risk Control checks daily that these limits are observed. Monthly stress tests analyze solvency in different crisis situations.

Refinancing mismatches are reported to the members of the Board of Management and the units responsible for risk management on a daily basis. Monthly and quarterly reports on the liquidity position are sent to the entire Board and to the Supervisory Board.

Risk measurement

Liquidity risk in the narrower sense is calculated by establishing the refinancing mismatch, subtracting payments out from payments in. To assess the financial risk, potential refinancing from liquid securities and from undertakings by the Saxon savings banks are then deducted to give the net liquidity gap. In addition to the known cash flows from all relevant transactions, irrevocable loan commitments, guarantees, and lines of credit are included.

Until the crisis, the bank did not operate under the assumption of full liability in the case of the Ormond Quay structure in accordance with the contractual agreement based on its understanding of the situation and had therefore included the Ormond Quay structure in liquidity monitoring and management only up to the amount of the liquidity facility, not in the amount of the reference portfolio until the crisis erupted. As the crisis advanced, the bank changed its approach to Ormond Quay (including Castle View) and included the reference portfolios of this structure in liquidity risk monitoring and management.

Due to the decision by Sachsen LB to support the existing conduits by providing liquidity during the crisis, the reference portfolios were consequently included in full in liquidity requirements at the conduits above and beyond the liquidity facilities committed.

Stress tests simulate exceptional market situations. The existing scenarios – a general market crisis and a bank-specific crisis – were supplemented with additional scenario analyses. These relate in particular to the ability of the bank to supply the existing ABS funds and conduits with liquidity.

Market liquidity risk is considered under a market price risk stress test.

Risk trends during the year

It became increasingly difficult for Sachsen LB to obtain financing for the Ormond Quay structure due to the spread of the real estate crisis in the United States and the resulting drying up of the markets during the fiscal year. With the withdrawal of investors from the funding of the conduit structures and the resulting drop in the price of positions, Sachsen LB decided to provide support to these structures and vehicles. This decision to provide support resulted in an increase in the liquidity required in 2007 far exceeding the existing investment amounts and irrevocable commitments. Taking into account these circumstances, the liquidity situation of Sachsen LB was materially different compared to the beginning of the year, which led to a significant strain on liquidity. It was only through the bank pooling agreement among the Landesbanks and the investment in Sachsen LB by LBBW that the funding of the Ormond Quay structure, and therefore the liquidity of Sachsen LB, could be stabilized and secured for the long term.

The agreements providing for a risk shield will ensure that funding will be available in the future for the Ormond Quay and Sachsen Funding structures. This amounts to a volume of €17.2bn.

In the course of the first quarter of 2008, extensions must be arranged for funding amounting to €9.4bn apart from the portfolio covered by the risk shield. This funding is currently being provided in part by market partners (€4.5bn). Another portion (€1.2bn) of this liquidity can be obtained in open market transactions through the European Central Bank using securities from the portfolios. A funding requirement of €3.7bn therefore remains for this period; this amount can be covered by the liquidity reserves of Sachsen LB.

> Risk Management for Pfandbriefe

Issuing Pfandbriefe is a key part of the competitive refinancing strategy of Sachsen LB. Reflecting the core business of Sachsen LB, the focus is on public-sector Pfandbriefe. The volume outstanding amounted to €9.96bn as of December 31, 2007. Mortgage Pfandbriefe are much less important (volume outstanding: €0.003bn).

The bank has met all the requirements of the Pfandbrief Act. A separate system has been put in place to measure and monitor the market price risk specific to the Pfandbrief business and the cover assets, in accordance with § 27 PfandBG (Pfandbrief Act). Sachsen LB carries out separate nominal and net present value coverage calculations for public-sector and mortgage Pfandbriefe and determines the cover matching separately for each type of Pfandbrief. The market price risk arising from Pfandbrief business is quantified via stress analyses to calculate the impact of unexpected market movements on the net present value coverage. Sachsen LB uses the dynamic approach to simulate changes in interest rates and exchange rates. The stress tests are calculated using the actual market performance over the previous 250 trading days at a one-sided confidence interval of 99% and assuming a holding period of six months.

Operating management of the cover assets falls within the responsibilities of Treasury/Markets and is carried out in accordance with the internal requirements for excess coverage set by Risk Control. These internal guidelines ensure that the legal obligations are met and that the high quality of the securities issued is maintained, from the point of view of both the bond holders and the rating agencies.

> Operating Risk

Sachsen LB defines operating risks as the risk of losses that arise due to the unsuitability or failure of internal processes, people, or systems, or due to external influences. This also includes legal risks in line with the definition used by the Basel Committee on Banking Supervision. Operating risk does not include strategic risks or reputation risks.

At Sachsen LB, operating risk is managed and monitored decentrally. According to this approach, risk management to avoid and reduce operating risk is a responsibility distributed across the individual business areas. As part of its supervisory function, Risk Control documents, analyzes, and aggregates the identified operating risks and is responsible for developing and updating methodologies.

In accordance with MaRisk (Minimum Requirements for Risk Management), risk reports are submitted to the responsible committees at least quarterly. Monthly reports are also provided about significant developments. Due to the current situation, reporting to the committees has been provided on a monthly basis since August 2007. The Board of Management is informed about significant loss events immediately.

Risk measurement

The qualitative and quantitative management tools developed and used by the bank are based on the Basel guidelines. Quantitative methods include the incident database, in which information about incidents is collected for the purpose of identifying and analyzing possible trends and concentrations of operating risks, as well as determining and implementing recommended courses of action. Under the auspices of Bundesverband Öffentlicher Banken (VÖB – Federal Association of Public-Sector Banks in Germany), the bank is a member of the Operational Risk Data Consortium (DakOR). By exchanging anonymized information about incidents that have occurred, the members have at their disposal a larger set of data that can be used to identify possible incidents of loss and to estimate potential loss amounts.

In 2007, the organizational units again estimated potential risks by developing scenarios based on surveys of experts. In addition to quantifying the relevant risks, this method also increasingly raises awareness of risk among employees in the business areas.

Self-assessment is used by the bank as a qualitative method for measuring risk. All the units across the group rate the issues arising in relation to staff, IT, business processes, and external factors. Risk-reduction measures are developed based on the results.

Key developments in this area included the introduction of centralized collection of risk indicators. Risk indicators serve as an early warning system for making determinations on trends in the development of operating risks. The risk indicators developed for the bank focus on staff, IT, and business process issues, as well as the early identification of possible project risks. HR risks are managed in line with the MaRisk classifications using targeted HR risk measures based on the four categories – bottleneck, resignation, motivation, and adjustment risk – in close cooperation with and under the leadership of the HR department. Courses of action are recommended to the Board of Management based on the possible management measures suggested by the risk indicators.

Measures are defined using the various tools/methods for identifying, managing, and monitoring operating risks. Responsibility for implementing these measures lies with the decentralized units. In addition, OpRisk Control also introduced regular tracking of the implementation of these measures during the year under review.

Risk trends during the year

Credit and capital market developments during the year led to a downstream increase in operating risk. This assessment was confirmed by the risk indicators introduced in 2007. The level of operating risks is rising in terms of HR risks (especially resignation and bottleneck risks) and project risks, which subsequently causes the bank to incur additional costs. HR risks are increasingly arising in internal departments (e.g., accounting, risk control, and reporting) and in the Sachsen LB Europe plc (SLBE) subsidiary.

In the third quarter, the HR department introduced an HR risk assessment for the bank with the aim of reducing these risks. As a result, the bank was able to update succession and replacement rules and hire additional consultants, part-time employees, and students as temporary personnel by segment to take care of the expanded workload. The HR situation at SLBE was alleviated temporarily by transferring Bank employees there. In addition, employees of the LBBW subsidiary in Dublin also provided support. Moreover, the company initiated focused measures to improve employee loyalty.

As part of active change management activities, refresher modules on the topic of change management were offered to employees in the management, team leader, and expert programs. Personalized coaching was also provided.

Calculating the risk potential for operating risks in 2007 according to the Basel standardized approach results in an amount of €39m for Sachsen LB and €14m for the Sachsen LB Europe plc subsidiary. These amounts are included in the calculation of risk capacity fully (in the case of a 99.97% confidence interval) or partially (€14m in the case of a 99% confidence interval).

As of January 1, 2008, operating risks will be quantified for regulatory purposes using the basic indicator approach. In parallel, the requirements for quantification according to the standardized approach for operating risk were also fulfilled to ensure that this information can be provided to LBBW in the future.

Outsourcing

During the reporting year, the bank further stepped up its outsourcing management activities. The system for evaluating the materiality of outsourcing arrangements was updated with the integration of Circular 11/2001 into MaRisk. Based on this development, risk analysis will be performed per outsourcing arrangement in the future.

> Overall Risk Assessment

The overall risk position at Sachsen LB Group is judged on the basis of risk capacity. Risk analysis allocates cover assets to potential risks at various levels. The different levels represent risk scenarios with different probabilities of occurrence.

The operating management of overall risk at Sachsen LB is based on a total bank limit that is set annually and linked to risk capacity as the key management variable.

Measurement of the potential risk for the entire bank in terms of default risk and market price risk is carried out using the value-at-risk method described above. Operating risks are taken into account using the Basel requirements of the Standardized Approach. A buffer is determined for business risks. Total risk is calculated conservatively by adding up the individual risk components, without allowing for any correlation effects between the different types of risk.

During the fiscal year, the risk situation of the Sachsen LB Group (particularly Sachsen LB and Sachsen LB Europe plc) was shaped by the extraordinarily strong volatility on the credit and capital markets as the result of the mortgage crisis. In particular, a massive widening of credit spreads was observed in the second half of the year.

Structured financing arrangements with securitized or synthetic loan portfolios at Sachsen LB were particularly affected by this development. The loss of confidence in the creditworthiness of such structures resulting from the crisis led to a situation in which liquidity is almost completely unavailable in the structured finance market. Liquidity in the interbank money market is also affected by this development.

Sachsen LB was exposed to risks that endangered its future as a going concern in fiscal 2007 as the result of the reduced funding opportunities described in the "Liquidity risk" section. In view of the drying up of funding, particularly for the Ormond Quay structure, the liquidity of the structure, and therefore the bank, could only be secured through support measures by LBBW and the Landesbank pool.

With the spread of the US mortgage crisis, Sachsen LB also experienced massive negative market value changes (see "Market price risk" section) that resulted in the full utilization of risk capacity as described above. In order to compensate for realized losses, the bank received earnings injections of €641.4m.

As of December 31, 2007, Sachsen LB's total potential risk according to the value-at-risk approach assuming a 99% confidence interval was approximately €420m (including a buffer of €11m for business risks). If a confidence interval of 99.97% is assumed, then this figure is approximately €1.04bn.

If the substantial negative market value changes that are reflected in the bank's portfolios due to the subprime crisis are included in the analysis of risk capacity, this figure far exceeds the bank's risk capacity. Due to the credit quality of the underlying positions, which continue to carry a rating of good to very good which has been validated by extensive impairment analyses, these valuation changes were recognized in the income statement only in part.

The quantified potential risk by risk type as of the reporting date of December 31, 2007 assuming a 99% confidence interval is broken down as follows (not including negative market value changes in present value terms or the buffer for business risks):

Total potential risk by type in 2007



	Dec. 31, 2007 € m	Dec. 31, 2006 € m
Default risk	312	408
Market price risk	83	53
Operating risk	14	14
Total	409	475

Key Events After the Balance Sheet Date

Changes in the Board of Management

As of February 29, 2008, Joachim Hoof resigned and stepped down from his position as Chairman of the Board of Management. In its meeting on February 25, 2008, the Supervisory Board of Sachsen LB resolved to appoint Harald R. Pfab as the new Chairman of the Board of Management as of March 1, 2008.

Changes in the Supervisory Board

The following changes to the Supervisory Board of Sachsen LB occurred in the first quarter of 2008:

- > Resignation of Burkhard Jung effective January 31, 2008
- > Resignation of Dr. Harald Langenfeld effective February 1, 2008
- > Resignation of Volker Uhlig effective February 5, 2008
- > Resignation of Christine Boragk effective February 21, 2008
- > Resignation of Stanislaw Tillich effective February 27, 2008
- > Resignation of Thomas Jurk effective February 27, 2008

Effective February 25, 2008, the newly formed Supervisory Board comprises Michael Horn, Joachim E. Schielke, and Dr. Peter Kaemmerer, who are members of the Board of Managing Directors of Landesbank Baden-Württemberg (LBBW). Michael Horn was elected Chairman of the Supervisory Board.

Agreement on the sale of Sachsen LB to LBBW

On February 26, 2008, the shareholders of Sachsen LB, LBBW, and LBBW's owners signed the final agreement on the sale of Sachsen LB to LBBW. The signing of this agreement marked the final step in the change in ownership of Sachsen LB.

Capital increase at Sachsen LB Europe plc

On February 25, 2008, Sachsen LB Europe plc's capital was increased by €100m in order to secure the capital backing for the risk assets of Sachsen LB Europe plc required by regulators.

Forecast Report

> Economic Outlook

Against the backdrop of the continuing uncertainty affecting financial markets worldwide and the subsequently challenging business environment, economists are finding it increasingly difficult to forecast global economic performance this year. To date, the information available is insufficient for determining how seriously the financial market crisis could impact future economic growth: after all, the previous year has shown how quickly market trends and key conditions can change.

On the whole, the financial market turbulence plays a central part in the analysis of economic forecasts. The risk environment has intensified noticeably compared to previous years. Leading German economic research institutes also believe that the pace of global economic growth will slow as the result of a slight economic weakness emanating from US markets due to the collapse of the US real estate market. In contrast, the emerging countries in Asia and Latin America are becoming worldwide economic drivers. Despite the weakness in the United States and the Eurozone, Sachsen LB does not see any signs that point to a global recession, but instead forecasts moderate global economic growth of around 4 percent for 2008. Additional global risks, such as the weakness of the US dollar, rising energy and commodities prices, the troubled areas in the Near and Middle East, and the US presidential election could also have an adverse effect on the global economy. However, the extent of their effects is difficult to quantify.

The effects of the US mortgage crisis on the real economy will also affect Europe and put a brake on the pace of economic growth in these markets. In the current year, the European Commission expects the economy in Euroland to see slightly reduced growth of 2.2% compared to 2.6% in the previous year. This stagnation in growth is also due to the sustained high inflation rate and the current strength of the euro against the weak US dollar, which puts additional pressure on exports. Positive effects are expected from the continued high level of growth in the emerging economies in Asia and Eastern Europe, and the still-robust domestic economy.

Economic indicators point to a slowdown in economic growth in Germany in 2008, although the domestic economy is also providing positive impetus for growth in this case. Although the upswing in the past year was carried primarily by exports and by investments in machinery and equipment, consumer spending is expected to become a key driver of the economy in 2008. Despite the upturn in the labor market and the resulting increase in consumer spending, negative effects, such as the slowdown in the pace of growth of exports due to the strong euro, will dampen the general economic environment. For this reason, top German economic institutes and the German government recently lowered their forecasts for growth in the real gross domestic product (GDP) for the current year significantly, putting this figure at between 1.7% and 2%.

The financial market environment remains in a critical state and continues to hold a certain potential for risk. The difficulties affecting the financial markets are more than likely to continue for a while, and the US real estate market corrections will take more time than originally assumed. In the banking industry, experts anticipate a growing wave of consolidation. Market participants must again regain their confidence. On the whole, however, the effects of the financial market turbulence on the real economy are expected to remain manageable.

> Risks of Future Development

Material risks of future development exist for the bank in the form of continuing turbulence on the ABS and credit markets, particularly the US market (especially the subprime segment), which could result in further sustained valuation losses. Depending on the development of the default situation, particularly in the US real estate segment, this could also affect the positions of Sachsen LB, most of which are currently rated good to very good, and lead to loan defaults. However, there is no indication of this currently. Due to the risk shield, such developments would only affect the bank with respect to the parts of the portfolio that are not covered by the risk shield.

The bank's liquidity situation has been stabilized for the long term through the financing provided by the Landesbanks for the positions covered by the risk shield.

If the possible rally and calming of the ABS and credit markets occur, the ABS positions could also recover due to the still good to very good credit ratings of the affected securities. This represents sustainable recovery potential, at least for some of the valuation losses.

After the final agreement on the sale of Sachsen LB to LBBW was signed by the shareholders of Sachsen LB, LBBW, and LBBW's owners on February 26, 2008, Sachsen LB will be merged with LBBW by way of a change of legal form. The merger is expected to be finalized before completion of the state aid procedure by the European Commission.

The support measures granted to Sachsen LB are the subject of the state aid proceedings initiated by the European Commission against the Federal Republic of Germany. The German federal government is currently conducting negotiations with the European Commission in conjunction with the state governments of the Free State of Saxony and the State of Baden-Württemberg, as well as LBBW.

Sachsen LB's assessment of the course and outcome of this procedure is based on an expert opinion by an independent law firm. Based on this report, it is Sachsen LB's opinion that the European Commission will rule with regard to the pooling agreement that the support measures do not constitute state aid or at the very least will issue an approval without additional conditions. In view of the sale, Sachsen LB anticipates that the European Commission will determine that state aid was provided, but will approve this aid as restructuring assistance based on a restructuring plan developed by LBBW. Furthermore, Sachsen LB expects that no changes will have to be made to the guarantee terms. It is anticipated that the European Commission will require Sachsen LB to focus on its core business.

To the extent that the Commission does not come to the conclusion earlier that no state aid was provided, Sachsen LB expects that the state aid investigation will be completed in around four to six months.

In the event that the European Commission does not approve the support measures or only approves them conditionally, a possibility that Sachsen LB considers unlikely for the aforementioned reasons, there is a risk that Sachsen LB's continued existence could be endangered and the legally completed takeover by LBBW could fall through.

Sachsen LB also analyses its risk management activities regularly and develops these activities continually against the backdrop of insights gained from the crisis in order to identify and manage adverse developments at an early stage.

> Business Outlook

The Bank expects to be merged with LBBW in the short term. For this reason, no forecast is provided for the results in the next two fiscal years.

The future business strategy of Sachsen LB within the Landesbank Baden-Württemberg Group fits within the context of the overall integration of the bank into LBBW. The common goal of all participants is to develop a sustainable, long-term strategy for Sachsen LB taking into account the ongoing problems on the financial markets and to implement this strategy as early as the second quarter of 2008. In line with the Foundation Agreement, the role of the bank as an effective partner to SMEs will be reinforced and the position of Leipzig as a banking center will be secured for the long term by the location of LBBW branches there.

Thanks to its regional expertise, Sachsen LB will be positioned even more solidly in the future in its core business area, the business with SMEs. The LBBW Group's expanded range of products and services for small- and medium-sized enterprises, the integration of new private banking services, and the expansion of activities throughout the entire growth market in Central Germany are the foundation for this positioning. Since 2006, Sachsen LB had been stepping up its activities not only in the Free State of Saxony, but in Saxony-Anhalt and Thuringia as well, and brings its expertise in these regions to the table.

Sachsen LB holds a strong market position in many segments, and provides ideas and concepts for financing and furthering the business and innovations of companies. Industry-specific centers of excellence, such as for the renewable energy sector, are planned in Leipzig for special financing projects. As of the reporting date, no specific agreements had been made concerning the concrete structuring of these centers of excellence.

The establishment of an Eastern European center of excellence, particularly for the markets in Poland and the Czech Republic, is a logical step due to the geographical proximity, historical connections, and existing language capabilities of the bank. The products and services offered will be targeted toward retail as well as corporate customers. The objective is to assist and support SMEs in conducting cross-border activities in an increasingly integrated Europe.

In all of its businesses, Sachsen LB will continue to focus on close cooperation with local savings banks with which the bank is the market leader in the SME segment in Saxony. The established savings bank structures, the quality of the bilateral business relationships, and the existing strong foundation of trust provide an important foundation for the business that Sachsen LB intends to continue to pursue in the future. The products offered by the LBBW Group as a whole will significantly expand the range of products and services, as well as the sales expertise, of the bank.

As part of its new business model and the planned consolidation with the BW Bank branches in Central Germany under a new brand, Sachsen LB will for the first time include high net-worth private individuals in its customer base along with small- and medium-sized corporate customers, serving these clients in Saxony and neighboring regions.

Through its integration into the LBBW Group, Sachsen LB gains sustainable prospects for the future as part of a strong financial group. As an expert regional bank working with a partner possessing a strong product range and excellent international positioning, Sachsen LB will benefit from this arrangement while retaining its regional identity.

Concluding Statement by the Board of Management

We hereby state that the following was true during the period of dependency from October 26 to December 31, 2007:

1. The company received appropriate compensation for all legal transactions according to the circumstances that were known at the time the legal transactions were conducted with controlling or affiliated companies.
2. Measures at the prompting of or in the interest of the controlling company or its affiliated companies that work out to the advantage or disadvantage of the Company were neither implemented nor failed to be implemented.

Leipzig, March 10, 2008

The Board of Management



Harald R. Pfab



Wolf-Dieter Ihle

Balance Sheet as of December 31, 2007 of Landesbank Sachsen AG

Assets

– € thousands –		Dec. 31, 2007	Dec. 31, 2006
1. Cash reserve			
a) Cash on hand	5		3
b) Balances with central banks, of which:	<u>39,051</u>	39,056	<u>63,168</u>
at the Deutsche Bundesbank	39,051		63,171 (63,168)
2. Receivable from banks			
a) payable on demand	2,279,322		1,124,068
b) other receivables	<u>17,882,773</u>	20,162,095	<u>19,000,183</u>
			20,124,251
3. Receivable from customers		17,248,247	14,778,578
of which:			
secured by mortgages	792,602		(900,860)
loans to municipal/public entities	4,059,853		(4,121,352)
4. Bonds and other fixed-interest securities			
a) Money market instruments of other issuers	<u>128,791</u>		<u>146,760</u>
of which:		128,791	146,760
eligible for discount at the Deutsche Bundesbank	128,791		(98,060)
b) Bonds and notes			
ba) of public-sector issuers	1,953,793		2,143,656
of which:			
eligible for discount at the Deutsche Bundesbank	1,833,272		(1,940,299)
bb) of other issuers	<u>15,219,213</u>		<u>15,149,383</u>
of which:		17,173,006	17,293,039
eligible for discount at the Deutsche Bundesbank	12,670,057		(12,682,095)
c) Own			
bonds	<u>5,110,118</u>	22,411,915	<u>7,415,468</u>
principal amount	5,080,610		24,855,267 (7,383,846)
5. Equities and other non-interest-bearing securities		1,364,609	1,518,995
6. Investments		368,247	389,716
of which:			
in banks	17,374		(13,595)
7. Equity holdings in affiliated companies		311,773	347,788
of which:			
in banks	120,000		(156,349)
8. Intangible assets		8,672	13,885
9. Fixed assets		8,154	8,398
10. Other assets		82,973	43,446
11. Deferred items		88,854	117,322
Total assets		62,094,595	62,260,817

Liabilities

– € thousands –		Dec. 31, 2007	Dec. 31, 2006
1. Liabilities to banks			
a) payable on demand	1,238,278		1,514,482
b) with agreed maturity or notice period	<u>30,617,694</u>		<u>25,142,718</u>
		31,855,972	26,657,200
2. Liabilities to customers			
b) Other liabilities			
ba) payable on demand	216,744		235,340
bb) with agreed maturity or notice period	<u>6,025,282</u>		<u>6,251,091</u>
		6,242,026	6,486,431
3. Securitized liabilities			
a) Bonds and notes issued	19,822,500		24,674,438
b) Other securitized liabilities	<u>389,535</u>		<u>389,762</u>
of which:		20,212,035	25,064,200
money market instruments	0		(0)
4. Other liabilities		1,274,435	1,547,864
5. Deferred items		61,353	66,787
6. Provisions			
a) Provisions for pensions and similar obligations	25,237		24,598
b) Tax provisions	16,133		16,080
c) Other provisions	<u>109,645</u>		<u>44,287</u>
		151,015	84,965
7. Subordinated liabilities		406,986	442,776
8. Profit sharing certificates		473,388	473,388
of which:			
due within two years	132,936		(132,936)
9. Equity			
a) Subscribed capital			
aa) Share capital (prior year: ordinary capital)	305,000		304,941
ab) Dormant partner contributions	<u>553,313</u>		<u>553,313</u>
		858,313	858,254
b) Capital reserves		381,000	380,593
c) Retained earnings			
cc) Reserves pursuant to company articles	0		18,226
cd) Other retained earnings	<u>178,072</u>		<u>127,133</u>
		178,072	145,359
d) Net income		<u>0</u>	<u>53,000</u>
		1,417,385	1,437,206
Total liabilities		62,094,595	62,260,817
1. Contingent liabilities			
b) Liabilities from guarantees and indemnity agreements	<u>1,486,011</u>	1,486,011	<u>1,786,432</u>
			1,786,432
2. Other commitments			
c) Irrevocable loan commitments		2,974,829	3,123,014

An unquantifiable letter of comfort exists in respect of Sachsen LB Europe plc.

Income Statement of Landesbank Sachsen AG

for the period January 1 to December 31, 2007

– € thousands –		2007	2006
1. Interest income from			
a) lending and money market transactions	2,991,292		2,812,726
b) interest-bearing securities and book-entry securities	<u>962,239</u>		<u>1,028,887</u>
	3,953,531		3,841,613
2. Interest expense	<u>3,856,733</u>	96,798	<u>3,761,888</u> 79,725
3. Current income from			
a) equities and other non-interest-bearing securities	35,454		55,872
b) investments	17,719		23,954
c) equity holdings in affiliated companies	<u>89,308</u>		<u>61,617</u>
		142,481	141,443
4. Income from profit pooling and profit transfer or partial profit transfer agreements		4,190	6,244
5. Commission income	29,827		32,265
6. Commission expense	<u>37,532</u>	-7,705	<u>30,221</u> 2,044
7. Net income/net loss from financial transactions		-40,102	9,349
8. Other operating income		6,684	6,414
9. General administrative expenses			
a) Staff costs			
aa) Wages and salaries	27,919		25,326
ab) Social security and pension contributions and other benefits	<u>5,422</u>		<u>4,957</u>
of which:		33,341	30,283
pension contributions	1,828		(1,995)
b) Other administrative expenses		<u>58,420</u>	<u>52,290</u>
		91,761	82,573
10. Depreciation/amortization and value adjustments on intangible and fixed assets		9,029	2,457
11. Other operating expenses		7,270	6,058
12. Depreciation/amortization and value adjustments on receivables and certain securities and allocations to loan-loss provisions		515,667	73,786
13. Depreciation/amortization and value adjustments on investments, equity holdings in affiliated companies and securities classified as fixed assets		220,246	0
14. Income from write-ups on investments, equity holdings in affiliated companies and securities classified as fixed assets		0	89
15. Profit from ordinary business activities		-641,627	80,434
16. Extraordinary income	641,400		0
17. Extraordinary expense	<u>0</u>		<u>21,651</u>
18. Extraordinary income/expense		641,400	-21,651
19. Income taxes		<u>227</u>	<u>-5,783</u>
20. Surplus for the year = net income		<u>0</u>	<u>53,000</u>

Landesbank Sachsen Aktiengesellschaft

Notes 2007

(1) General information

Landesbank Sachsen Aktiengesellschaft (Sachsen LB), Leipzig, is 62.96% owned by Sachsen-Finanzgruppe (SFG), Leipzig, which consolidates Sachsen LB in its group financial statements, and 37.04% owned by the Free State of Saxony. The consolidated financial statements of SFG are published in the electronic German Federal Gazette.

Effective October 26, 2007, Sachsen LB's legal form was changed to an Aktiengesellschaft (AG – German public limited company).

The financial statements of Sachsen LB are produced in accordance with the requirements of the German Commercial Code (HGB) and the Ordinance on Accounting for Banks and Financial Service Companies (RechKredV).

(2) General accounting and valuation policies

The financial statements have been produced using the accounting and valuation policies permitted for Sachsen LB. These are based on the general principles of valuation under § 252 HGB (German Commercial Code) and the special rules for banks under §§ 340e et seq. HGB.

Furthermore, the applicable provisions of the German Stock Corporation Act and German Pfandbrief Act were also followed.

Receivables from banks and customers are shown at nominal value. Discounts retained on disbursements are booked as a deferred item and released on a scheduled basis over the life of the receivable.

Identifiable risks in the lending business have been sufficiently addressed by specific value adjustments or by creating provisions. The general allowances were calculated for existing latent risks according to the rules of the tax authorities using the average level of defaults over the last 5 years. Specific value adjustments and general allowances are shown separately from the assets.

Securities held by Sachsen LB are categorized as belonging to either the trading portfolio, the liquidity reserve, or fixed assets.

Securities in the trading portfolio and the liquidity reserve are valued using the strict lower of cost or market principle. Lower valuations from prior years are not carried forward; restatements are permitted up to a maximum of historic cost. Securities involved in hedging transactions with matching amounts, currencies, and maturities are grouped into valuation units.

Measurement of securities classified as fixed assets is according to the modified lower of cost or market principle, i.e., write-downs to lower fair value are only made in case of permanent, generally credit rating-induced impairment. Changes in value due to changes in market rates or liquidity remain unrecognized as long as the bank has the intention and ability to hold the securities to maturity. The assessment of whether a permanent credit rating-induced impairment exists in the case of securitized products is made by taking into account the tranches underlying the securitization according to the look-through principle. The intention to hold the securities in fixed assets to maturity is based on the buy-and-hold strategy. The ability to hold the investment is ensured based on the mostly matching financing maturities and liquidity situation in view of the support measures conducted.

In order to identify permanent impairment, all securities, including securitized products, were tested according to specified eligibility and impairment criteria for possible necessary write-downs.

The focus of this testing was on residential mortgage-backed securities (RMBS) that are backed with subordinated receivables from US mortgage loans (US subprime paper) or UK mortgage loans (UK non-conforming paper). Clearly quantifiable and legally permissible credit enhancements (e.g., reserve accounts, credit insurance) were included in the individual analyses of these asset-backed securities. Trustee reports provided the basic data for up-to-date cover and overcollateralization rates. In the event that the specified impairment criteria, including ratings and cover ratios, were not met, the carrying amount was written down to the lower fair value.

Similar tests were also performed in cases in which the bank provided liquidity facilities to off-balance sheet conduits serving as funding for asset-backed securities and in the case of investments by the bank in special funds that in turn were invested in corresponding asset-backed securities.

In addition, collective value adjustments were recognized for receivables from customers arising from the funding of conduits and special funds by applying conservative measurement parameters.

No risk provisioning was required for the ABSs covered by the risk shield provided by the fixed liability guarantee furnished by the Free State of Saxony. The direct investment volume (receivables, loan commitments, and securities) of Sachsen LB covered by the risk shield amounts to €1.9bn with the volume of the reference portfolio amounting to €17.1bn. The relevant details are presented in the Risk Report section entitled "Default risk/Portfolio in detail."

Non-marketable structured financing vehicles are valued based on indicative quotations and prices determined by independent external quote providers and internal calculation methods.

Equity investments and holdings in affiliated companies are carried at acquisition cost or written-down book value. If permanent impairment is likely, the carrying amount is written down to the lower fair value. Equity investments with a book value of €29.1m were carried at the modified lower of cost or market principle. The fair value of these equity investments is €24.1m. No write-down was recognized, because in the coming years the market value will recover due to inflows of cash.

Fixed assets and intangible assets acquired for consideration are carried at the cost of acquisition or production less scheduled depreciation and amortization as appropriate. Impairment charges are recognized where a reduction in value is regarded as likely to be permanent. Low-value assets as defined in §6 (2) EstG (Income Tax Act) are written off in full in the year of acquisition.

Liabilities are shown in the balance sheet at their repayment amount. Discounts or premiums retained when taking on liabilities are booked as a deferred item and released on a scheduled basis over the life of the liability.

Provisions for pensions and similar obligations are calculated on the basis of actuarial reports to provide a more realistic representation in accordance with IAS 19. The defined benefit obligation (DBO) and the current service cost were calculated using the projected unit cost method on the balance sheet date, applying the Heubeck 2005 G mortality tables and an interest rate of 5.6%. The corridor method was used for treating the actuarial gains and losses (€5,135 thousand).

Reasonable business judgment was used when setting up tax provisions or other provisions to match uncertain liabilities or anticipated losses from uncompleted transactions.

(3) Derivatives

The derivative transactions (forward transactions as defined in § 36 RechKredV (Ordinance on Accounting for Banks and Financial Service Companies)) held as of the balance sheet date serve to hedge against interest rate, currency, and other price risks and to generate proprietary trading income and are shown in the following tables. Around 90.6% (prior year: 89.8%) of these transactions are with OECD banks.

Derivative financial instruments recorded in the single-entity financial statements of Sachsen LB are classified according to whether they form part of hedging transactions (micro or macro hedges) or are used for trading purposes. Most of the derivatives held on the balance sheet date were to hedge risks. The amount of interest rate risk hedged at Sachsen LB was 70.2% (prior year: 73.0%); 98.1% (prior year 97.0%) of currency risk was hedged, and 100% (prior year: 100%) of equity and other market risk was hedged.

Where micro hedges have been put in place to protect against market price risks, valuation units are formed by explicitly linking underlying and hedging transactions. This means that the opportunity of making a profit on the hedging instrument and the risk of making a loss on the underlying transaction (and vice versa) unambiguously balance each other out to form a successful hedge. For macro hedges, similar underlying transactions are allocated en bloc to offsetting hedging transactions based on the same fundamental risk. Valuation units in the form of macro hedges are used where interest rate derivatives are employed by the bank to hedge against risks from potential interest rate changes in its own book as part of general asset-liability management.

Exchange-traded derivatives are marked to market.

OTC derivatives are valued using the mark-to-model method. Constant maturity swaps, in-arrears swaps and callable swaps, caps, floors, and swaptions are valued using either DCF along with the convexity adjustment system or Black 76 model. Structured derivatives are measured using interest rate structure models, and other OTC interest rate derivatives, FRAs, and currency derivatives are valued using DCF. OTC equity and index options are valued using Black-Scholes (for European-style options where there is no dividend) and Cox-Ross-Rubenstein (for European-style options where there is a dividend and for American-style options).

The balance sheet of Sachsen LB reports premiums from derivative instruments with a book value of €3,219.3 thousand (prior year: €1,396.9 thousand) under "Other Assets" and premiums and deferred income from derivatives with a book value of €3,406.8 thousand (prior year: €1,929.9 thousand) under "Other Liabilities."

The negative market values are matched by positive values in the underlying transactions. Where negative values arise in hedging transactions, appropriate provisions are made for anticipated losses on derivatives.

Bank derivatives – by volume

– € millions –	Nominal values		Positive market values	Negative market values
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2007
Interest rate risks				
Interest rate swaps	36,926.5	40,761.0	404.9	790.1
FRAs	0.0	0.0	0.0	0.0
Interest rate options				
– Bought	7.5	93.4	0.0	0.0
– Sold	35.0	141.1	0.0	0.2
Caps, Floors	483.7	1,032.8	0.6	0.8
Exchange-traded contracts/interest rate futures	221.9	208.2	0.8	0.0
Other forward interest rate transactions	0.0	0.0	0.0	0.0
Interest rate risks – total –	37,674.6	42,236.5	406.3	791.1
Currency risk				
Forward currency transactions	5,454.8	3,907.9	51.5	13.8
Currency swaps, interest & currency swaps	1,554.4	1,885.5	135.9	147.1
Currency options				
– Bought (long)	0.0	0.0	0.0	0.0
– Sold (short)	0.0	0.0	0.0	0.0
Exchange-traded contracts	0.0	0.0	0.0	0.0
Other forward currency transactions	0.0	0.0	0.0	0.0
Currency risks – total –	7,009.2	5,793.4	187.4	160.9
Equity and other price risks				
Forward equity transactions	0.0	0.0	0.0	0.0
Equity options				
– Bought (long)	15.0	5.0	1.7	0.0
– Sold (short)	10.0	0.0	0.0	0.0
Exchange-traded contracts	0.0	0.0	0.0	0.0
Other forward transactions	0.0	0.0	0.0	0.0
Equity and other price risks – total –	25.0	5.0	1.7	0.0
Credit derivatives				
– Bought (long)	0.0	0.0	0.0	0.0
– Sold (short)	0.0	0.0	0.0	0.0
Credit derivatives – total –	0.0	0.0	0.0	0.0
Total	44,708.8	48,034.9	595.4	952.0

Bank derivatives – by maturity

Nominal values – € millions –	Interest rate risks		Currency risk		Equity and other price risks		Credit derivatives	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Maturities								
– less than 3 months	2,367.3	2,639.6	5,479.0	3,945.8	20.0	0.0	0.0	0.0
– between 3 months and 1 year	5,949.6	4,258.4	115.7	371.8	0.0	0.0	0.0	0.0
– between 1 year and 5 years	16,435.8	20,561.0	710.5	455.0	0.0	0.0	0.0	0.0
– more than 5 years	12,921.9	14,777.5	704.0	1,020.8	5.0	5.0	0.0	0.0
Maturity – total –	37,674.6	42,236.5	7,009.2	5,793.4	25.0	5.0	0.0	0.0

Bank derivatives – by counterparty

– € millions –	Nominal values		Positive market values	Negative market values
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
OECD banks	40,483.8	43,146.5	483.5	816.2
Non-OECD banks	0.0	0.0	0.0	0.0
OECD public-sector entities	0.0	0.0	0.0	0.0
Other counterparties	4,225.0	4,888.4	111.9	135.8
Counterparty – total –	44,708.8	48,034.9	595.4	952.0

Bank derivatives – trading positions

– € millions –	Nominal values		Positive market values	Negative market values
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Interest rate contracts	11,243.6	11,422.8	116.2	148.9
Currency contracts	134.2	174.8	6.7	6.0
Equity contracts	0.0	0.0	0.0	0.0
Credit derivative contracts	0.0	0.0	0.0	0.0
Trading positions – total –	11,377.8	11,597.6	122.9	154.9

(4) Currency translation

– € millions –	Dec. 31, 2007	Dec. 31, 2006
Foreign currency assets		
Total foreign currency assets	8,216.9	7,195.4
Foreign currency liabilities		
Total foreign currency liabilities	3,903.5	4,515.4

Foreign currency assets and liabilities and spot transactions not settled at the balance sheet date were translated at the spot mid-rates of the European Central Bank (ECB) on December 31, 2007 in accordance with §340h (1) HGB (Commercial Code).

Foreign currency income and expenditure is translated into the accounting currency using the spot mid-rate of the European Central Bank on the day the entry is booked and reflected accordingly in the income statement.

Uncompleted forward transactions are valued using the forward rate. Swap losses and gains from currency swap transactions in connection with the hedging of interest-bearing balance sheet items are reported as interest expense or interest income due to their similarity to interest.

Balance sheet items and uncompleted transactions of Sachsen LB denominated in foreign currencies meet the requirements to be considered specially hedged (§340h (2) sentence 2 HGB (Commercial Code)). This means that all gains and losses on currency translation are recorded in the income statement, pursuant to § 340h (2) (1) and (2) HGB (Commercial Code). There are no gains that need to be shown separately as the currency trading positions held on the balance sheet date fall within the same time frame. The net gain from valuing outstanding currency transactions is shown as "Special Item Arising From Currency Translation" under "Other Assets."

Sachsen LB issued irrevocable loan commitments in foreign currencies in the amount of €1,102.8m (prior year: €941.7m); guarantees were assumed in the amount of €801.8m (prior year: €844.5m).

> Notes on the Balance Sheet

(5) Relations with affiliated companies and companies where an equity interest is held

The following receivables from and liabilities to affiliated companies or companies where an equity interest is held are included in the individual balance sheet items:

– € millions –	Receivables from affiliated companies		Receivables from companies where an equity interest is held		Receivables from affiliated savings banks	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Assets						
Receivable from banks	190.0	6.9	0.0	0.0	3,567.8	3,527.9
of which:						
Subordinated claims	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Receivable from customers	25.3	179.0	37.6	43.7	0.0	0.0
of which:						
Subordinated claims	(3.0)	(2.0)	(0.0)	(0.0)	(0.0)	(0.0)
Bonds and other fixed-interest securities	0.0	0.0	0.0	0.0	0.0	0.0

Receivables from affiliated savings banks include €2,604.8m (prior year: €2,453.2m) in receivables from affiliated companies.

– € millions –	Liabilities to affiliated companies		Liabilities to companies where an equity interest is held		Liabilities to affiliated savings banks	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Liabilities						
Liabilities to banks	1,010.3	294.3	7.9	24.6	5,246.3	4,420.0
Liabilities to customers	176.4	689.6	6.9	15.7	0.0	0.0

Liabilities to affiliated savings banks include €4,725.5m (prior year: €2,453.2m) of liabilities to affiliated companies.

The "Securitized Liabilities" item mainly consists of listed bearer debentures. As the holders of these on the balance sheet date were not known to Sachsen LB (the issuer), the liabilities to affiliated companies and companies where an equity interest is held are not shown in respect thereof.

(6) Maturity breakdown of balance sheet items

The remaining time to maturity of the following balance sheet items (including pro rata interest) is as shown below:

Assets

– € millions –	Dec. 31, 2007	Dec. 31, 2006
Other receivables from banks		
– less than 3 months	8,092.0	6,470.6
– between 3 months and 1 year	2,247.8	2,230.3
– between 1 year and 5 years	4,073.9	6,690.3
– more than 5 years	3,469.1	3,609.0
Total	17,882.8	19,000.2
Receivable from customers		
– less than 3 months	6,713.8	3,517.2
– between 3 months and 1 year	1,097.7	816.5
– between 1 year and 5 years	4,812.3	4,845.5
– more than 5 years	4,624.4	5,599.4
Total	17,248.2	14,778.6
Bonds and other fixed-interest securities		
– of public-sector issuers	1,953.8	2,143.7
of which due in the following year	(227.4)	(135.1)
– of other issuers	15,348.0	15,296.1
of which due in the following year	(2,278.5)	(2,037.7)
– own bonds	5,110.1	7,415.5
of which due in the following year	(208.0)	(1,914.0)
Total	22,411.9	24,855.3

Liabilities

– € millions –	Dec. 31, 2007	Dec. 31, 2006
Liabilities to banks		
with agreed maturity or notice period		
– less than 3 months	22,532.8	15,907.0
– between 3 months and 1 year	2,299.3	2,906.3
– between 1 year and 5 years	3,325.5	3,379.4
– more than 5 years	2,460.1	2,950.0
Total	30,617.7	25,142.7
Other liabilities to customers		
with agreed maturity or notice period		
– less than 3 months	961.3	1,157.9
– between 3 months and 1 year	208.5	242.2
– between 1 year and 5 years	1,666.5	1,806.0
– more than 5 years	3,189.0	3,045.0
Total	6,025.3	6,251.1
Securitized liabilities		
– bonds and notes issued	19,822.5	24,674.4
of which due in the following year	(3,057.3)	(5,132.7)
– other securitized liabilities		
– less than 3 months	0.0	0.0
– between 3 months and 1 year	0.0	0.0
– between 1 year and 5 years	353.3	353.6
– more than 5 years	36.2	36.2
Total	20,212.0	25,064.2

(7) Securities portfolio

The securities shown in items 4 and 5 of Assets are divided into the following categories based on purpose:

– € millions –	Dec. 31, 2007	Dec. 31, 2006
Bonds and other fixed-interest securities		
– Investment portfolio	2,172.9	2,403.5
– Liquidity reserve	16,607.5	19,351.4
– Trading portfolio	3,631.5	3,100.4
Total	22,411.9	24,855.3
Equities and other non-interest-bearing securities		
– Investment portfolio	1,151.1	541.8
– Liquidity reserve	213.5	977.2
– Trading portfolio	0.0	0.0
Total	1,364.6	1,519.0

Sachsen LB applies the modified lower of cost or market principle to securities in the investment portfolio with a book value of €1,952.1m (prior year: €491.4m). The fair value of these securities is €1,794.4m (prior year: €485.4m). Against the backdrop of the subprime crisis, the securities in the investment portfolio were analyzed extensively using the aforementioned methods. The results of the analysis did not indicate permanent impairment of these securities.

(8) Listed securities

Bonds and other fixed-interest securities and equities and other non-interest-bearing securities include the following amounts of securities listed on stock exchanges:

– € millions –	Dec. 31, 2007	Dec. 31, 2006
Bonds and other fixed-interest securities	22,402.8	24,845.6
of which: listed	(21,693.6)	(24,380.5)
Equities and other non-interest-bearing securities	284.2	20.6
of which: listed	(283.6)	(20.0)

Of the listed securities, 73.2% (prior year: 77.8%) belonged to the liquidity reserve, 16.0% (prior year: 12.5%) belonged to the trading portfolio, and 10.8% (prior year: 9.7%) belonged to the investment portfolio.

The book value of Sachsen LB's listed equity investments amounts to €13.8m (prior year: €10.0m).

(9) Repurchase agreements

Sachsen LB had sold securities in the amount of €7,121.0m (prior year: €3,603.3m) under repurchase agreements.

(10) Equity interests

The full list of equity interests pursuant to §285 (11) HGB (Commercial Code) is published with the financial statements in the electronic German Federal Gazette.

Sachsen LB owns direct or indirect holdings of at least 20% in the following companies (list of key equity interests):

No	Name, registered office	Held via no.	Percentage of equity held	Equity in € thousands ¹⁾	Net income in € thousands ²⁾
Direct holdings					
1	Sachsen LB Europe plc, Dublin ³⁾		100.0	80,004	-158,209
2	Sachsen LB Corporate Finance Holding GmbH, Leipzig ⁶⁾		100.0	90,565	0
3	Sachsen US Real Estate GmbH, Leipzig		100.0	68,390	48,322
4	Sachsen LB Verwaltungsgesellschaft mbH & Co. REKIM KG, Leipzig		100.0	10,188	80
5	Zweite Sachsen US Real Estate GmbH, Leipzig		100.0	7,082	-3,415
6	Sachsen LB GVZ Entwicklungsgesellschaft mbH, Leipzig ⁴⁾⁶⁾		100.0	3,132	0
7	SKH Sächsische Kapitalbeteiligungs Holding GmbH, Leipzig ⁶⁾		100.0	2,830	0
8	Sachsen LB FIRKO Betreuungs GmbH & Co. Windpark Zaulsdorf KG, Leipzig		100.0	-365	213
9	Sachsen LB Verwaltungsgesellschaft mbH & Co. Parking KG, Leipzig (ehemalige GVZ Real Estate Automotive GmbH & Co. Parking KG, Leipzig)		100.0	-982	-26
10	Abrosa Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Sachsen I KG, Wiesbaden ⁵⁾⁷⁾		100.0	-4,084	288
11	LIVIDA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Landesfunkhaus Erfurt KG, Erfurt ⁵⁾		99.8	-11,057	-139
12	Viola Grundstücksverwaltungsgesellschaft mbH & Co. Verpachtungs-KG, Stuttgart ⁵⁾		99.4	3,874	533
13	Comtesse Investments Limited, London ⁵⁾		96.6	122,394	231
14	MOLWANKUM Vermietungsgesellschaft mbH & Co. Objekt Landkreis Hildburghausen KG, Düsseldorf (ehemalige Immobilien Vermietungsgesellschaft Knappertsbusch & Co. Objekt Landkreis Hildburghausen KG, Düsseldorf) ⁵⁾⁷⁾		94.0	-1,228	221
15	Kopal Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Löhr's Carré OHG, Mainz ⁵⁾⁷⁾		94.0	-14,428	320
16	Birchin Investments Limited, London ⁵⁾		92.7	189,504	4
17	SLB V.C. GmbH & Co. KG, Leipzig		75.2	10,472	-1,022
18	EastMerchant GmbH, Düsseldorf		66.8	9,582	38,048
19	Dresden Fonds GmbH, Dresden		50.05	2,707	-269
20	M Cap Finance Deutsche Mezzanine Fonds Zweite GmbH & Co. KG, Leipzig		39.8	18,417	3,237
21	M Cap Finance Deutsche Mezzanine Fonds I GmbH & Co. KG, Leipzig		39.8	10,045	2,254
22	Wachstumsfonds Mittelstand Sachsen GmbH & Co. KG, Leipzig		27.6	22,053	552

No	Name, registered office	Held via no.	Percentage of equity held	Equity in € thousands ¹⁾	Net income in € thousands ²⁾
Direct holdings					
23	quirin bank AG, Berlin ⁵⁾		25.0	37,594	-5.346
24	Mittelständische Beteiligungsgesellschaft Sachsen mbH, Dresden ⁵⁾		24.7	22,288	3.720
Indirect holdings					
25	Sachsen LB CFH Unternehmensbeteiligungsgesellschaft mbH, Leipzig ⁸⁾	2	100.0	5,725	95
26	Sontaria Vermögensverwaltungs AG i.L., Leipzig	2	100.0	2,831	363
27	Sachsen DV Betriebs- und Servicegesellschaft mbH, Leipzig	7	100.0	2,970	670
28	SBF Sächsische Beteiligungsfonds GmbH, Leipzig	2	100.0	1,324	1.272
29	PRISMA Projekt- und Investitionsmanagement GmbH, Leipzig	7	100.0	479	209
30	Sachsen LB Service GmbH, Leipzig ⁶⁾	7	100.0	133	0
31	REPAKA Beteiligungs GmbH, Leipzig	7	100.0	48	-4
32	CFH Osteuropafonds GmbH, Leipzig ⁹⁾	2	100.0	15	-10
33	SachsenFonds International Equity I GmbH & Co. KG, Leipzig	2	96.1	16.739	-404
34	PMAM Holdings Limited, London ¹⁰⁾	1	30.0	29.335	-34

- 1) Equity capital as defined in §§266 (3) a and 272 HGB
- 2) Surplus/deficit for the year pursuant to §275 (2) (20) HGB
- 3) Letter of comfort issued by Landesbank Sachsen as per Note 24
- 4) Including a silent partnership stake with subordination agreement in the amount of €2.0m.
- 5) Provisional financial statements
- 6) A profit transfer agreement has been concluded directly or indirectly with the companies marked
- 7) The negative equity arises mainly from the application of special depreciation under the Regional Promotion Act
- 8) Abbreviated financial year from April 24 to December 31, 2007
- 9) Abbreviated financial year from June 5 to December 31, 2007
- 10) Abbreviated financial year from February 13 to September 30, 2007

(11) Statement of changes to fixed assets**Bank:**

– € thousands –	Cost of acquisition/ production Jan. 1, 2007	Additions	Dis- posals	Reclassifi- cations	Depreciation/ amortization and value adjust- ments (cumulative)	Depreciation/ amortization in the fiscal year	Book value	
							Dec. 31, 2007	Dec. 31, 2006
Equity investments	394,118						368,247	389,716
Equity holdings in affiliated companies	363,999						311,773	347,788
Investment portfolio securities	2,796,169						3,323,974	2,882,575
Intangible assets	31,755	4,413	6,292	0	21,204	8,661	8,672	13,885
Property, plant and equipment:								
– Land and buildings including buildings on land not owned of which:	8,172	0	0	0	1,042	186	7,130	7,316
used for own business activity							(181)	(193)
– other plant and office equipment	9,095	125	417	0	7,779	182	1,024	1,082
Total property, plant and equipment	17,267	125	417	0	8,821	368	8,154	8,398
Total fixed assets	3,603,308				Σ 417,512		4,020,820	3,955,711

1) During the fiscal year, securities in the liquidity reserve were reallocated to the investment portfolio. On December 31, 2007, the book value of these securities was €390.0m.

(12) Other assets

The major items shown here are:

– € millions –	Dec. 31, 2007	Dec. 31, 2006
Adjustment items from currency translation	53.3	21.9
Tax reclaims	18.6	9.2
Premiums from derivative transactions	3.2	1.4
Collateral provided for interest rate futures	1.3	1.4
Receivables from profit transfer agreements	4.2	5.7

(13) Deferred items

This item includes the following differences:

– € millions –	Dec. 31, 2007	Dec. 31, 2006
Difference between nominal amount and higher disbursement amount or acquisition cost of receivables	32.4	50.7
Difference between issue amount and higher repayment amount of liabilities	28.5	34.1

(14) Subordinated assets

Subordinated assets are included in receivables from banks to the amount of €1.1m (prior year: €1.1m), in receivables from customers to the amount of €369.7m (prior year: €389.4m), in bonds and other fixed-interest securities to the amount of €184.0m (prior year: €157.2m), and in equities and other non-interest-bearing securities to the amount of €0.6m (prior year: €0.6m).

(15) Calculation of cover for mortgage and municipal lending business

Sachsen LB has issued the following registered and bearer bonds which are covered by receivables and bonds payable by banks and customers as shown below:

– € millions –	Mortgage lending		Municipal lending	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Registered and bearer bonds issued	2.6	22.6	9,687.0	12,763.6
Coverage assets ¹⁾				
Owed by banks	–	–	7,372.1	11,296.9
Owed by customers				
mortgage loans	134.2	152.6	–	–
municipal loans	10.0	10.0	4,407.6	4,867.8
Total	144.2	162.6	11,779.7	16,164.7
Surplus cover	141.6	140.0	2,092.7	3,401.1

1) Receivables, bonds

(16) Disclosure under §28 of the Pfandbrief Act**(16a) Cover assets and mortgage and public-sector Pfandbriefe in circulation:**

– € millions –	Cover assets		Pfandbriefe in circulation		Surplus cover	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Public-sector Pfandbriefe						
Nominal value	11,779.7	16,164.7	9,687.0	12,763.6	2,092.7	3,401.1
Net present value	12,062.4	16,780.9	9,778.5	13,056.3	2,283.9	3,724.6
Risk-adjusted net present value ¹⁾	11,750.4	16,339.0	9,563.7	12,768.5	2,186.7	3,570.5
Risk-adjusted net present value ²⁾	12,019.9	16,743.2	9,778.5	13,056.3	2,241.4	3,686.9
Risk-adjusted net present value ³⁾	12,321.5	17,176.2	10,006.5	13,361.6	2,315.0	3,814.6
Mortgage Pfandbriefe						
Nominal value	144.2	162.6	2.6	22.6	141.6	140.0
Net present value	131.8	149.4	2.6	22.9	129.2	126.5
Risk-adjusted net present value ¹⁾	124.3	137.0	2.5	22.8	121.8	114.2
Risk-adjusted net present value ²⁾	131.0	145.8	2.6	22.9	128.4	122.9
Risk-adjusted net present value ³⁾	138.6	155.9	2.6	23.0	136.0	132.9

The cover assets currently contain no derivatives.

- 1) Positive shift in currency-specific mid-swap rates under § 5(1)(2) of the Pfandbrief Net Present Value Ordinance (PfandBarwertV) and subsequent currency stress tests under § 6 (1) and (2) PfandBarwertV.
- 2) No shift in the currency-specific mid-swap yield curve is assumed. However the foreign currency net present values are subjected to a stress test in accordance with § 6 (1) and (2) (2) PfandBarwertV.
- 3) Negative shift in currency-specific mid-swap rates under § 5 (1) and (2) of the Pfandbrief Net Present Value Ordinance (PfandBarwertV) and subsequent currency stress tests under § 6 (1) and (2) (2) PfandBarwertV.

(16b) Interest rate lock-in periods for cover assets and maturity structure of mortgage and public-sector Pfandbriefe in circulation:

– € millions –	Total amount		< 1 year		1 - 5 years		> 5 - 10 years		> 10 years	
	Dec. 31, 07	Dec. 31, 06	Dec. 31, 07	Dec. 31, 06	Dec. 31, 07	Dec. 31, 06	Dec. 31, 07	Dec. 31, 06	Dec. 31, 07	Dec. 31, 06
Public-sector Pfandbriefe										
Cover assets	11,779.7	16,164.7	4,748.9	4,871.0	5,194.1	8,804.8	1,573.5	2,139.4	263.2	349.5
Pfandbriefe in circulation	9,687.0	12,763.6	3,186.2	3,579.9	4,588.7	6,909.8	1,773.8	2,169.6	138.3	104.3
Mortgage Pfandbriefe										
Cover assets	144.2	162.6	31.4	33.3	19.0	43.5	90.7	83.8	3.1	2.0
Pfandbriefe in circulation	2.6	22.6	0.0	20.0	2.6	2.6	0.0	0.0	0.0	0.0

**(16c) Breakdown by nominal value of cover assets
for mortgage Pfandbriefe:**

Breakdown by size:

– € millions –	Total amount		Below €0.3m		Above €0.3m Below €5m		> €5m	
	Dec. 31, 07	Dec. 31, 06	Dec. 31, 07	Dec. 31, 06	Dec. 31, 07	Dec. 31, 06	Dec. 31, 07	Dec. 31, 06
Cover assets	144.2	162.6	3.7	3.8	60.5	60.7	80.0	98.1

Breakdown by location and type of real estate collateral

– € millions –	Total amount		Germany		Netherlands	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Residential property	10.2	18.0	10.2	18.0	0.0	0.0
of which apartments	0.1	0.5	0.1	0.5	0.0	0.0
of which single-family houses	0.6	0.6	0.6	0.6	0.0	0.0
of which multi-family buildings	9.5	16.9	9.5	16.9	0.0	0.0
Commercial property	124.0	134.6	124.0	128.4	0.0	6.2
of which offices	49.8	52.8	49.8	52.8	0.0	0.0
of which retail	51.3	58.8	51.3	52.6	0.0	6.2
of which industrial	7.1	7.6	7.1	7.6	0.0	0.0
of which other commercial property	15.8	15.4	15.8	15.4	0.0	0.0
Other cover assets	10.0	10.0	10.0	10.0	0.0	0.0
Total	144.2	162.6	144.2	156.4	0.0	6.2

There are no arrears outstanding more than 90 days on the receivables shown (prior year: €0.0m).

**(16d) Further details on receivables
covering mortgage Pfandbriefe:**

– € millions –	Commercial		Residential	
	2007	2006	2007	2006
Total amount of mortgage repayments made in the fiscal year	7.5	6.6	0.9	1.2
of which redemption payments	7.3	6.5	0.3	1.2
of which other repayments	0.2	0.1	0.6	0.0

(16e) Breakdown by nominal value of cover assets for public-sector Pfandbriefe

Breakdown by registered office of borrower or guarantor (in € millions):

Country	Total amount		Country		Regional authorities		Local authorities		Other	
	Dec. 31, 07	Dec. 31, 06	Dec. 31, 07	Dec. 31, 06	Dec. 31, 07	Dec. 31, 06	Dec. 31, 07	Dec. 31, 06	Dec. 31, 07	Dec. 31, 06
Germany	11,411.5	15,715.8	551.0	542.5	4,297.1	5,314.1	333.6	419.3	6,229.8	9,439.9
Spain	122.1	134.7	30.3	31.9	91.8	102.8	0.0	0.0	0.0	0.0
Italy	60.3	51.0	25.3	16.0	35.0	35.0	0.0	0.0	0.0	0.0
Greece	60.0	89.9	60.0	89.9	0.0	0.0	0.0	0.0	0.0	0.0
Austria	56.1	118.5	6.1	8.3	0.0	0.0	0.0	0.0	50.0	110.2
Hungary	26.5	22.3	26.5	22.3	0.0	0.0	0.0	0.0	0.0	0.0
Iceland	20.0	0.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finland	10.1	11.3	10.1	11.3	0.0	0.0	0.0	0.0	0.0	0.0
Luxembourg	5.7	18.7	0.0	0.0	0.0	0.0	0.0	0.0	5.7	18.7
Poland	5.0	0.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portugal	2.4	2.5	2.4	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Total	11,779.7	16,164.7	736.7	724.7	4,423.9	5,451.9	333.6	419.3	6,285.5	9,568.8

The receivables shown include €0.2m (prior year: €0.2m) with arrears outstanding more than 90 days. The registered office of the borrower or guarantor is in Germany.

(17) Other liabilities

The major items shown here are:

– € millions –	Dec. 31, 2007	Dec. 31, 2006
Liabilities under payment undertaking agreements	1,227.7	1,403.2
Deferred interest charges for subordinated capital and profit sharing certificates and dormant partner contributions	5.0	74.8
Liabilities under securities transactions	29.2	56.9
Premiums received and income deferred from derivative transactions	3.4	1.9

(18) Deferred items

Deferred items includes an amount for the difference between the nominal value and the lower disbursement amount or acquisition costs of receivables of €15.8m, (prior year: €17.9m) for the bank.

(19) Provisions for deferred taxes

Sachsen LB has no provisions for deferred taxes to report.

(20) Subordinated liabilities

Below is a list of the borrowings which exceed 10% of the total amount of subordinated liabilities:

Amount in millions	Currency	Interest rate	Maturity
75.6	€	5.033 % p.a.	Jan. 17, 2030
50.0	€	4.770 % p.a.	Jan. 23, 2031
50.0	€	5.020 % p.a.	Apr. 25, 2031

Sachsen LB has no obligation to make early repayment of the subordinated liabilities shown above. In the event of liquidation or bankruptcy, the claims and interest due arising from these liabilities are subordinate to the claims of all creditors of Sachsen LB who are not also subordinated. These provisions also apply to those subordinated borrowings not listed individually above. The subordinated liabilities are intended to be used as supplementary capital and meet the terms of §10 (5a) KWG (Banking Act); the maximum original maturity is currently 40 years.

Interest expenses for all subordinated liabilities of the bank were €19.3m (prior year: €20.8m). This includes deferred interest not yet due amounting to €4.8m (prior year: €6.3m), reported under "Other Liabilities."

(21) Profit sharing certificates

Of the profit sharing certificates issued by Sachsen LB in the amount of €473.4m, €338.5m meet the requirements of §10 (5) KWG (Banking Act) and have maturities running to between 2009 and 2014. They guarantee an annual distribution based on the individual agreed interest rates. According to the terms of the contract, the distribution is not permitted to result in a loss at Sachsen LB. For this reason, no distribution was made in fiscal 2007.

(22) Changes in equity

As of December 31, 2007, the subscribed capital of Sachsen LB was €858.3m (prior year subscribed capital: €858.3m). The subscribed capital of Sachsen LB comprises the share capital and dormant partner contributions. The share capital of Sachsen LB AG amounts to €305.0m and is divided into 305,000,000 no-par value shares. The shares are registered shares.

€553.3m (prior year: €553.3m) is attributable to contributions by dormant partners. According to the terms of the contract, the distribution on dormant partner contributions is not permitted to result in a loss at Sachsen LB. For this reason, no distribution was made in fiscal 2007.

The capital reserves and revenue reserves totaled €559.1m (prior year: €526.0m). Of the distributable net income for the period ending December 31, 2006, a 6.5% distribution on ordinary capital (before the capital increase) was paid and the remaining €33.2m was allocated to other retained earnings.

– € thousands –	Share capital	Dormant partner contributions	Capital reserves	Reserves-pursuant to articles	Other retained earnings	Distributable net income	Total 2007
Amount as of Jan. 1, 2007	304,941	553,313	380,593	18,226	127,133	53,000	1,437,206
Appropriation of 2006 net income:							
– Allocations to reserves	0	0	0	0	33,179	-33,179	0
– Distribution	0	0	0	0	0	-19,821	-19,821
Additions in 2007	59	0	407	0	18,226	0	18,692
Disposals in 2007	0	0	0	-18,226	-466	0	-18,692
Amount as of Dec. 31, 2007	305,000	553,313	381,000	0	178,072	0	1,417,385

The supplementary capital comprises subordinated liabilities and profit sharing certificates.

Statement pursuant to § 20 (4) AktG (German Stock Corporation Act)

LBBW has issued the following statement:

“In accordance with § 20 (4) AktG (German Stock Corporation Act), we, Landesbank Baden-Württemberg, Am Hauptbahnhof 2, 70173 Stuttgart, Germany, hereby notify you that we hold a majority interest in your company. Landesbank Baden-Württemberg holds 62.94% of the shares of Landesbank Sachsen Aktiengesellschaft in trust for the Sachsen-Finanzgruppe and 37.04% of the shares of Landesbank Sachsen Aktiengesellschaft in trust for the Free State of Saxony.”

(23) Assets pledged for own liabilities

Sachsen LB has issued a declaration of pledge covering securities with a total nominal value of €23,953.3m (prior year: €13,717.6m) for liabilities to the Deutsche Bundesbank from short-term open-market transactions and for liabilities to other banks.

Moreover, securities with a nominal value of €12.6m (prior year: €12.6m) were deposited to secure liabilities to customers (EUREX transactions).

(24) Off-balance sheet and contingent liabilities

The list of equity interests (Note 10) indicates the subsidiaries for which Landesbank Sachsen has guaranteed that they will meet their contractual obligations. In accordance with this list, Sachsen LB has issued a letter of comfort in respect of Sachsen LB Europe plc. A quantification of the possible obligations arising from the letter of comfort for Sachsen LB Europe plc was not possible in past years and is not possible currently, because the letter of comfort covers not only specific amounts of current liabilities of Sachsen LB Europe plc, but also includes any future obligations, the occurrence of which cannot be predicted.

Although the statutory duty of information is limited to a statement of the existence of the letter of comfort, we also provide an explanation of the structures that could lead to liability risks relating to Sachsen LB Europe plc.

Sachsen LB Europe plc assumes a number of responsibilities that involve management of the following conduits in its role as an agent and asset manager:

Conduit

– € millions –	Volume under management/ reference portfolio		Irrevocable loan commitments	Utilization
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Ormond Quay (including Eden, Ellis, Merchants Quay)	12,766	14,652	199	528
Georges Quay	5,132	6,000	0	400
Sachsen Funding	1,504	0	0	534
Castle View	2,871	0	10	391

Due to its asset management activities, Sachsen LB Europe plc is subject to risks, including risks arising from the performance in compliance with contracts of asset management within the framework of specified portfolio guidelines, specified funding responsibilities, proper obtaining of quotes, and adherence to trigger mechanisms implemented in the conduits.

In addition to these general duties of care to which asset managers are subject, Sachsen LB Europe plc is also obligated under an issuer valuation agreement in the Ormond Quay contract to reimburse disposal losses exceeding the 4% liquidity facility provided by Sachsen LB AG in the event of non-adherence to specified triggers with which it must comply. In well-functioning markets, this posed purely operating risks and as a "breach of duty" clause represented a pure guarantee risk, which was not a factor in the past. However, since the market crisis in the second half of 2007, it became clear that in the event of a market failure, Sachsen LB AG could under certain circumstances be obligated to provide funding to avoid emergency sales not justifiable in financial terms and therefore to carry the risk of the Ormond Quay conduit. Due to the nearly exclusive funding of the Ormond Quay structure via repo transactions by Sachsen LB and LBBW, these risks were reported as part of facilities already reflected in the balance sheet under "Receivables from customers" and the irrevocable loan commitments were reported under "Other commitments" as of December 31, 2007. Upon return of the repo transactions by LBBW (rollover dates currently from mid-February to the end of April), Sachsen LB Europe plc could be required to produce up to €9.4bn in liquidity if the market situation remains unchanged.

As of December 31, 2006, the material funding for the Ormond Quay conduit (including Eden, Ellis, Merchant Quay) came from commercial paper. Sachsen LB provided liquidity facilities for these conduits in the amount of €507m. The volume of the Ormond Quay structure, which stands in contrast to the theoretical maximum risk from a breach of duty violation for whose occurrence no indications existed at that point or in the previous years, amounted to a maximum of €14.7bn. Due to existing escalation mechanisms as part of daily pricing and portfolio monitoring, a risk of loss was not evident while the markets were functioning.

Sachsen LB has also assumed liabilities totaling around €43.3m in relation to nine special purpose vehicles in addition to its limited partner interests.

Sachsen LB has agreed to compensate guarantors of DekaBank Deutsche Girozentrale for any payments made on the basis of their guarantor liability in proportion to Sachsen LB's equity stake.

Sachsen LB has granted a put option to the limited partners of a company for their partnership shares at a price of €5.9m on December 15, 2011. Sachsen LB is entitled to transfer fulfillment of the put option to the personally liable partner or a third party named by that partner, provided that this does not compromise the limited partners' put option.

Sachsen LB has released 30 general managers and advisors of certain investment companies from liability in relation to performing activities that are in the interests of Sachsen LB. The general managers and advisors worked or are working for eight companies.

(25) Other financial undertakings

Sachsen LB has given undertakings which are callable at any time to make KG (German limited partnership) and GmbH (German private limited company) contributions of up to €26.5m in respect of affiliated companies and €27.3m in respect of other investment companies. In February 2008, Sachsen LB contributed additional capital in the amount of €100m to Sachsen LB Europe plc.

Rental and leasing agreements signed by Sachsen LB for land and buildings and equipment and fittings give rise to the obligation to pay approximately €9.4m annually over the next nine years; these relate mainly to the new Löhr's Carré bank building in Leipzig.

Contributions to the Guarantee Fund for Landesbanks and Central Giro Institutions were recalculated using risk-oriented parameters. This resulted in an obligation to contribute an additional €4.6m over the next four years in order to reach the target amount to be paid in (1/3 of total volume based on the risk-oriented calculation of contributions). If an institution needs to be supported, the additional payments can be called in immediately.

Sachsen LB is subject for the first time to debtor warrant obligations from distributions not made on profit sharing rights and dormant partner contributions totaling €68.5m.

> Notes on the Income Statement

(26) Income by geographic market

Sachsen LB generates the majority of revenues within Europe.

(27) Net loss/income from financial transactions

The proprietary trading activities of Sachsen LB gave rise to a trading result that mainly came from transactions in derivatives and securities at €-47.9m (prior year: €6.9m), promissory notes at €4.9m (€0.3m), and currencies at €2.9m (prior year: €2.2m).

(28) Other operating income and expenses

The other operating income of Sachsen LB largely comprised income from releasing provisions of €1.6m (prior year: €0.8m), rental income of €1.6m (prior year: €1.4m), and payments for services of €1.2m (prior year: €2.0m).

Other operating expenses of Sachsen LB included leasing expenses of €3.0m (prior year: €2.9m).

(29) Depreciation/amortization and value adjustments on intangible and fixed assets

Sachsen LB has no depreciation/amortization on fixed assets that can be exclusively attributed to the leasing business.

(30) Extraordinary income

Landesbank Baden-Württemberg paid the shareholders of Sachsen LB (Sachsen-Finanzgruppe and the Free State of Saxony) anticipated cash compensation of €250.0m that the shareholders of Sachsen LB made available as an earnings injection. This amount is reported as extraordinary income. In addition, LBBW also made available an earnings injection of €391.4m.

(31) Income taxes

Income from income taxes resulted from refunds for prior years.

(32) Administrative and brokerage services

Sachsen LB provides services to affiliated savings banks in connection with the administration of pass-on loans and securities custody accounts.

> Other Information**(33) Average number of employees for the year**

	2007			2006
	Male	Female	Total	Total
Bank				
Employees	182	177	359	341
Trainees	5	9	14	13
Total	187	186	373	354

(34) Remuneration of and loans to the corporate bodies

In fiscal 2007, the total remuneration of the Board of Management of Sachsen LB was €1,758 thousand. The total remuneration for members of the Board of Management who have been recalled or have stepped down amounted to €890 thousand. The total remuneration of the Supervisory Board and its committees up to October 25, 2007 was €67 thousand, while that of the Supervisory Board after October 26, 2007 was €6 thousand.

Pension obligations to former members of the Board of Management were set aside in the amount of €8,465 thousand as of December 31, 2007.

As of the balance sheet date, no loans had been extended to members of the Board of Management or members of the Supervisory Board.

(35) Auditors' fee

The auditors' fee for the 2007 fiscal year was treated as an expense and is broken down for Sachsen LB as follows:

– € thousands –	2007
Fee for	
– financial statement audits (including IFRS)	2,727.4
– other certification and valuation services	3,840.9
– tax advisory services	185.7
– other services	199.1
Total	6,953.1

(36) Other board positions held by company officers

On the balance sheet date, company officers held seats on the management and supervisory boards of the following large companies (§§340a (4) 1 and 267 (3) HGB (Commercial Code)) and other key board positions (§ 125 (1) sentence 3 AktG (Stock Corporation Act)):

Members of the Board of Management:**Joachim Hoof:**

Klinikum Hoyerswerda GmbH, Hoyerswerda	Supervisory Board
Sparkassen-Versicherung Sachsen, Dresden	Supervisory Board
– Holding AG	
– Allgemeine Versicherung AG	
– Lebensversicherung AG	
Sächsische Lotto-GmbH, Leipzig	Supervisory Board
Sächsische Spielbanken-GmbH & Co. KG, Leipzig	Supervisory Board
SAB Sächsische Aufbaubank-Förderbank, Dresden	Supervisory Board
DSGF Deutsche Servicegesellschaft für Finanzdienstleister mbH, Köln	Supervisory Board

Harald R. Pfab:

EastMerchant GmbH, Düsseldorf	Supervisory Board
Bürgschaftsbank Sachsen mbH, Dresden	Supervisory Board
DekaBank Deutsche Girozentrale, Frankfurt	Supervisory Board
SachsenFonds Holding GmbH, Haar	Supervisory Board
EEX European Energy Exchange AG, Leipzig	Supervisory Board
Bürgerliches Brauhaus Ravensburg-Lindau	Supervisory Board

Wolf-Dieter Ihle:

PMAM Holdings Limited, Großbritannien	Supervisory Board
Pall Mall Investment Management Limited, Großbritannien	Supervisory Board
quirin bank AG, Berlin	Supervisory Board
EEX European Energy Exchange AG, Leipzig	Supervisory Board
Sachsen LB Europe plc, Irland	Board of Directors
Sachsen DV Betriebs- und Servicegesellschaft mbH, Leipzig	Supervisory Board
BW Capital Markets, Inc., USA	Board of Directors
Baden-Württemberg L-Finance N.V., Niederlande	Supervisory Board
Sotrada AG, Stuttgart	Supervisory Board

> Corporate Bodies of Landesbank Sachsen Girozentrale

(until the change of legal form on October 26, 2007)

The corporate bodies of Landesbank Sachsen Girozentrale are the Board of Management, the Supervisory Board, and the Assembly of Shareholders.

Board of Management

Joachim Hoof (from September 15, 2007)	Chairman of the Board of Management
Harald R. Pfab (from September 4, 2007)	Member of the Board of Management
Wolf-Dieter Ihle (from August 30, 2007)	Member of the Board of Management
Herbert Süß (until September 15, 2007)	Chairman of the Board of Management
Dr. Yvette Bellavite-Hövermann (until August 30, 2007)	Member of the Board of Management
Werner Eckert (until August 30, 2007)	Member of the Board of Management
Stefan Leusder (until August 23, 2007)	Member of the Board of Management

Supervisory Board

Regular members of the Supervisory Board

Stanislaw Tillich (from October 1, 2007) Saxon State Finance Minister, Dresden (Chairman)	Prof. Dr. Andreas Schramm District Administrator of the Mittweida District, Mittweida, (Deputy Chairman)
Benedikt Niemeyer Chief Executive Officer Schmolz + Bickenbach, Düsseldorf	Thomas Jurk Saxon State Minister for the Economy and Labor, Dresden
Claus Friedrich Holtmann (from February 1, 2007) President and Managing Director of the Association of East German Savings Banks, Berlin	Ronald Weckesser City Councillor of the State Capital Dresden Member of the Saxon State Parliament, Dresden
Hermann Winkler State Minister and Head of the Saxon State Chancellery (retired), Dresden	Prof. Dr. Reimund Neugebauer President of the Fraunhofer Institute, Chemnitz

Reiner Grimm

Chairman of the Board of Management of Sparkasse
Chemnitz, Chemnitz

Ingolf Roßberg

Mayor of the State Capital Dresden,
Dresden

Petra Kockert

District Administrator of the Kamenz District, Kamenz

Dirk Lindner* (from May 31, 2007)

Director, Sachsen LB, Leipzig

Christine Boragk* (from May 31, 2007)

Director, Sachsen LB, Leipzig

Michael Czupalla

Chairman of the Association of East German Savings
Banks

District Administrator of the Delitzsch-Eilenburg
District, Delitzsch

Burkhard Jung

Mayor of the City of Leipzig, Leipzig

Michael Geisler

District Administrator of the Sächsische Schweiz
District, Pirna

Friedhelm Schutt* (from May 31, 2007)

Director, Sachsen LB, Leipzig

Andrea Haas* (from May 31, 2007)

Director, Sachsen LB, Leipzig

Deputy members of the Supervisory Board

Christian Schramm

Mayor of the City of Bautzen, President of the
Conference of Saxon Cities and Municipalities,
Bautzen

Mario Pecher (from May 31, 2007) Spokesman

for Economic Policy of the SPD Parliamentary
Group in the Saxon State Parliament, Zwickau

Arthur Scholz

Chairman of the Board of Management of Sparkasse
Vogtland, Plauen

Uwe Leonhardt

Gebr. Leonhardt & Co. KG, Aue

Albrecht Kohlsdorf

District Administrator of the Mittlere Erzgebirge
District, Marienberg

Petra Köpping

District Administrator of the Leipziger Land District,
Borna

Prof. Gunter Bolick

Member of the Saxon State Parliament, Glauchau

Horst-Dieter Brähmig

Mayor of the City of Hoyerswerda (retired),
Hoyerswerda

Andrea Fischer

State Secretary in the Saxon State Chancellery
(retired), Dresden

Detlev Nonnen

Mayor and Treasurer of the City of Chemnitz,
Chemnitz

*Employee representatives

Michael Grötsch
City Councillor of the State Capital Dresden, Dresden

Axel Hübner* (from May 31, 2007)
Team Leader, Sachsen LB, Leipzig

Bernd Greif
District Administrator of the Weißeritzkreis District,
Dippoldiswalde

Karl Matko
District Administrator of the Aue-Schwarzenberg
District, Aue

Stephan Zerbe* (from May 31, 2007)
Director, Sachsen LB, Leipzig

Robert Schöpp
District Administrator of the Torgau-Oschatz
District, Torgau

Iris Scheibe* (from May 31, 2007)
Director, Sachsen LB, Leipzig

Jenny Maurer* (from May 31, 2007)
Director, Sachsen LB, Leipzig

Assembly of Shareholders

Members

Stanislaw Tillich (from October 1, 2007)
Saxon State Finance Minister, Dresden (Chairman)

Thomas Jurk
Saxon State Minister for the Economy and Labor,
Dresden

Hermann Winkler
State Minister and Head of the Saxon State
Chancellery (retired), Dresden

Michael Grötsch
City Councillor of the State Capital Dresden,
Dresden

Prof. Dr. Andreas Schramm
District Administrator of the Mittweida District,
Mittweida (Deputy Chairman)

Burkhard Jung
Mayor of the City of Leipzig, Leipzig

*Employee representatives

Members of the corporate bodies stepping down in 2007:

Supervisory Board

Regular members

Dr. Horst Metz (until September 30, 2007)
Saxon State Finance Minister (retired), Dresden,
(Chairman)

Joachim Hoof (until September 4, 2007)
Chairman of the Board of Management of
Sachsen-Finanzgruppe

Catrin Kullmann* (until May 30, 2007)
Director, Sachsen LB, Leipzig

Jörg-Udo Veldten* (until May 30, 2007)
Executive Director, Sachsen LB, Leipzig

Rainer Voigt (until December 31, 2006)
President and Managing Director of the Association
of East German Savings Banks (retired), Berlin

Dr. Matthias Röbler (until October 14, 2007)
Member of the Saxon State Parliament, Dresden

Wieland Hiller* (until May 30, 2007)
Director, Sachsen LB, Leipzig

Achim Eißler* (until May 30, 2007)
Director, Sachsen LB, Leipzig

Deputy members

Christoph Habermann (until May 30, 2007)
State Secretary in the Saxon State Ministry for the
Economy and Labor (retired), Dresden

Peter Krakow (until August 31, 2007)
Chairman of the Board of Management of Stadt-
und Kreissparkasse Leipzig (retired), Leipzig

Dorit Freier* (until May 30, 2007)
Director, Sachsen LB, Leipzig

Claus Friedrich Holtmann (until January 31, 2007)
President of the Association of East German Savings
Banks, Berlin

Maria Stelzner* (until May 30, 2007)
Director, Sachsen LB, Leipzig

Katrin Lischke* (until May 30, 2007)
Team Leader, Sachsen LB, Leipzig

Assembly of Shareholders

Dr. Horst Metz (until September 30, 2007)
Saxon State Finance Minister (retired), Dresden,
(Chairman)

Joachim Hoof (until September 4, 2007)
Chairman of the Board of Management of Sachsen-
Finanzgruppe, Leipzig

*Employee representatives

> Corporate Bodies of Landesbank Sachsen Aktiengesellschaft

Board of Management

Joachim Hoof (from October 17, 2007)	Chairman of the Board of Management
Harald R. Pfab (from October 17, 2007)	Member of the Board of Management
Wolf-Dieter Ihle (from October 17, 2007)	Member of the Board of Management
Herbert Süß (July 16, 2007 until recall on October 17, 2007)	Chairman of the Board of Management
Dr. Yvette Bellavite-Hövermann (July 16, 2007 until recall on October 17, 2007)	Member of the Board of Management
Werner Eckert (July 16, 2007 until recall on October 17, 2007)	Member of the Board of Management
Stefan Leusder (July 16, 2007 until recall on October 17, 2007)	Member of the Board of Management

Supervisory Board

Regular members

Stanislaw Tillich (from October 17, 2007) Saxon State Finance Minister, Dresden (Chairman)	Thomas Jurk (from November 29, 2007) Saxon State Minister for the Economy and Labor, Dresden
Burkhard Jung (from July 16, 2007) Mayor of the City of Leipzig, Leipzig	Volker Uhlig (from July 16, 2007) District Administrator of the Freiberg District, Freiberg (Deputy Chairman)
Dr. Harald Langenfeld (from October 17, 2007) Chairman of the Board of Management of Sparkasse Leipzig, Leipzig	Christine Boragk (from July 16, 2007) Director, Sachsen LB, Leipzig

Members of the Supervisory Board stepping down in 2007:

Regular members

Dr. Horst Metz

(July 16, 2007 until resignation on September 30, 2007)

Saxon State Finance Minister (retired),
Dresden (Chairman)

Joachim Hoof

(July 16, 2007 until resignation on September 4, 2007)

Chairman of the Board of Management of
Sachsen-Finanzgruppe, Leipzig

Wolf Karl Reidner

(July 16, 2007 until resignation on November 29, 2007)

Director in the Saxon State Ministry of Finance,
Dresden

General Meeting

The shareholders of the company are represented at the General Meeting.

The founders of Landesbank Sachsen Aktiengesellschaft are the Free State of Saxony and Sachsen-Finanzgruppe.

Sachsen-Finanzgruppe and the Free State of Saxony (trustors) transferred their shares of Landesbank Sachsen Aktiengesellschaft (trust assets) to LBBW (trustee) by way of a trust agreement dated October 25, 2007.

Leipzig, March 10, 2008

The Board of Management



Harald R. Pfab



Wolf-Dieter Ihle

Independent Auditors' Report

We have audited the financial statements comprising the balance sheet, the income statement, and the notes to the financial statements, together with the accounting and the management report of Landesbank Sachsen AG, Leipzig, (formerly Landesbank Sachsen Girozentrale, Leipzig) for the fiscal year from January 1 to December 31, 2007.

Maintaining the accounts and preparing the financial statements and management report in accordance with the German Commercial Code are the responsibility of the bank's Board of Management. Our responsibility is to express an opinion on the financial statements, including the accounting, and on the management report based on our audit.

We conducted our audit of the financial statements in accordance with §317 of the German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, and results of operations in the financial statements in accordance with the applicable financial reporting framework and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company 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 accounting, the financial statements, and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the financial statements and the 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 financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with the principles of proper accounting. The management report is consistent with the financial statements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

It is our duty to draw attention to the fact that the continued existence of the company and/or the planned takeover by LBBW are at risk as described in the "Risks of future development" section of the "Forecast report" in the management report if the support measures agreed to date, particularly the guarantee agreement for a fixed liability guarantee by the Free State of Saxony dated December 28, 2007, are not approved by the European Commission.

Leipzig, March 11, 2008
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Roman Berninger
Auditor



ppa. Wolfgang Thomas
Auditor

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable financial reporting framework, the single-entity financial statements give a true and fair view of the net assets, financial position, and result of operations of Sachsen LB, and the management report gives a true and fair view of the development and performance of the business and the position of the bank, together with a description of the principal opportunities and risks relating to the expected future development of Sachsen LB.

Leipzig, March 10, 2008

The Board of Management



Harald R. Pfab



Wolf-Dieter Ihle

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