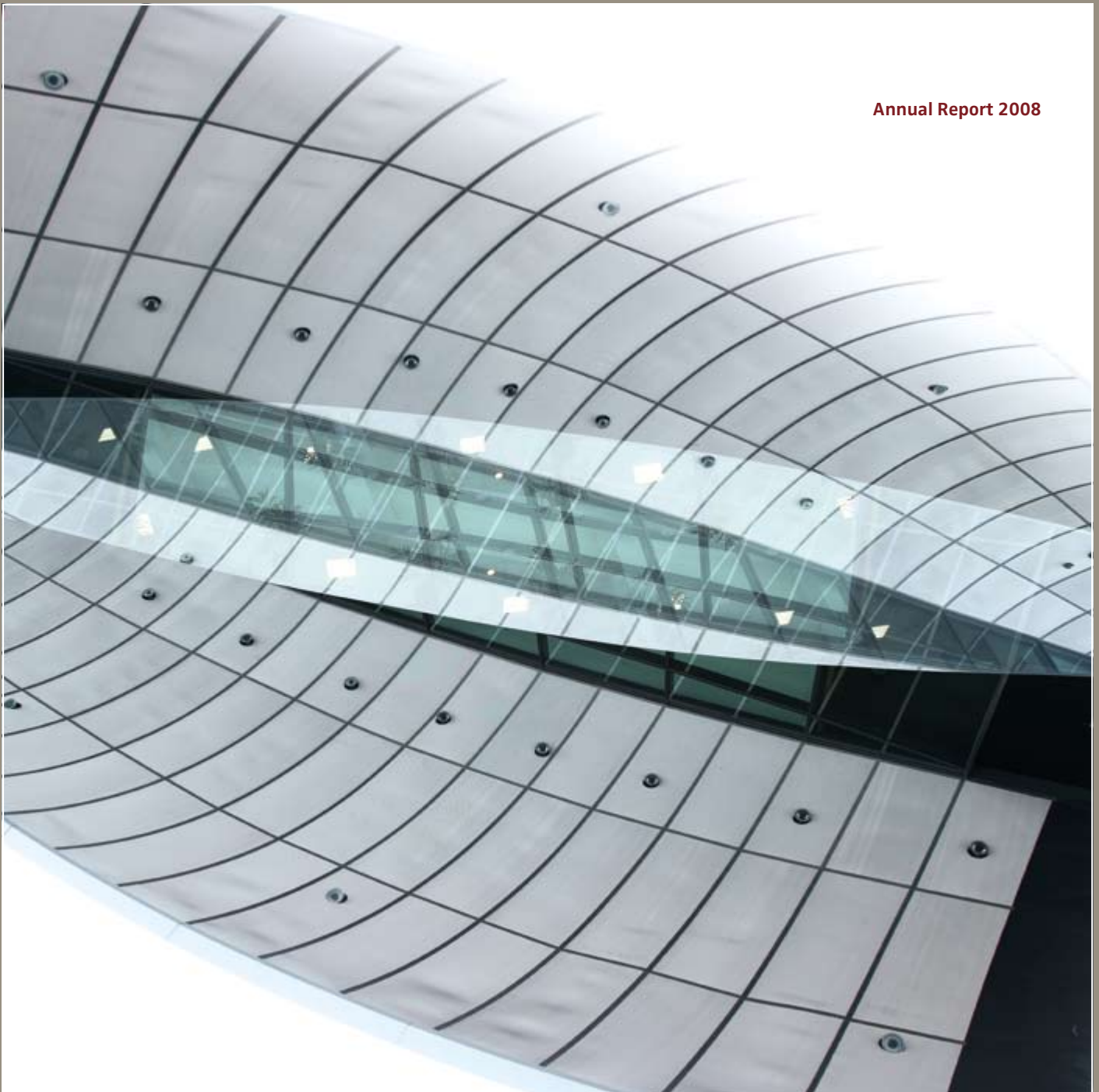


Annual Report 2008



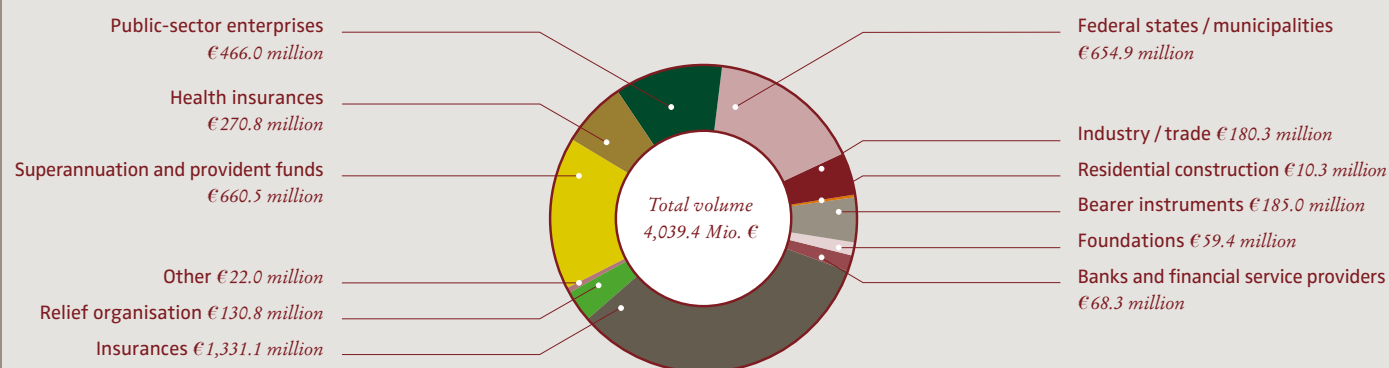
VALOVIS  
BANK  
PFANDBRIEFBANK

## AT A GLANCE

€ thousand		2008	2007
<b>Notes on balance sheet</b>	Total assets	5,804,232	5,610,429
<b>Other notes on balance sheet</b>	Receivables secured by mortgages	1,715,914	1,586,267
<b>Notes to income statement</b>	Net interest income	41,176	29,827
	General administrative expenses	-15,561	-13,593
	Earnings before taxes	-47,108	13,148
	Earnings after taxes	-42,091	6,046

## CREDITOR STRUCTURE

in € million as at 31 December 2008



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## TO OUR SHAREHOLDERS

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# THE BOARD OF MANAGING DIRECTORS

## Robert K. Gogarten

*Chairman of the Board of Managing Directors, born 1943*

*After completing his education, Robert Gogarten started his career in the Finance Management of the Ford Group in 1965. In 1976 he joined the Frankfurt branch office of the Bank of Montreal as member of the local management. In 1979 he was appointed to the General Management of Westfalenbank International in Luxembourg, before starting to work as Group Treasurer at Berliner Bank AG, Berlin. In 1987 he was appointed Executive Manager and member of the extended Board of Managing Directors. He was appointed to the Board of Managing Directors of Westfalenbank AG, Bochum, in 1990. At mid-year 1997 he took up his work as Managing Director of Bayerische Hypotheken- und Wechselbank AG, later on as head of the division multinational companies and the regional division Western Europe at the merged Bayerische HypoVereinsbank AG, Munich. In April 2000 he was appointed to the Board of Düsseldorfer Hypothekenbank AG. Up to his appointment as Chairman of the Board of Managing Directors in October 2006 he had been senior member of the Board of Managing Directors of VALOVIS BANK AG since December 2001.*

## Wolfgang Nitsche

*Member of the Board of Managing Directors, born 1954*

*After completing his bank traineeship, Wolfgang Nitsche took up his studies of economics in Wuppertal in 1974, focusing on finance and investment. From 1981 to 1988, after his trainee period at the BfG Bank, he was deployed as loan officer in different lending divisions of the bank. In 1988 he assumed the task of setting up a real estate financing office for the Norddeutsche Landesbank. He started as branch manager at the DePfa Bank AG in Frankfurt in 1992. He changed to the SEB AG (formerly BfG Bank) in 2000. At first he was assigned as head of the branch office in Cologne, changing to Düsseldorf in 2003, where he was responsible for the commercial real estate business in North Rhine-Westphalia. His nomination to the Board of Managing Directors of VALOVIS BANK AG came in February 2007.*

# FOREWORD OF THE CHAIRMAN OF THE BOARD

*Largest upheaval ever  
in the banking system*

The entire banking system currently finds itself in the midst of the largest upheaval ever after the sub prime crisis that emerged in 2007 developed into a worldwide financial crisis in 2008, comprising almost all branches of industry and ending up in a global recession. Renowned investment banks collapsed due to insolvency or take-overs. Some of the largest groups of the so-called real economy – which, in our opinion, also includes the banks even though this clashes with neo-classical economics – are in great difficulty, often even facing their disintegration. If, in times like these, a Pfandbrief and Factoring Bank focuses on its core operating competencies and discontinues a highly volatile division such as Asset Management, however intensifying its consumer factoring business, it is a necessary step and in fact the only appropriate consequence for VALOVIS BANK in this environment.

*Practical standstill of  
interbank dealings*

Although neither the Lehman insolvency nor the Madoff fraud led to any damage worth mentioning for our Bank, the practical standstill of interbank dealings is the result of an indirect concern felt by even those banking institutes which are not among the causative factors of the financial crisis; nevertheless, investors' confidence is as high as ever. Liquidity procurement is now limited to the extent that new loan business had either to be noticeably restricted or extended under reservations more often than in the past. Without functioning markets this circular argument of a downswing can, in the last resort, only be countered by taking recourse to state guarantees, which will become the ultimo ratio in the struggle for survival of the banking industry if the crisis continues.

Nevertheless, VALOVIS BANK strengthened its economic and ecologic sustainability regarding the long-term orientation of its lending business in 2008, by placing its focus on the financing of renewable sources of energy. On the back of the dwindling non-renewable resources we consider this to be one of the most significant markets of the future, which cannot be neglected regardless of all crisis scenarios.

*Focus on the financing of  
renewable sources of energy*

In 2008 we were again able to increase our staff (around 18 %), which is an expression of confidence in our corporate strategy in view of the general environment.

*Growth in staff (around 18 %)*

On behalf of the team of directors

Yours,



Robert K. Gogarten

# REPORT OF THE SUPERVISORY BOARD

## **Development of the business segments**

Like many other banks, VALOVIS BANK was faced with extraordinary challenges in 2008 with the beginning of the financial crisis, which were essentially marked by the difficult liquidity procurement in an idle interbank market. Once more the extensive non-involvement in the high-risk and highly volatile derivative business has proven to be a temporary waiver of top yields. The concentration on the core business segments, however, was indispensable for the security of the Bank. The drawing of a backup line in November 2008 created a sound cushion for the prospective safeguarding of liquidity, one of the essential prerequisites for the Bank to be able to hold firm with respect to the securities despite the wounds usual in the market in the year 2008.

*Concentration on the  
core business segments*

As a consequential answer to the overall development and due to the strongly increased volatility in the markets, the Bank discontinued the segment Asset Management.

*Discontinuation of segment  
Asset Management*

In real estate financing the new lending business generated loans amounting to around € 300 million, leading to an inventory build-up by approx. € 130 million to a total of € 1,676 million, when offset against loan repayments. However, the fact that the new lending business thus remained slightly under plan was neither the fault of an insufficient marketing performance nor the lacking demand for financing. Rather it was caused by the extremely difficult liquidity procurement due to which the refinancing costs rocketed to amounts so far unknown to clients. In addition, the cautious use of liquidity conditioned by the situation resulted in the rejection or postponement of numerous commitments.

*Raising liquidity  
extremely difficult*

Nevertheless, the cover funds were strengthened, accompanied by a reduction of the Pfandbrief volume share in the further coverage to less than 20 %. An examination of the cover funds as well as of the deposit insurance fund did not give rise to any findings worth mentioning.

*Strengthening of the cover funds*

The commissioning of an external service provider to complete the offer of non-recourse and recourse factoring services for third parties led to an expansion of the product range in the Factoring segment. The conditions for an expansion of business activities tailored to suit the needs of the market have thus been created.

The activities of the sub-segment Consumer Factoring were expanded by the purchase of bad debt portfolios from the mail order business. This will currently deepen the expertise within the Factoring segment, thus enabling the Bank to also expand the third party business in this area. In this context the Bank paved the way for the takeover of the staff of the originator in 2008, who cooperate directly with the respective collection agencies. Owing to the lapse of the present repurchase option of the originators concerning the bad debt receivables, the respective payments will in future be fully collected by the Bank as factor via the commissioned collection agencies.

*Expansion of the activities in the segment Consumer Factoring*

The introduction of the IT system "Front Arena" expanded the system environment by one instrument for the improvement and management of risk controlling within the Bank, which is to support the Bank's management on the medium term.

As in the previous year the Supervisory Board monitored all significant activities of the Bank on a timely basis, gave the required advice and discussed alternatives and /or recommendations for operational measures. Apart from its formal meetings, the Supervisory Board was kept informed by the Chairman of the Board of Managing Directors in person or by telephone, on a regular and ad hoc basis, or in writing on individual issues, and made urgent decisions by the circulation procedure. The following subjects, among other issues of special significance, were discussed in the meetings of the Supervisory Board, or decisions of the Board of Managing Directors were approved as moved:

*Subjects of particular significance*

Meeting of the Supervisory Board on:

- |                          |  |
|--------------------------|--|
| <b>29 April 2008</b>     | Course of business in the Q1 of 2008; planning of a Bank Management reporting system as well as a Management Cockpit   |
| <b>11 June 2008</b>      | Funding situation of the Bank; course of business up to 31 May 2008; discussion of a possible separation of the Factoring business to a subsidiary   |
| <b>15 September 2008</b> | Semi-annual financial report; prerequisites for drawing the Backup-Line "Zorro"; medium-term planning 2008-2012 as basis for a business appraisal of the Bank; discontinuation of Asset Management for third parties as segment and focusing on the segments Real Estate Financing and Factoring, with special commitment to the area of renewable sources of energy |
| <b>1 December 2008</b>   | Course of business in the field of financial and liquidity crisis; discussion on the drawing of the Backup-Line "Zorro" in November; current liquidity situation of the Bank; Changes of the IFRS results by the mark-to-model valuation of third-party securities   |

### **Financial Statements**

The Financial Statements 2008 and the Management Report of VALOVIS BANK AG were audited by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt, appointed by the General Meeting and commissioned on 1 July 2008, and bear the unqualified opinion of the auditors.

*Unqualified opinion*

### **Changes in the Board of Managing Directors**

In December 2008, Dr. Matthias Bergmann informed the Supervisory Board that he wished to terminate his employment for personal reasons. The Supervisory Board accepted this request on 5 December 2008, and wishes to thank Dr. Bergmann for his services.

### **Gratitude and Recognition**

The Supervisory Board expresses its gratitude and recognition to the Board of Managing Directors and the employees of VALOVIS BANK AG – particularly in view of the demanding basic conditions of a worldwide financial crisis – for their special commitment and extraordinary performance.

*Appreciation to the staff*

Essen, March 2009



On behalf of the Supervisory Board  
Ulrich Mix  
Chairman

# MANAGEMENT REPORT

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# MANAGEMENT REPORT

## COURSE OF BUSINESS

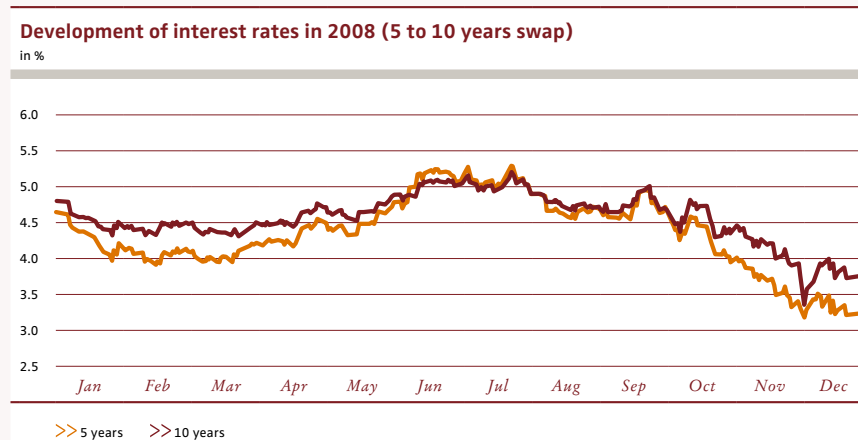
### Business cycle and capital market trends

In spite of continuingly strong rises in prices for energy (oil, electricity and gas) the global economy was surprisingly robust up to the first half of 2008. As in the preceding years, the good economic development was substantially supported by exports, whereas private consumption again remained behind expectations. This positive overall economic position continued to act as a stimulator for the employment market. At the end of 2008 Germany reported 3.1 million unemployed, i.e. the number of people without work declined by approx. 0.3 million in a year-on-year comparison.

*Good economic development  
in the first half-year*

In the second half of 2008 the picture of a very good economy increasingly darkened. It became more and more apparent that the implications of the sub prime or lending crisis were affecting the real economy to an increasing extent. Discussions started in public regarding a collapse of the banking sector and its respective impacts on the real economy.

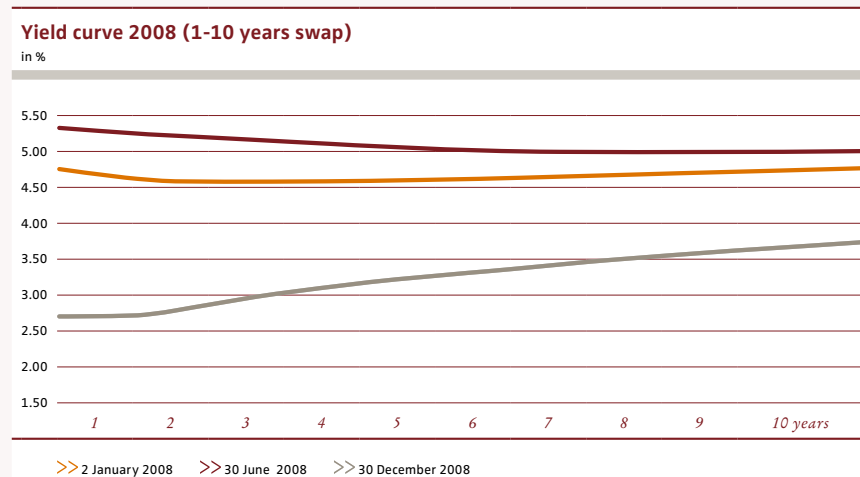
*Bank crisis expands to real economy*



*Global financial system on the verge of collapse*

In the initially positive overall economic environment of the first half of 2008 the interest rate policy of the European Central Bank (ECB) was marked by rising key interest rates. Against the background of noticeably advancing inflation the ECB raised the minimum bidding rate for main refinancing transactions by June, to 4.25 %. This measure resulted in interest rate levels in the 10-year segment (Swap) temporarily well exceeding the 5.0 % mark. In the second half negative economic trend indicators and the default of Lehman Brothers led to massive turbulences on the markets. The crisis, which began as a mere crisis of confidence in 2007 with noticeable spread mark-ups on the money market, grew and grew to become a massive valuation crisis, with the collapse of Lehman putting a huge question mark over the entire world-wide financial system. In these days the dominating pictures were those of illiquid markets in many sub segments and distress selling surges on the stock exchanges and capital markets throughout the world. Concerted central bank interventions and government rescue packages prevented the entire collapse of the financial system.

Consequently the central banks flooded the markets with liquidity and channelled the refinancing rates by the end of 2008, to 2.50 % (ECB) and 0.00 % – 0.25 % (FED).

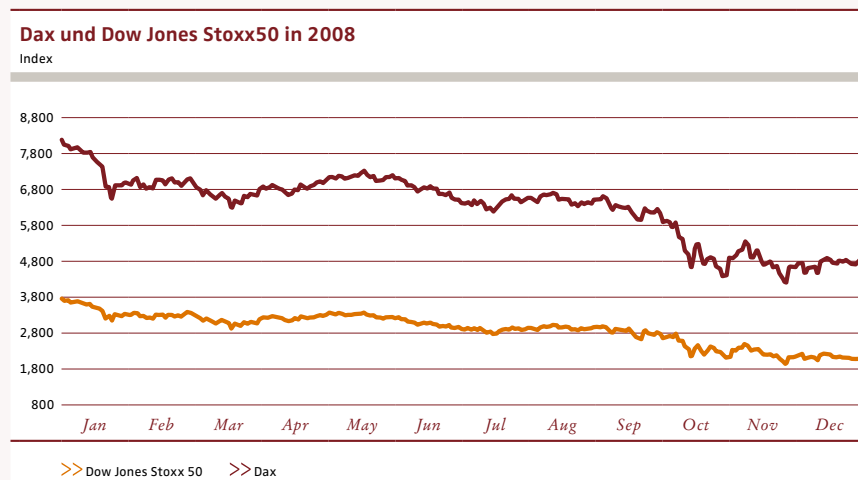


Due to the massive interventions of the central banks and the general economic situation the impression was gained in the markets that the world economy was heading for a definite recession in 2009. The European bond market closed at yield levels of around 3.20 % (swap yield 5 years) and 3.70 % (swap yield 10 years).

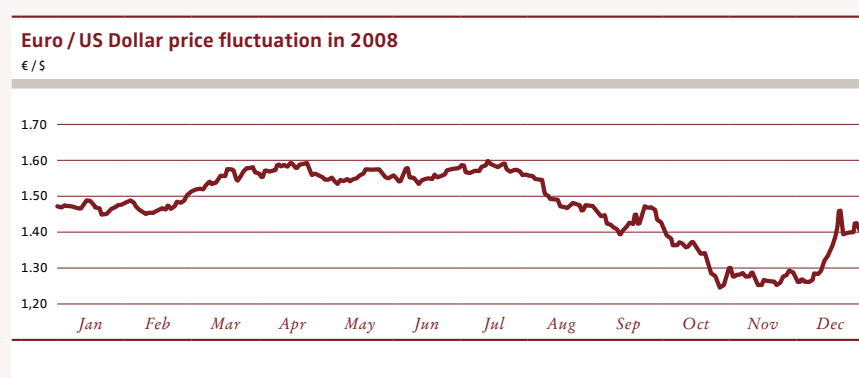
*Noticeable recession*

The course of the stock markets was very volatile during the year 2008. Following a first correction right at the beginning of 2008 the stock markets displayed a volatile sideways movement up to September 2008. From October 2008 on the securities of the banking and financial sector, in particular, were adversely affected. Almost all branches of industry suffered hefty losses in the equity market in the course of the year, and in expectation of the economic consequences to come. The Dax closed at 4,810.20 points and the Dow Jones Stoxx 50 at 2,065.46 points at year-end. This corresponded to a change of -40.37 % (Dax) and -43.93 % (Dow Jones Stoxx 50) during the year.

*Hefty price losses across all industries*



The upward movement of the Euro against the US Dollar on the foreign exchange market continued for the time being in 2008. Increasingly pessimistic economic data in the USA and strong interest rate cuts of the FED led to another upward valuation of the Euro against the US Dollar. In summer, the € / \$ exchange rate exceeded 1.60 at its peak. In the euro zone the distinctly declining growth led to a counter movement in favour of the US Dollar during the course of the year. The ECB closing price at year-end 2008 was fixed at € / \$ 1.3917 (year-end 2007 € / \$ 1.4721).



#### Development of the Bank

Although VALOVIS BANK AG has no structured securities or other exotic products in its portfolio, the Bank was adversely affected by the negative market developments in 2008. The actual bankruptcy of Iceland and the loss of confidence in the stock markets throughout the world – particularly following the insolvency of Lehman Brothers – left deep tracks in the income statement of our bank in 2008. It is the merit of the robust interest-bearing core business of the Bank and a prudent liquidity management that VALOVIS BANK AG will be able to continue its growth strategy, despite an annual loss.

*Expansion strategy can  
be continued*

### Real estate financing

The difficulties on the capital markets already looming in the second half of 2007 and the problems arising for the investors and financial institutions intensified dramatically in 2008.

Many banks were not ready or able to maintain their willingness to provide funds to the same extent as in the preceding years.

Project calculations and exit strategies could not be complied with, even on the short term, owing to the considerably rising funding costs. This led to a double effect. On the one hand, the investors were no longer able to sell their projects with the expected and required revenues. On the other hand, the financiers often had the projects far longer in the books than planned, thereby limiting their capacity for new business. At the same time, many sub markets suffered declining prices. To the extent that new projects were still financed, investors were forced to accept noticeably higher margins. A great number of investors have left the market, at least temporarily.

*Investors retire from the market*

In this very difficult environment VALOVIS BANK AG managed very well. Following the start of the scheduled acquisition of new customer contacts by our own marketing staff in the preceding year, the Bank was able to back its new lending business on first customer contacts in 2008.

*New lending business is launched*

The generated volume in new lending business remained slightly under plan. On account of the improved margins and with a view to some very attractive individual transactions the targeted earnings in the real estate sector were noticeably surpassed.

In order to allow for the changed general setting the Bank adjusted its risk profile for new lending business in the past few months, and is currently focusing on inventory financing, the risk phase out of which should not materially exceed the part eligible as cover funds.

This rather conservative financing approach has also been confirmed by the fact that VALOVIS BANK AG presently has no problem-plagued commitments worth mentioning in its portfolio.

In 2008 VALOVIS BANK AG was again represented at the EXPO REAL in Munich, for the first time as the principal partner of the city of Essen. Despite a restrained basic sentiment at the fair our staff was sought-after as competent partners for discussion and was able to initiate favourable business contacts.

*VALOVIS BANK AG at the  
EXPO REAL*

*Relevant reduction of market price risk*

### **Asset Management**

For strategic reasons the segment of asset management was discontinued in January 2009. This led to a material reduction of the market price exposure, particularly of the share price risk.

The special investment trust volume was further reduced during the second half of the year. The Bank itself took over risk management on account of the declined volume of securities. At year-end the special investment trusts no longer included any shares. The trusts were dissolved in January 2009.

Shares in publicly-offered funds and shares are held to a minor extent in the Bank's own portfolio.

### **Factoring**

*Gross purchase volume amounted to around 1.7 billion at 31 December 2008*

The daily purchase of mail-order trade receivables was continued successfully in 2008. The gross purchase volume amounted to about € 1.7 billion as at 31 December 2008. This resulted in a liquidity of € 1.2 billion for the suppliers. Thus the purchase of mail-order trade receivables contributed to a material extent to the operating result of VALOVIS BANK AG.

Beyond this, classical factoring for medium-sized businesses was successfully integrated in 2008. In order to carry out classical factoring the regulatory, organisational and technical prerequisites had to be implemented first.

*Entire range of Factoring financing*

Meanwhile, VALOVIS BANK AG offers the entire range of factoring types of financing. Particular attention is given to a granular lending structure. To keep default risks as low as possible only receivables for which credit insurance was taken out will be purchased.

The restraint of individual credit institutes regarding medium-sized business financing had an extremely positive effect on the demand for alternative financing opportunities (factoring).

In this field, VALOVIS BANK AG continues to see attractive business opportunities for a consistent and profitable expansion of this segment.

Apart from the pure provision of liquidity (in-house factoring) many companies are also interested in farming-out their credit management (full-service factoring), not least for the utilisation of additional synergy effects.

In order to meet these requirements and to offer a wide range of products tailored to its customers' needs, VALOVIS BANK AG has entered into a co-operation with a well-known service provider of the industry.

*Cooperation with  
renowned service provider*

VALOVIS BANK AG offers its customers an extensive factoring programme:

- > B2C-Factoring, is already used quite intensively by the purchase of mail-order trade receivables; the Bank plans to offer this type of Factoring to further customers / businesses of all sizes in Germany and the other European countries;
- > B2B recourse factoring has been offered as funding of factoring companies since 2008;
- > B2B non-recourse factoring will be offered as of 2009 as well
- > Reverse-Factoring, primarily suited for larger clients and purchasing associations is meanwhile also available as a product.

*Extensive Factoring  
programme*

VALOVIS BANK AG has focused on the medium-sized client as the target group for all Factoring products. Consequently, the Bank is also a member of the "German Federal Association of Factoring for Medium-sized Businesses".

# EARNINGS, NET WORTH AND FINANCIAL POSITION ACCORDING TO IFRS

VALOVIS BANK AG has been expanding its external accounting in accordance with the IFRS standards since 2007. According to Section 325 (2) HGB (German Commercial Code) the Bank is obligated to also disclose figures according to HGB in its separate financial statements.

## Earnings, Net Worth and Financial Positions according to IFRS

Selected income statement items € thousand	2008	2007	Change	Change in %
Net interest income	41,176	29,827	11,349	38.0
Earnings from the use of the fair value option	-80,174	23,196	-103,370	> -100.0
Trading performance	49,652	-35,393	85,045	>100.0
Earnings from financial investments	-47,398	9,159	-56,557	> -100.0
General administrative expenses	-15,561	-13,593	-1,968	-14.5
Balance of other items	5,197	-48	5,245	>100.0
<b>Earnings before taxes</b>	<b>-47,108</b>	<b>13,148</b>	<b>-60,256</b>	<b>&gt; -100.0</b>
Taxes on income and return	5,017	-7,102	12,119	>100.0
<b>Net profit / loss for the period</b>	<b>-42,091</b>	<b>6,046</b>	<b>-48,137</b>	<b>&gt; -100.0</b>

Earnings before taxes amount to € -47,108 k (€ k = thousand Euros) for the 2008 fiscal year and are significantly lower than last year's earnings despite strongly improved trading performance and net interest income. This is essentially due to the fact that earnings were by € 103,370 k lower on a year-to-year comparison, owing to the utilisation of the fair-value option.

During the year under review, the Bank's earnings position according to IFRS is particularly influenced by the following factors:

The increase of **net interest income** is particularly attributable to a higher interest level in the assets of the Bank, as well as to under-proportional funding concerning the liabilities of the Bank. Furthermore, the coupon exchange transaction of third-party securities conducted in the preceding year is showing effects.

Owing to the market development in the current business year **the earnings from the use of the fair-value option** of € – 80,174 k is € 103,370 k lower than in the preceding year (€ 23,196 k). In this context the third-party securities not allocated to the category held-to-maturity (HtM) are measured using the REUTERS quotation at year-end. In view of the rigid IFRS requirements the Bank, contrary to HGB, did not use any mark-to-model valuation system for third-party securities. According to the Bank, the REUTERS quotations are based on a non-liquid market environment as at 31 December 2008.

The utilisation of derivatives (particularly swaps and futures) within the scope of the bank-wide risk management led to a positive **trading performance** of the Bank of € 49,652 k (previous year: € – 35,393 k).

The **earnings / losses from long-term investments** of € – 47.398 k is the consequence of the adverse effect of market development on the Bank in 2008 and, in particular, the associated losses from the disposal of assets (substantially shares) within the special investment trusts which contributed € – 37,344 k to the result from long-term investments. For the first time a valuation adjustment of a third-party security became necessary. The Landsbanki Islands hf. security held in the HtM portfolio is written-down by 70 % to a residual present value of € 6,000 k according to the Fitch corporate rating "Default".

Compared to the preceding year **personnel expenses** were up 26 %. This rise was particularly generated by a further business expansion of VALOVIS BANK AG.

The ratio between general administrative expenses and net interest income (**cost income ratio**) of 37.8 % is under last year's level (45.6 %), caused by noticeably increased net interest income.

The **earnings before taxes** declined by € 60,256 k as a result of realised price losses and write-downs on third-party securities caused by the noticeable expansion of diversification on the market.

**Yield on taxes** of € 5,017 k is composed of the actual HGB tax expenses amounting to € 2,591 k and the deferred tax yield of € 7,608 k. The deferred income tax rate applicable to the year under review remains unchanged at around 32 %.

## Financial Situation according to IFRS

€ thousand	2008	2007	Change	Change in %
<b>Selected assets</b>				
Lending to banks	198,685	198,266	419	0.2
Lending to clients	2,184,713	1,592,530	592,183	37.2
Due from factoring transactions	1,680,246	1,640,625	39,621	2.4
Due from factoring transactions	1,671,947	2,131,281	-459,334	-21.6
Other assets	68,641	47,727	20,914	43.8
	<b>5,804,232</b>	<b>5,610,429</b>	<b>193,803</b>	<b>3.5</b>
<b>Selected equity and liabilities</b>				
Liabilities to banks	36,526	245,385	-208,859	-85.1
Liabilities to clients	4,820,308	4,130,492	689,816	16.7
Liabilities from factoring transactions	478,237	580,382	-102,145	-17.6
Securitised liabilities	193,276	321,608	-128,332	-39.9
Equity	229,144	288,035	-58,891	-20.4
Other equity and liabilities	46,741	44,527	2,214	5.0
	<b>5,804,232</b>	<b>5,610,429</b>	<b>193,803</b>	<b>3.5</b>

The net increase in **lending to customers** of € 592,183 k is particularly attributable to the rise in mortgage loans (€ 129,647 k) and to an account receivable fully secured by a deposited security within the scope of the back-up facility of € 336,248 k.

Due to new loans, lending to customers rose by € 129,430 k in the segment real estate financing. Except for the fair-value development the business trend for loans corresponds to the values in accordance with HGB.

The lending from **factoring transactions** is shown according to IFRS in a separate balance sheet item. The respective retentions for collateral are carried as liabilities. Due to lacking debtor / creditor identity the amounts are not netted.

The reduced shares in the special investment trusts in the segment asset management are shown according to IFRS as follows: the individual assets are allocated to the respective balance sheet items and carried in the balance sheet at market value – cash in banks and fixed-interest securities exist at year-end.

# EARNINGS, NET WORTH AND FINANCIAL POSITION ACCORDING TO HGB

## Earnings, Net Worth and Financial Positions according to HGB

Selected income statement items € thousand	2008	2007	Change	Change in %
Net interest income	40,385	23,686	16,699	70.5
Current income from shares and other non-fixed interest securities	3,028	56,225	-53,197	-94.6
Net commission income	1,870	-602	2,472	>100.0
Net income from financial transactions	22,312	-11,030	33,342	>100.0
General administrative expenses	-14,273	-12,950	-1,323	-10.2
Write-downs and value adjustments on receivables and specific securities and allocation to reserves in loan business	-35,147	-22,371	-12,776	-57.1
Write-downs and value adjustments on investments in associates, shares in affiliated companies and securities that are treated as non-current assets	-43,954	-10,655	-33,299	>-100.0
Balance of other items	2,793	414	2,379	>100.0
<b>Balance of other items</b>	<b>-22,986</b>	<b>22,717</b>	<b>-45,703</b>	<b>&gt;-100.0</b>
Taxes on income and return	-2,591	-1,605	-986	-61.4
Other taxes	-	-9	9	100.0
<b>Net profit / loss for the period</b>	<b>-25,577</b>	<b>21,103</b>	<b>-46,680</b>	<b>&gt;-100.0</b>

**Earnings before taxes** came to € -22,986 k for the 2008 business year, thus remaining significantly under previous year's level despite strongly improved net interest income. This is explained by the fact that, in comparison to the preceding year, the special investment trusts did not generate a high current income; instead, valuation adjustments of € 37,968 k were required on third-party securities held as well as write-downs of special investment trusts of € 37,461 k owing to the extremely deteriorated market development. Included in the valuation adjustments of third-party securities are the write-downs of a security of the Landsbanki Islands hf. of € 13,080 k due to the Iceland crisis. This is offset by positive effects from the financial transactions within the scope of the bank management of € 22.312 k.

The Bank's earnings position was particularly influenced by the following factors during the business year:

The 70.5 % rise of **net interest income** largely results from increased interest income in the factoring business and predominantly from the mortgage loans with variable rates of interest, which are opposed to disproportionately higher funding expenses. Moreover, on balance revenues earned essentially from the close-outs of interest swaps within the scope of the interest rate portfolio management amounted to € 15,399 k. The close-out of the swaps was required to prevent a further growth of the accrued negative interest earned from derivatives pertaining to the inverted interest rate structure of 2008 (the Bank is leaning slightly to the receiver side at reporting date). On the whole, the close-outs were able to more than compensate the negative interest income from derivatives of € –10,352 k. Owing to the inverted interest rate curve the receiver swaps generated a time expense on the part of fixed receiver sides. For this reason the receiver swaps were closed with a positive market price and replaced by Federal futures within the scope of management indexes.

Net earnings from financial transactions are essentially based on earnings from futures within the bank management. The almost completely illiquid swap markets, caused by the financial crisis, as well as the already mentioned swap development led to an accelerated temporary use of futures to control the interest risk.

In the current year, the **current earnings from shares and other securities without fixed interests** merely include net earnings from collected dividends. There were no distributions from special investment trusts.

In conjunction with the further expansion of new loan business **general bad debt allowance** of € 2,937 k is created for potential credit risks (allocation 2007: € 1,858 k). In addition, individual valuation adjustments of € 425 k were created (allocation 2007: € 1,200 k).

**Personnel expenses** increased especially owing to the further expansion of business by approx. 29 % and result in the rise reported under **general administrative expenses**.

The ratio between general administrative expenses and net interest income, including current income from shares and other securities without fixed interest rates, (**cost income ratio**) of 33 % noticeably exceeds last year's level (17 %) on account of the lacking distributions from special investment trusts.

The **write-off and valuation adjustment on accounts receivable and certain securities** essentially result from the write-down of securities, at € 37,968 k. Since there was no longer any active market existing for these securities, the third-party securities of current assets were valued by means of a mark-to-model valuation system derived from market parameters. The security Landsbanki Islands hf. was written-down according to a "Default" rating to a residual book value of 30 %, which the Bank considered to be obtainable.

Write-downs and **valuation adjustments of investments in associates, shares in affiliated companies and securities treated as noncurrent assets** ensue, particularly, from individual valuation adjustments of special investment trusts of € 40,304 k. With a view to the extremely volatile stock markets, Management made the strategic decision to sell the special investment trusts as of January 2009. At 31 December 2008 the special investment trusts were measured without bearing losses.

Since the special investment trusts are based on losses from shares, their write-downs are tax-deductible to a limited extent only even though this led to tax expenditure totalling € 2,591 k despite an already negative EBIT.

## Financial Situation according to HGB (German Commercial Code)

€ thousand	2008	2007	Change	Change in %
<b>Selected assets</b>				
Lending to clients	3,826,381	3,202,491	623,890	19.5
Bonds and other fixed-interest securities	1,785,814	1,952,389	-166,575	-8.5
Shares and other non-fixed interest securities	115,703	239,907	-124,204	-51.8
Other Assets	181,433	232,565	-51,132	-22.0
	<b>5,909,331</b>	<b>5,627,352</b>	<b>281,979</b>	<b>5.0</b>
<b>Selected equity and liabilities</b>				
Liabilities to banks	44,346	269,538	-225,192	-83.5
Liabilities to clients	5,314,243	4,738,055	576,188	12.2
Other equity and liabilities	550,742	619,759	-69,017	-11.1
	<b>5,909,331</b>	<b>5,627,352</b>	<b>281,979</b>	<b>5.0</b>

The net increase of **lending to clients** amounting to € 623,890 k is particularly attributable to an account receivable from the back-up facility of € 336,248 k, the rise of real estate loans (€ 130,752 k), the increase of other loans (€ 65,262 k) as well as factoring (€ 39,621 k).

The € 130,752 k increase of lending to customers in the segment real estate financing is essentially attributable to new loan business. During the year under review loans amounting to € 365,548 k were newly granted. Loan disbursements of € 296,639 k are opposed by € 9,164 k scheduled and € 158,044 k unscheduled repayments. As at 31 December 2008 loans in the amount of € 133,665 k have not yet been extended. Risk provisioning in the real estate business was increased by € 604 k to € 4,304 k in the year under review (general and individual valuation adjustments).

The factoring receivables carried under lending to customers in the balance sheet increased by € 39,620 k to € 1,680,246 k during the current business year. General valuation adjustments amount to € 3,583 k (previous year: € 858 k).

Part of the shares in special investment trusts (**shares and other securities without fixed interest rates**) have already been reduced or written-down due to impairment. The share portfolios in the special investment trusts were completely cut back at year-end.

The portfolio of **third-party securities** held in the liquidity reserve of the Bank was reduced by € 261,995 k from € 1,948,334 k to € 1,673,432 k during the period under review.

The Bank used refinancing funds from a liquidity facility existing since 2007, to generate a net liquidity of over € 500 million on a triple A basis as at November 2008. Funding was effected by issuing a covered bond to three renowned national and international credit institutes.

The liquidity of the Bank was guaranteed at all times during the entire year 2008 and up to March 2009.

# SUPPLEMENTARY REPORT

## *Equity base strengthened*

In order to strengthen the equity base of the Bank, the shareholder will allocate fresh capital of € 30,000 k at the end of March 2009. This is to enable the expansion of the business activities in consumer factoring.

# RISK REPORT

## 1 Main focuses and development in 2008

- > In Q4 of 2008 a liquidity back-up facility was used to generate liquidity. This provided the Bank with the most extensive stable refinancing costs.
- > The segment asset management was discontinued for strategic reasons and the special investment trusts of the Bank dissolved by the beginning of 2009. These measures led to a material reduction of the market price exposure.
- > Following the successful implementation of the trading system Front Arena as Front-End system in Q3 of 2007, the follow-up project was completed by converting the risk control system to Front Arena at the end of Q3 in 2008.
- > Since 2 January 2008 the Bank has been applying the requirements of the solvency regulation (SolvV), the liquidity regulation (LiqV) and the regulation governing large exposures and million loans reporting (GroMiKV) (new). The calculation of capital requirement according to Basel II is effected by the standard approach for credit risk.

## 2 Introduction

In order to achieve its corporate targets VALOVIS BANK AG is ready to take on certain risks up to a defined amount. The risk assumption takes place within the scope of clearly defined procedures and risk limits.

In 2009 as well the business activities of VALOVIS BANK AG will continue to be orientated at the long-term goals and objectives defined by its owner, according to which the achievement of continuous minimum earnings has priority over risk-carrying maximisation of earnings.

The risk culture of the Bank is thus marked by a rather conservative treatment of the risks inherent in the banking business.

*Conservative dealings with risks  
inherent to the banking business*

### 3 Risk management system

#### 3.1 Risk strategy

In order to meet the regulatory requirements, the objectives and plans set down in the corporate strategy, the risk viability and the targets of risk management in all significant business activities will be taken into account in the risk strategy. Moreover, the strategy of limitation of risk concentration is accounted for adequately.

*Regular review of the risk strategy  
by the Board of Managing Directors*

The level of detail of the strategy takes into account the size of VALOVIS BANK AG, the main business elements, their inherent risks, as well as the market environment. The Board of Managing Directors conducts an annual review of the strategy, adapting it if necessary. In the event of significant changes of the general setting the strategy will be reviewed during the year.

#### 3.2 Principles of risk management

The risk management is aimed at ensuring the risk viability of the Bank, and the employment of the capital from the point of view of an adequate yield-risk-correlation. This is to ensure that sufficient economic capital is available to cover all types of risk.

*Global code of conduct*

The following principles represent the entirety of the central code of conduct for handling of risks within the Bank:

- > The executives and the staff feel bound by the risk management policy, and make their daily business decisions in compliance with these guidelines.
- > The executives and the staff undertake to protect the interests of the proprietor regarding the risk propensity.
- > Independent of potential earnings – risks will only be taken on if risk assessment is possible and risk viability is given. In the event the risk situation is not transparent, priority must be given to the principle of caution.

- > The risk management of VALOVIS BANK AG takes place in a coordinated procedure.
- > Risk management is targeted at a long-term and sound ongoing existence of the Bank, taking into consideration an adequate distribution to the shareholder in order to service the pension commitments.
- > In principle, VALOVIS BANK AG only becomes engaged in business segments in which it disposes of the respective expertise to assess the specific risks. If required for individual issues, recourse will also be taken to special external know-how.
- > The taking-up of new business segments or products is, as a matter of principle, preceded by an adequate analysis of the specific inherent risks.

Once a year a so-called risk day takes place throughout the Bank. Its target is the presentation and discussion of all types of risks relevant for VALOVIS BANK AG. All divisions involved present their assessment of the existing and potential risks. This also concerns the dependencies of the individual risks on each other, and the possible future developments. These evaluations could also lead to recommendations of action for risk management.

*Risk day*

### **3.3 Risk management**

Risk monitoring measures the risk indicators set by the Bank during the running procedure. The regular comparison of the target / actual situation (e.g. extended risk limits and degree of utilisation) ensures that the risk situation corresponds to the risk-strategic objective, and the Bank's viability is thus given. Awarding qualitative marginal values and procedural parameters ensures the monitoring of risks that cannot be quantified.

The monitored results are communicated within the scope of risk reporting by the Controlling / Regulatory Reporting department, and provided with recommendations for risk management, if required.

*Orientation at the projections of the minimum requirements to risk management (MaRisk)*

### 3.4 Organisation

The organisational structure of the risk management is orientated at the stipulations of the Minimum Requirements for Risk Management (MaRisk), at the risk objectives as well as the type, extent and complexity of the business activities. The procedures of risk management and the tasks, competences and responsibilities in conjunction therewith are clearly defined in accordance with the regulatory requirements.

The area of asset and liabilities management (ALM) plays an essential role in the risk management of the Bank since it is responsible for the major controlling functions such as planning and projection. ALM develops various recommendations for action and presents their effects. A decision is either made during the ALM meetings or by a resolution of the Board of Managing Directors.

The controlling / regulatory reporting department also plays a central role in the risk management procedure. It is responsible for the identification, analysis, measurement, monitoring and communication of risks.

## 4 Concept of risk viability

The comparison of the assets serving as risk cover and the bank-wide risk forms the basis for the evaluation of the risk viability. The bank-wide risk of VALOVIS BANK AG essentially consists of the market price exposure, the counterparty risk, the operational risk and the liquidity risk. The latter is not yet an integral part of the risk viability concept because there is no generally accepted market standard.

*Risk culture of VALOVIS BANK AG*

The risk culture of the Bank is marked by a rather conservative approach to risks.

The risk limits are subject to quarterly reviews and, in the event of significant market developments, on an ad hoc basis. An update of the aggregate limit structure is conducted at least once a year. The determination of the limits is based on the bank-wide present value already reduced by intended distributions and taxes. The resulting amount will be split up among market price exposure, counterparty risks and the operational risk.

## 5 Types of risks

### 5.1 Market price exposures

#### Type of market price exposures

The market price exposures of VALOVIS BANK AG encompass interest rate risks, spread risks, share price risks and to a lesser extent currency risks.

#### Interest rate risk

Interest rate risks are the result of possible changes of the market interest rate. With a view to the share of the interest-driven business in the overall business of the Bank, VALOVIS BANK AG identified the interest rate risk as a substantial risk.

A stress scenario with the interest rate curve rising by 100 basic points results in chance of approx. € 20.5 million at 30 December 2008. On the other hand, a decline of the index by 100 basic points generates a risk of € 22.4 million.

*Stress scenario*

#### Credit spread risk

The credit spread risk refers to running the risk of a change in the credit spread to be allowed for, either by a deterioration of the credit standing on the part of the counterparty / issuer, or by a changed market valuation of such credit standings.

*Credit spread risk*

During the course of 2008 the credit spread risk became increasingly important and represented a considerable share in the market price risk measured at year-end. Whereas Q1 of 2008 was still characterised by a certain workability of the markets, the second and third quarters were dominated by a missing market-making and the increasing illiquidity of the bond markets, the last quarter was entirely marked by the Lehman insolvency.

*Share price risk particularly with respect to special investment trusts*

### Share price risk

The share price risk is the loss risk caused by the volatility of share prices.

The prevailing part of the share price risk was inherent in the special investment trusts launched for VALOVIS BANK AG. As part of fundamental strategic reflections the special investment trust volume was consistently reduced during the second half of the year. No shares were held anymore in the special investment trusts at year-end. The funds were dissolved in January 2009. Apart from this, very limited shares in publicly-offered funds are still held in the Bank's own portfolio and, to a very minor extent, shares in direct shareholdings.

*Currency risk of marginal significance*

### Currency exposure

At present, there is only a very low currency exposure in the Bank's own book. The existing currency exposure owing to a commitment in two US Dollar publicly-offered funds were hedged by a forward exchange deal, and is thus of subordinate significance for the Bank.

The special investment trusts only generated indirect currency risks since they were denominated in Euros. In accordance with the investment guidelines one open foreign exchange position was allowed within every individual special investment trust, up to a maximum of 10 % of the market price. The special investment trusts were dissolved in January 2009.

### Risk measurement

The calculation of the market price exposure is effected by the value-at-risk method. The model of the historical simulation is employed.

By way of standardisation the value-at-risk index is determined on the basis of a confidence level of 99 %, a holding period of 10 days and a historical viewing period of 250 trading days; when required and for simulation purposes the parameters may be changed at any time.

In order to review the quality of the value-at-risk index a continuous back-testing is used. In doing so the actual change of the present value is compared with the determined risk values.

*Back-testing and stress tests*

In addition, extreme market movements are continuously simulated by so-called stress tests. These tests assume noticeably higher market fluctuations, liquidity disturbances of the market and crash scenarios for shares and interests.

### **Risk control**

The projections for the control of the market price exposure are determined on the basis of the current market assessment within the ALM conference. At least once a month the market price exposures are discussed together with the Board of Managing Directors and measures to limit the risks are taken, if required.

### **Risk reporting**

Daily risk reporting is effected by the per diem report. Up to the close-out of the share items in the special investment trusts reporting was effected by a performance overview of the special investment trusts. The reports are addressed to the Board of Managing Directors and to the Treasury, the Asset and liabilities management department, Controlling / Regulatory reporting department and to Internal Audit.

The per diem report mainly encompasses the following contents:

- > Present value calculation
- > Interest rate risk (internal and statutory)
- > Value-at-risk for own portfolio and special investment trusts
- > Own funds index and liquidity ratio
- > Statutory and internal utilisation of limits

*Per diem report and performance overview of special investment trusts*

Furthermore, an executive summary is prepared on a monthly basis showing the changes regarding the risk indexes and the results of the Bank during the current month. This summary is addressed to the Board of Managing Directors and the Supervisory Board.

## 5.2 Liquidity risks

Liquidity risks incur the hazard that funds required to meet payment obligations are not sufficiently available (liquidity risk in the narrower sense) and the danger that additional funds can only be raised at higher market interest rates (funding risk). Moreover, the market liquidity risk incurs the danger that assets can only be converted into cash on the market at a markdown.

### Risk management

In order to secure all payment obligations VALOVIS BANK AG is obligated to prepare a liquidity overview in accordance with MaRisk for an adequate period of time, which compares the expected inflow of funds with the expected outflow of funds. Within the scope of a daily updated liquidity review all individual asset and liability items within the respective line of business are compared on a per diem basis for a period of up to one year.

Furthermore, the Bank conducts scenario observations in order to assess the liquidity situation. On this occasion worst case scenarios are simulated for security purposes.

In order to avoid cluster risks the funding relies on an adequately wide diversification regarding the financial and capital structure. For controlling the adequate diversification of the current funding opportunities, the resources on the liabilities section are examined on a regular basis.

During the calendar year 2008 VALOVIS BANK AG covered its liquidity requirements by term money borrowings, the issue of borrower's note loans, the issue of mortgage Pfandbriefe as well as by the temporary participation in the tender system. Increasing insecurity on the part of the investors due to the slowdown of the general setting made funding of current transactions more and more difficult. The already difficult issuing conditions worsened noticeably again due to the collapse of Lehman Brothers on 15 September 2008. The general loss of confidence in "the banks" reached its peak for the time being. Unfortunately, no differentiation was made between banks directly or indirectly affected by the financial crisis, thus all banks were considered "jointly liable" for the crisis. Especially the cities and communities withdrew large sums of money to transfer these to the alleged safe Savings Banks, Landes Banks and Co-operative Banks.

*Daily updated  
liquidity preview*

*Prevention of cluster risks*

*Difficult refinancing of current  
transactions*

An emergency plan exists in the event of a liquidity bottleneck, which is also represented in the weekly liquidity plan. This plan presents, apart from the measures to be taken, also the available sources of liquidity. In this case sizable funds at the Deutsche Bundesbank and lines of credit are available for the short-term raising of liquidity, among other measures. At year-end 2008 VALOVIS BANK AG has unused liquidity facilities of approx. € 1.4 billion.

*Emergency plan for  
liquidity squeezes*

The assets and liabilities conference (ALM) is responsible for monitoring the financing opportunities and their current development.

#### **Risk control**

The projections for the control of liquidity are set down in the assets and liabilities management conferences. They are implemented by the Treasury. At least once a month the liquidity situation will be discussed together with the Board of Managing Directors and, if required, measures will be taken to guarantee sufficient liquid funds.

#### **Risk reporting**

Treasury provides management, the Assets / liability management and the Controlling / Regulatory reporting department with a liquidity preview for their information.

The management will be informed on the liquidity situation during the monthly ALM conference.

*ALM conferences*

### **5.3 Counterparty risk**

Counterparty risk is generated by the deterioration of the credit standing (including default) of a party. In this case the party might not be able to fulfil its payment obligations to VALOVIS BANK AG.

Depending on the type of business and the party this risk may be differentiated as follows:

- > Borrower (credit risk)
- > Counterparty (counterparty risk)
- > Issuer (issuer's risk)

*Determination of  
standard risk cost rates*

### **Risk measurement**

The calculation of the counterparty risk is effected by a rating-based present value approach for the real estate lending and factoring business.

The lending business of the Bank is subjected to an internal rating procedure in which each transaction is allocated to a rating class. The internal rating classes were assigned an average external rating; these in turn were allocated to the risk of default as determined by the rating agencies. The bank-specific standard risk expense ratios are determined on the basis of the risk of default.

In the factoring department a regular rating procedure is conducted for a portfolio with individual customers. The risk of default according to the rating of Standard & Poor's will be attributed to the portfolio, thus determining the standard risk expense ratio in the respective amount.

Furthermore, present value standard risk expenses are calculated while taking into consideration the scheduled repayment structures in the loan and factoring portfolio.

The unexpected loss is determined from the present value standard risk expenses by estimating double the present value risk expenses of the lending business and the factoring portfolio. Despite the high-risk discounts made in factoring already prior to the purchase of receivables, another stress factor exists with which the present value risk expenses will be multiplied. In this way the Bank inserted an additional cushion in line with its conservative treatment of risks in this segment.

*Measurement of the counterparty  
risk also for third-party securities  
and financial derivatives*

Third-party securities as well as OTC transactions with financial derivatives are also subject to the measurement of the counterparty risk. During this procedure the securities are allotted the respective risk of default according to their rating, and multiplied with the nominal amount per rating class. In the case of OTC transactions the loan equivalence amount for every counterparty is multiplied with the respective risk of default. The result will be added to the risks determined for the loan and factoring business and compared to the relevant risk limit.

### **Risk monitoring**

The loan commitments are monitored regularly by using quantitative instruments.

The supervision of the risk of default is guaranteed by a continuous observation of the commitments, which would also provide indications of deterioration in the risk situation. The loan transaction management conducts a review of the solvency classes on an annual basis.

The development of the loan portfolio is shown and commented upon by the analysis of the composition of the risk classes on a quarterly basis. These risk classes are the basis for the determination of the standard risk expenses ratio.

The counterparty risk of Factoring is analysed at the portfolio level. By means of various scoring parameters used in generating receivables, purchase filters and key figure limits it is ensured that the global risk of the purchased portfolio lies below the set risk limit at all times.

*Analysis of the counterparty risk of Factoring on the portfolio level*

The data for an extensive risk assessment of the portfolios are available in a data warehouse. Furthermore, web-based information on the portfolios is provided on a daily basis. An asset and risk report is produced monthly.

In addition, an external portfolio monitoring in the area of consumer factoring is conducted for the investors of the back-up line established for ensuring liquidity. So-called risk committees exist for the purpose of observing all risks; they are composed of representatives of all involved organisational units of the Bank and the selling companies. These committees meet every two months, if required also on an ad hoc basis.

*Risk committees*

Risks of the receivables of third-party factoring are monitored in particular by the continuous supervision and evaluation of corresponding reports concerning the receivables.

*Supervision of ratings  
on each working day*

The transactions in the Treasury are effected via global limits (e.g. for public authorities, banks, countries, corporates etc) and the extension of special counterparty limits by resolution of the Board of Managing Directors. Third-party securities purchased by the Bank for further cover or as liquidity reserve require at least an A rating. This rating is monitored on each working day.

OTC financial derivatives – e.g. interest rate swaps – are only concluded with counterparties of first-class solvency on the basis of a standard master agreement. They are also subject to a limit.

#### **Risk reporting**

The controlling / regulatory reporting department writes about the counterparty risks within the scope of the quarterly risk report. The risk report is addressed, among other recipients, to the Board of Managing Directors and the Supervisory Board. If required for specific occasions an extraordinary report will be compiled.

*Monthly extensive risk evaluations  
for the two large portfolios*

An extensive monthly risk assessment is prepared for the two large portfolios in the factoring business, containing a presentation of the trigger utilisation and development, the composition and development of the score classes as well as a listing of overdue payments, among other factors.

Third-party securities are presented quarterly in the risk report according to countries, rating and OTC financial derivatives, with respect to counterparties and rating.

#### **5.4 Operational risks**

According to Basel II the operational risk concerns the losses that occur due to the inappropriateness or failure of internal procedures, persons and systems, or as a result of external events. This definition includes legal risks does not, however, encompass strategic risks or risks regarding reputation.

### **Risk measurement**

In order to determine the necessary total capital requirement to cover operational risks the basic indicator approach is used.

*Basis indicator recognition*

### **Risk monitoring**

In risk management the Bank uses an overview of potential loss events orientated on the recommendations of the expert committees. This overview of potential loss events is subject to a semi-annual assessment by the heads of the different corporate divisions. A documentation of the reasoning for the significance of material risks is to be attempted for each division including – if possible – an indication of the amount of a potential loss event in Euros.

Losses are recorded in a central database kept by Internal Audit. All divisions and departments are obligated to inform Internal Audit of incurred losses, independent of the actual amount or effect, for recording in the database on a timely basis. Each case of loss will be allocated to one of the Basel event types by the reporting department.

*Losses are recognised centrally*

In the occurrence of significant losses the reasons that led to these events have to be analysed immediately and, if so required, counteractions are to be initiated.

### **Risk reporting**

The capital requirement for operational risk computed according to the basic indicator approach is compared to the limit with respect to the risk viability, and documented in the risk report on a quarterly basis. Furthermore, an extended report on operational risk according to MaRisk is compiled semi-annually as an integral part of the risk report. This report serves the Bank to improve identification, recording, analysis and supervision of this risk category and completes the presentation of the risk situation.

*Application of the regulations of SolvV, LiqV and GroMiKV (new)*

## **6 Risk structure ratios**

### **6.1 Regulatory ratios**

Since 2 January 2008 the Bank has been applying the solvency regulation (SolvV), the liquidity regulation (LiqV) and the regulation governing large exposures and million loans reporting (GroMiKV) (new). The calculation of equity requirement according to Basel II is effected by the standard approach for credit risk.

The regulatory specification on equity according to the solvency regulation was fulfilled as at 30 December 2008 as well as at all times during the year 2008, at a ratio of 10.14 % (minimum requirement 8.0 %).

On 30 December 2008 the liquidity ratio was at 1.94 (minimum requirement 1.0) in accordance with the liquidity regulation, and was also fulfilled at all times during the year under review.

Despite the uncertainties on the money markets during the entire year 2008 owing to the financial crisis and the related loss of confidence among the banks, the Bank never suffered a liquidity squeeze at any time in 2008.

### **6.2 Risk ratios**

The Bank determines the value-at-risk by historical simulation based on the parameters 99 % confidence level, 10 days holding period and 250 days interest rate history on each working day. On 30 December 2008 the bank-wide value-at-risk totalled € 8,431 k.

The market price exposures are integrated in an overall concept of risk viability, which also sets a limit to the counterparty and operational risks.

## **7 Cover funds**

VALOVIS BANK AG is a Pfandbriefbank in the meaning of the Pfandbrief Act. Its priority is the issue of mortgage Pfandbriefe. Real estate financing serves as the foundation for the cover funds of the mortgage Pfandbriefe.

Stringent requirements are set with regard to the quality of the cover funds in order to ensure the high security of Pfandbriefe. For this reason the Pfandbrief Act demands an adequate risk management system equipped with suitable rules and instruments for the management, supervision and control of risks. VALOVIS BANK AG has a risk management system that corresponds to the requirements of section 27 Pfandbrief Act.

*Stringent requirements to the quality of the cover funds*

In 2008 the computation of the cover funds for Mortgage as well as Public-sector Pfandbriefe was fulfilled both nominally and with regard to the present value, including stress scenarios at all times.

The Bank regularly fulfils the extended statutory requirements to furnish information according to section 28 Pfandbrief Act, by respective publications on its website.

## **8 Risk assessment and prospects for 2009**

### **Risk assessment**

The risk management system integrated in the Bank ensures information on the risk situation of the Bank at an early stage and enables an active management for risk limitation. The Bank has identified limited, quantified and documented all risks.

*Active restriction controls for risks*

In 2008 the market price exposures were reduced as far as possible due to the turbulences on the financial markets. The interest rate risk remained fairly stable during the course of the year. The Bank's general position was one not involving interest payments. On account of the step-by-step reduction of the share positions in the special investment trusts in conjunction with the termination of the overlay management in Q2 of 2008 the share price risk, so far being an integral part of the market price exposure, has noticeably declined. Instead, the credit spread risk persistently gained importance. The capital market crisis resulted in growing distortions, leading to an extremely wide-spread diversification of third-party securities. Finally, the market for bonds and floaters was illiquid at the end of the first quarter of 2008, which fact induced the Bank to introduce a mark-to-model valuation method according to HGB.

*Drawing of Back-up facility*

In addition, the liquidity risk also rose for the Bank in 2008. Primarily owing to the sharply increased margin payable on the interest rate curve for liquidity since Q3 of 2008, the Bank was forced to make use of a back-up facility held in reserve for securing the payment of liquidity.

The counterparty risk affected the Bank to such an extent that an Icelandic security had to be written-down to 30 %, leading to negative effects on the Bank's earnings.

**Outlook and risks regarding the future course of business**

In the event there will be no alleviation of the liquidity situation in 2009 either, the Bank will have to mobilise further available liquidity reserves.

*Further development of the risk measurement system and the bank-wide management*

In 2009 one main internal focus continues to be on the further development of the risk measurement system and the bank-wide risk management. Respective methods and procedures as well as their technical implementation are being continued.

In 2009 VALOVIS BANK AG will continue its rather conservative corporate policy with a view to the interests of the shareholder. At present, none of the material risks mentioned earlier can be regarded as threatening the existence of the Bank.

# OUTLOOK

## **Future overall economic situation**

A noticeably sustained economic downswing is expected for the euro zone and its main trading partners. Accordingly, both the external and the domestic pressure on inflation are declining. Furthermore, it is assumed that the price increase rates in the euro zone will comply with the price stability on the medium term, thus supporting the purchasing power of the private households in the euro zone. This estimation is substantiated by the available indicators for the medium-term inflation expectations.

On the whole, the degree of uncertainty regarding the economic development remains extraordinarily high, particularly since the intensification and expansion of the turbulences in the financial markets have led to a noticeable economic downswing throughout the world. An end of the financial crisis is, at present, not predictable.

*No end to the financial market crisis*

## **Expected course of business**

VALOVIS BANK AG assumes that 2009 will continue to be marked by unchanged extremely volatile capital markets. The interbank refinancing and the safeguarding of liquidity will be one of the major challenges particularly in 2009.

With a view to the issuers' structure no further losses are presently expected in the securities portfolio.

In the **Real Estate Financing** segment the Bank projects growth figures in hundreds of millions.

In the **factoring segment** expansion is aimed at the purchase of, in particular, foreign receivables; growth figures in hundreds of millions are also projected for this segment in 2009.

Owing to the above-mentioned uncertainties in the capital markets and the noticeably lower interest rate level the Bank assumes net interest income to be under the 2008 level in 2009.

However, since the Bank does not expect any negative special effects in 2009 on account of the noticeable reduction of the market price exposures and the overall very good quality of the assets, a clearly positive net income is assumed for the fiscal year 2009.

*VALOVIS BANK AG expects a clearly positive operating result in 2009*

Revenues projected for 2009 according to IFRS and HGB lie in the lower double-digit million range. No projections can be made, to the financial and economic crisis, for the year 2010.

## FINANCIAL STATEMENTS / NOTES

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# SEPARATE FINANCIAL STATEMENTS ACCORDING TO IFRS

## INCOME STATEMENT

for the period from 1 January 2008 to 31 December 2008

<i>Note   Page</i>	€ thousand	2008	2007
<i>14   61</i>	Interest income	271,367	231,231
<i>14   61</i>	Interest expenses	-230,191	-201,404
	<b>Net interest income</b>	<b>41,176</b>	<b>29,827</b>
<i>15   62</i>	Commission income	3,888	743
<i>15   62</i>	Commission expenses	-2,018	-1,597
	<b>Net commission income</b>	<b>1,870</b>	<b>-854</b>
<i>16   62</i>	Earnings from the use of the fair value option	110,802	89,556
<i>16   62</i>	Expenses from the use of the fair value option	-190,976	-66,360
	<b>Result from the use of the fair value option</b>	<b>-80,174</b>	<b>23,196</b>
<i>17   62</i>	Trading performance	49,652	-35,393
<i>18   62</i>	Result from financial investments	-47,398	9,159
<i>19   63</i>	General administrative expenses	-15,561	-13,593
<i>20   63</i>	Balance of other income and expenses	3,327	806
	<b>Result before taxes</b>	<b>-47,108</b>	<b>13,148</b>
<i>21   64</i>	Tax from income and return	5,017	-7,102
	<b>Net profit / loss for the period</b>	<b>-42,091</b>	<b>6,046</b>
<i>39   71</i>	Allocation to statutory reserves	—	-1,055
	<b>Net retained profits / net accumulated losses</b>	<b>-42,091</b>	<b>4,991</b>

# BALANCE SHEET

for the year ending on 31 December 2008

		2008	2007	
<i>Note</i>	<i>Page</i>	<b>Assets € thousand</b>		
22	1 65	Reserve of cash	12,365	9,270
23	1 65	Trading assets	21,626	29,616
24	1 65	Lending to banks	198,685	198,266
25	1 65	Lending to clients	2,184,713	1,592,530
26	1 65	Due from factoring transactions	1,680,246	1,640,625
27	1 65	Long-term investments	1,671,947	2,131,281
28	1 66	Intangible assets	2,055	1,094
28	1 66	Property, plant and equipment	4,248	4,304
29	1 67	Other assets	3,418	852
30	1 67	Tax on Earnings – claims	24,929	2,591
		<b>Total assets</b>	<b>5,804,232</b>	<b>5,610,429</b>
<i>Note</i>	<i>Page</i>	<b>Liabilities € thousand</b>		
31	1 67	Liabilities to banks	36,526	245,385
32	1 68	Liabilities to clients	4,820,308	4,130,492
33	1 68	Liabilities from factoring transactions	478,237	580,382
34	1 68	Securitised liabilities	193,276	321,608
35	1 68	Trading liabilities	41,317	33,361
36	1 68	Other equity and liabilities	4,745	4,381
37	1 68	Provisions	238	207
38	1 71	Tax on earnings – obligations	441	6,578
		<b>Equity</b>	<b>229,144</b>	<b>288,035</b>
39	1 71	Issued capital	125,000	125,000
39	1 71	Capital reserves	125,000	125,000
39	1 71	Retained earnings	21,235	33,044
39	1 71	Net retained profit / loss	-42,091	4,991
		<b>Total equity and liabilities</b>	<b>5,804,232</b>	<b>5,610,429</b>

# REPORT ON THE CHANGE IN EQUITY CAPITAL

for the year ending 31 December 2008

€ thousand	Issued capital (Note 39)	Capital reserves	Retained earnings	Net retained profits / net accumulated losses	Total
<b>As at 1 January 2008</b>	<b>125,000</b>	<b>125,000</b>	<b>33,044</b>	<b>4,991</b>	<b>288,035</b>
Withdrawal from revenue reserves	—	—	-11,809	11,809	0
Dividends to shareholders	—	—	—	-16,800	-16,800
<b>Sub-total</b>	<b>125,000</b>	<b>125,000</b>	<b>21,235</b>	<b>0</b>	<b>271,235</b>
Net loss for the period	—	—	—	-42,091	-42,091
Allocation to statutory reserves	—	—	—	—	—
<b>As at 31 December 2008</b>	<b>125,000</b>	<b>125,000</b>	<b>21,235</b>	<b>-42,091</b>	<b>229,144</b>

€ thousand	Issued capital (Note 39)	Capital reserves	Retained earnings	Net retained profits / net accumulated losses	Total
<b>As at 1 January 2007</b>	<b>125,000</b>	<b>125,000</b>	<b>20,934</b>	<b>27,855</b>	<b>298,789</b>
Allocation to revenue reserves	—	—	11,055	-11,055	0
Dividends to shareholders	—	—	—	-16,800	-16,800
<b>Sub-total</b>	<b>125,000</b>	<b>125,000</b>	<b>31,989</b>	<b>0</b>	<b>281,989</b>
Net profit for the period	—	—	—	6,046	6,046
Allocation to statutory reserves	—	—	1,055	-1,055	—
<b>As at 31 December 2007</b>	<b>125,000</b>	<b>125,000</b>	<b>33,044</b>	<b>4,991</b>	<b>288,035</b>

# CASH FLOW STATEMENT

Item € thousand	2008	2007
Net profit / loss for the period	-42,091	6,046
Depreciation, valuation allowances and additions	718	467
Non-cash changes to the provisions	31	38
Other non-cash changes	39,317	-6,941
Net interest income	-41,177	-29,827
Interest received	222,262	252,234
Interest paid	-231,402	-231,458
Actual income tax expense	-5,017	7,102
Tax received on income	1,330	135
Tax paid on income	-24,789	-12,187
Lending to banks	48,879	-100,051
Lending to clients	-594,760	-102,659
Receivables from factoring relations	-39,621	-37,949
Other assets from current operating activities	24,658	6,066
Liabilities to banks	-221,567	150,123
Liabilities to clients	703,074	324,056
Securitised liabilities	-127,832	-154,934
Other equity and liabilities	526	-264
Liabilities from factoring relations	-102,145	18,680
Other liabilities from current operating activities	-11,278	15,534
<b>Cash flow from operating activity</b>	<b>-400,884</b>	<b>104,211</b>
Cash receipts from disposals of financial assets:	1,352,651	2,204,365
Cash payments from additions of financial assets:	-930,249	-2,304,515
Cash receipts from disposal of property, plant and equipment, intangible assets	12	8
Cash payments from additions of property, plant and equipment, intangible assets	-1,635	-1,650
<b>Cash flow from investment activity</b>	<b>420,779</b>	<b>-101,792</b>
Dividend payments	-16,800	-16,800
<b>Financing cash flow</b>	<b>-16,800</b>	<b>-16,800</b>
<b>Cash and cash equivalents at the start of the period</b>	<b>9,270</b>	<b>23,652</b>
Cash flow from operating activity	-400,884	104,211
Cash flow from investment activity	420,779	-101,792
Financing cash flow	-16,800	-16,800
<b>Cash and cash equivalents at the end of the period</b>	<b>12,365</b>	<b>9,270</b>

The cash flow statement shows the composition and the changes of the funds available during the year. The cash flow is divided according to operating activities, investment activities and financing activities. The cash flow statement was set up in accordance with the regulations of IAS 7.

The available funds shown correspond to the balance sheet item cash reserve (Note 22) and encompasses the balance sheet item cash in central banks.

The evidential value of the cash flow statement for banks is regarded as being low. For us the cash flow statement neither replaces the liquidity or the financial planning, nor is it applied as management or controlling instrument.

# NOTES

## INFORMATION ON THE BANK

VALOVIS BANK AG has the legal form of a public limited company. It is based in Essen and registered in the Trade Register of the local court Essen under the registration number HRB 16138. The Bank was previously called "KARSTADT Hypothekenbank AG" and changed to "VALOVIS BANK AG" with the registration on 9 March 2007.

All of the Bank's shares are held by the KarstadtQuelle Mitarbeitertrust e.V., Essen.

The separate financial statements of VALOVIS BANK AG are not included in any consolidated financial statements.

The business operations of the Bank encompass the segments Real Estate Financing, Factoring and Treasury / Asset Management.

## ACCOUNTING PRINCIPLES

The separate financial statements of VALOVIS BANK AG were drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the supplementary commercial regulations according to section 325 (2a) HGB, for the period ending 31 December 2008. The application of individual IFRS statements is explained in detail under the item Accounting Policies. In preparing its separate financial statements VALOVIS BANK AG observed all and any IFRS standards and interpretations which came into force in the EU on 31 December 2008.

This concerned, in particular, the following Standards:

International Financial Standards (IFRS)	Titel	applicable since
<b>1. International Accounting Standards (IASs)</b>		
IAS 1	Presentation of financial statements	01.01.2007
IAS 7	Cash flow statements	01.01.1994
IAS 8	Accounting and evaluation methods, changes in accounting estimates, and errors	01.01.2005
IAS 10	Events after the balance sheet date	01.01.2005
IAS 12	Taxes on income	01.01.1998
IAS 16	Property, plant and equipment	01.01.2005
IAS 18	Revenue	01.01.1995
IAS 19	Employee Benefits	01.11.2005
IAS 21	The effects of changes in foreign exchange rates	01.01.2006
IAS 24	Related party disclosures	01.01.2005
IAS 27	Consolidated and separate financial statements in accordance with IFRS	01.01.2005
IAS 32	Financial instruments: Presentation and disclosure	01.01.2005
IAS 36	Impairment of assets	31.03.2004
IAS 37	Provisions, contingent liabilities and contingent assets	01.07.1999
IAS 38	Intangible assets	31.03.2004
IAS 39	Financial instruments: Recognition and measurement	01.01.2006
<b>2. International Financial Reporting Standards (IFRSs)</b>		
IFRS 1	First-time application of the IFRS	01.01.2004
IFRS 7	Financial instruments – disclosure	01.01.2007
IFRS 8*	Business segments	01.01.2009

\* *voluntary application*

The separate financial statements are based on the principle of going concern and were drawn up, with the exception of the cash flow statement, according to the accrual of accounting method.

Furthermore the Bank decided on the earlier application of IFRS 8 "Business Segments", endorsed by the EU in November 2007; its application is compulsory for financial years beginning after 1 January 2009. The application of this standard does not affect the net worth, financial and earnings position. IFRS 8 replaces the Segment Reporting according to IAS 14.

The separate financial statements comprise the income statement, the balance sheet, the statement on changes in equity, the cash flow statement and the notes, including the segment reporting.

The management report to be set up in addition according to section 325 (2a) HGB in conjunction with section 289 HG, including the separate risk report is shown on pages 11 to 42. The information on the type and extent of the risks arising from financial instruments according to IFRS 7.31 et seq. in application of IFRS 7.B6 are included in the risk report.

The reporting currency of the separate financial statements is the euro. Unless otherwise stated all values are rounded off to thousand euros (€ k).

### **Essential discretionary decision, estimations and assumptions**

In preparing the separate financial statements according to IFRS the management makes significant discretionary decisions, estimations and assumptions which affect the amount of the reported earnings, expenses, assets and indebtedness as well as the contingent liabilities reported at cut-off date. However, the uncertainties arising from these assumptions and estimations could lead to considerable future adjustments of the carrying amount of the respective assets or liabilities.

The most significant future-orientated assumptions and other main sources of uncertainties in the estimations existing at cut-off date that bear a considerable risk of the necessity of material adjustment of the carrying amounts of assets and liabilities within the next financial year, is commented upon in the following.

#### **a) Impairment of financial assets**

VALOVIS BANK AG classifies certain financial assets as loans and receivables and as held to maturity (HtM). If the fair value declines, the management makes assumptions with respect to the impairment to determine whether the impairment has to be reported as fair value through profit or loss in the respective period.

#### **b) Fair value measurement**

VALOVIS BANK AG measures the fair value of those financial instruments allocated to the category "at fair value through profit or loss" at the balance sheet date. The fair value measurement is based on the knowledge of the estimated future development of parameters. These particularly refer to the interest rate level, risk of default as well as expected future payment flows from the financial instruments in question.

For the presentation of the fair value measurement reference is made to the presentation of the accounting and evaluation methods.

#### **c) Pensions**

The expenses from defined-benefit pension plans are determined by actuarial calculations. The actuarial evaluation is effected on the basis of assumptions regarding the discount rates, expected income from pension plan assets, future increases in wages and salaries, mortality and the future pension increments. Due to the long-term orientation of these plans such estimations are subject to material uncertainties. As at 31 December 2008 pension provisions totalled € 230 k (previous year: € 197 k).

#### **d) Deferred taxes on losses carried forward**

According to IFRS deferred taxes on losses carried forward are deductible to the extent that future earnings will suffice to make use of these losses carried forward.

# ACCOUNTING POLICIES

## 1. *Financial instruments* (IAS 39)

### 1. Overview on the categories of financial assets and liabilities

According to IAS 32 a financial instrument is a contract which simultaneously leads to a financial asset at one company, and to a financial liability or an equity capital instrument at the other company. According to IAS 39 all financial assets and liabilities including all derivatives and equity instruments must be recognised in the balance sheet, classified in the following positions and evaluated in reliance on this classification:

- a) Financial assets and liabilities (at fair value through profit or loss) carried at the respective fair value in the income statement, thereof:
  - aa) Financial assets and liabilities held for trading purposes (HfT)
  - ab) Financial instruments voluntarily designated at fair value (designated at fair value through profit or loss; fair-value-option; FVO)
- b) Loans and receivables (LaR)
- c) Financial assets held to maturity (HtM)
- d) Financial assets available for sale (AFS)

Financial assets in the meaning of IAS 39 will either be measured as financial assets designated at fair value through profit or loss, as loan and receivables, as financial investments held to maturity or as financial investments available for sale. Financial assets are measured at fair value through profit or loss at initial recognition. In the case of financial assets other than those to be classified as designated at fair value through profit or loss, transaction expenses directly attributable to the acquisition of the financial asset will be taken into account additionally.

The designation of the financial assets in the measurement categories is effected at its initial recognition. Transformations, if admissible and required, will be made at the end of a financial year.

The category "financial instruments available for sale" is currently not utilised.

All purchases and sales of financial assets customary in the market are recognised in the balance sheet on the trading day, i.e. the day on which the Bank took on the obligation to buy or sell the assets. Purchases and sales customary in the market are purchases or disposals of financial assets that require the delivery of the assets within a period set down by market regulations or practices.

### **Financial assets and liabilities designated at fair value through profit or loss**

The group of financial assets and liabilities designated at fair value through profit or loss includes the financial assets and liabilities held for trading purposes, which are initially designated at fair value, as well as the financial assets and liabilities voluntarily designated at fair value.

As a non-trading-book institute the Bank uses the term “trading purpose” in the exclusive meaning of IFRS as a superordination term; it does not conduct any trading for own account for the purpose of short-term profit generation.

Derivatives employed to manage the interest rate risk of the Bank are classified as held for “trading purposes”, with the exception of such derivatives that concern a financial guarantee, or were designated as security instrument and are effective as such. Gains or losses generated by financial assets thus held for trading purposes are shown as trading profit or loss in the income statement.

At the time VALOVIS BANK AG first becomes a contracting party it will determine whether the embedded derivatives must be shown separately from the basic contract. This concerns one share option in the portfolio of the Bank. A re-assessment will only be effected in case of a considerable change in the contractual conditions if this would generate a significant change in the payment flows, which would otherwise have arisen from the contract.

According to the fair-value-option it is permissible to measure each financial instrument under observation of certain preconditions by a voluntary designation at fair value through profit or loss.

The decision to apply the fair-value-option must be made irrevocably at the time of addition of the financial instruments.

According to IAS 39 the application of the fair-value-option is generally allowed in case of:

- a) Significant incongruence in accounting or evaluation, resulting from the so-called “mixed model accounting” of IAS 39,
- b) Groups of financial assets and / or liabilities which are managed together on a portfolio basis, and the results of which are determined within the scope of risk management and internal reporting at fair value basis, and
- c) Structured financial instruments encompassing embedded derivatives subject to separation.

Option b) applies to VALOVIS BANK AG because it includes both the present values of third-party securities and mortgage loans as well as the refinancing part in asset and liability management.

The initial measurement of the financial instruments designated at fair value through profit or loss is conducted at the fair value. Subsequently, these financial instruments are, as a rule, measured at fair value. If available, stock market or market prices will be called upon for measurement. To the extent that stock market or market prices do not exist or are not reliably determinable the respective fair values will be determined based on the mark-to-model method or discounted cash flows.

The lending and obligations to banks and to customers (with the exception of lending and obligations from the factoring business) as well as the financial investments and securitised obligations in part are measured voluntarily at the fair value. The valuation allowances designated at fair value through profit or loss will be carried under expenses or income from the utilisation of the fair-value-option. Realised interest income and the pro rata interests will be shown under net interest income. The allocation of the premiums / discounts is effected according to the effective interest rate method.

#### **Loans and receivables (LaR)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments not listed on an active market. Following their initial recognition the loans and receivables will be measured at amortised cost less depreciation, if any. Gains and losses are recorded in the result for the respective period in which the loans and receivables are written-off or depreciated, and within the scope of amortisation.

Mortgage loans are voluntarily measured at fair value. Impairment is recorded in the result for the respective period. For the purpose of fair value designation the zero returns are determined on the basis of the stipulated interest rate curve at cut-off date. In accordance with each internal rating level additional spreads are added to the interest rates. This results in the dependency of the present value on the rating class.

#### **Held to maturity (HtM)**

Financial instruments held to maturity are non-derivatives with fixed or determinable payments as well as a fixed term, which VALOVIS BANK AG wants to hold (and can legally and economically hold) to maturity, with the exception of those that were initially designated at fair value through profit or loss, and those that fulfil the definition of loans and receivables.

Within the scope of consequential measurement of financial instruments of the category held to maturity, VALOVIS BANK AG reviews at each balance sheet date if there are objective indications that a decrease in value in the meaning of impairment has taken place. The term impairment is restricted to non-market-price related impairments.

### Financial guarantees

Financial guarantees are recognised at the time the guarantee offer is accepted, and measured at fair value. The present value of the outstanding premiums is netted with the obligatory present value of the financial guarantee; if the contracts are consistent with the market situation the two amounts will correspond.

### 2. Measurement

The fair value of financial investments traded on the organised markets is determined by the market price quoted at balance sheet date. The fair value designation of financial investments without an active market is determined by applying measurement methods. Included in the measurement methods is the application of the most recent transactions, the comparison with the current fair value of another, essentially identical financial instrument, the analysis of discounted cash flows as well as the application of other models of measurement.

Loans and receivables are generally measured at amortised costs. This is the amount measured at the initial recognition of the financial asset, less repayments, adding or deducting the accumulated amortisation of a possible difference between the original amount and the amount redeemable at maturity, while applying the effective interest rate method, as well as deducting a possible reduction (by means of a valuation adjustment account) for valuation adjustments or irretrievability. The loss caused by the impairment will be carried in the income statement.

In the event the amount of the valuation adjustment decreases during the following reporting periods, and if this decrease can objectively be attributed to an event subsequent to the recording of the impairment, the valuation adjustment recorded earlier will be reversed. The new carrying amount of the asset may, however, not exceed the amortised cost at the time the impairment loss is reversed. The reversal of the impairment loss is recognised in the income statement.

### 3. Write-off of financial assets and liabilities

A financial asset (or part of a financial asset or part of a group of similar financial assets) is written-off if one of the three following conditions is fulfilled:

- > The contractual rights to the subscription of cash flows from a financial asset have expired.
- > VALOVIS BANK AG does keep the rights to the subscription of cash flows from financial assets, however, the Bank takes over a contractual obligation of immediate payment of cash flows to a third party within the scope of a "pass-through arrangement" that fulfils the conditions of IAS 39.19.
- > VALOVIS BANK AG vested its contractual rights to the subscription of cash flows from a financial asset and in conjunction therewith either (a) generally vested all opportunities and risks connected with the ownership of the financial asset, or (b) did not generally vest nor retain all opportunities and risks connected with the ownership of the financial asset, however, vested the power of disposal of the asset.

In the event VALOVIS BANK AG vests its contractual rights to cash flow from an asset, in general neither vests nor retains all opportunities and risks connected with the ownership of this asset, and in conjunction therewith also retains the power of disposal of the vested asset, it continues to recognise the vested asset within the scope of its ongoing commitment. If the form of the ongoing commitment guarantees the vested asset, the extent of the ongoing commitment corresponds to the lower amount of the original carrying amount of the asset and the highest amount of the counter-performance received, which VALOVIS BANK AG might have to repay.

If the form of the ongoing commitment is a written and / or a purchased option on the vested asset (including an option fulfilled by a cash compensation or similar manner), the extent of the ongoing commitment of VALOVIS BANK AG corresponds to the amount of the vested asset which the Bank can repurchase. In case of a written sales option (including an option fulfilled by a cash compensation or similar manner) on an asset measured at fair value, the extent of the ongoing commitment is, for that matter, limited to the lower amount of the fair value of the vested asset and the strike price of the option.

A financial liability is written-off when the obligation underlying this liability is fulfilled, terminated or expired. In the event that an existing financial liability is exchanged by another financial liability of the same lender with substantially different contractual terms, or if the conditions of an existing liability are changed substantially, such an exchange or change will be treated as a write-off of the original liability and a recognition of a new liability. The difference between the respective carrying amounts will be recorded in the income statement.

#### **4. Trade assets and liabilities**

VALOVIS BANK AG makes use of derivatives mainly in the form of interest swaps and interest rate futures and, to a lesser extent, forward exchange contracts exclusively for the control of interest rate and currency risks.

These derivatives are designated at fair value when the contract is concluded and measured at fair value in the subsequent periods. Derivatives are recognised as assets if their fair value is positive and as liabilities if their fair value is negative.

The measurement gains / losses from derivatives are recorded in the trading performance.

Presently, VALOVIS BANK AG neither conducts any micro-hedging nor does the Bank apply the regulations on hedge accounting according to IAS 39.

## *2. Currency translation*

The separate financial statements of VALOVIS BANK AG are drawn up in euros, the functional and presentation currency. Foreign currency transactions are translated into the functional currency at the spot rate effective on the transaction day. Monetary assets and liabilities in foreign currency are translated into the functional currency on each cut-off date, using the prices effective on the cut-off date. All currency differences are recognised in the income statement.

The currency translation is effected according to the regulations of IAS 21. At the closing date monetary items in foreign currency are translated into euros, the functional currency. Since outstanding currency items are usually closed, the currency translation does not have any material effects on profit and loss.

### *3. Cash reserve*

The cash reserve encompasses the balances with central banks. The balances are shown at their nominal value.

### *4. Loan loss provisions*

The valuation adjustment of a loan becomes necessary if it can be assumed on account of observations that not all interest and repayment obligations can be met. The amount of the valuation adjustment corresponds to the difference between the carrying amounts of the loan, less the present value of the expected reflux. VALOVIS BANK AG measures receivables from the mortgage loan business at fair value, thus taking into account the respective valuation adjustments. Irrecoverable debts are written off in full. Incoming payments on receivables that were written off will be recorded in the income statement.

No portfolio valuation adjustment will be created for receivables from the Factoring business measured at cost. These receivables are essentially hedged by collateral retentions recognised on the liabilities side of the balance sheet.

### *5. Intangible assets*

Intangible assets with a terminable useful life are depreciated over the economic life and examined for possible impairment to the extent that there are indications the intangible asset could be impaired. The period and method of depreciation for intangible assets with a terminable useful life will be reviewed at least at the end of each fiscal year.

VALOVIS BANK AG carries the acquired software under intangible assets. The initial measurement for purchased intangible assets is effected at cost. Scheduled straight-line depreciation is applied for subsequent measurement over the expected useful life and recognised in the income statement under the item administrative expenses. Unscheduled depreciation will be applied in the event no future use of the asset is to be expected. All intangible assets were purchased and are not self-generated; they have a terminable life of 3 years.

### *6. Property, plant and equipment*

The properties and buildings used by the Bank itself and shown as property, plant and equipment, as well as fixtures and fittings are recognised at cost, reduced by scheduled straight-line depreciation in accordance with the expected useful life. Depreciation is reported in the income statement under the item administrative expenses.

Unscheduled depreciation is applied in case of permanent impairment of assets. If the reasons for unscheduled depreciation no longer exist, value assignments are made up to a maximum amount of amortised costs.

Subsequent costs of acquisition are capitalised to the extent that an additional economic use will be generated for the company. Maintenance expenses for property, plant and equipment are recognised in the income statement in their year of occurrence.

Property, plant and equipment is depreciated over the following periods:

Expected useful life in years	
Buildings	50
Fixtures and fittings	3–15

#### 7. Liabilities

Liabilities that are not allocated to the category “fair-value-option” are recognised in the balance sheet at amortised cost. Own issues, loans against borrower’s note as well as securitised liabilities are fully recognised in the category “fair-value-option”.

#### 8. Other assets and liabilities

The items are recognised in the balance sheet at amortised cost.

#### 9. Provisions

Provisions for doubtful accounts against third parties and imminent losses from pending transactions are made in the amount of the expected availments.

#### Provisions for pensions and similar obligations

The Bank has pension commitments to certain employees. The amount of the pension commitment is determined using the projected unit credit method. Actuarial gains and losses are recognised in the income statement when the balance of the accumulated, not recorded actuarial gains and losses for each pension plan exceeds the higher of the two amounts of 10 % of the defined-benefit commitment, or 10 % of the fair value through profit or loss of the plan assets. These gains or losses are realised over the expected average remaining working life of the employees included in the pension plan.

The past service cost will be distributed on a straight-line basis over the average length of service up to achieving the non-forfeiture of the expectancy. To the extent that expectancies become non-forfeitable immediately upon the introduction or amendment of a pension plan, the past service cost must be recognised in the income statement without delay.

The amount to be recognised as asset or liability from a defined-benefit plan encompasses the cash value of the defined-benefit commitment, less the past service cost not yet recorded, and deducting the fair value of the plan assets for immediate fulfilment of obligations. The value of an asset is limited to the sum of the past service cost not yet recognised, and the present value of a possible economic use in the form of reimbursements from the plan or in the form of reduced future contributions to the plan.

#### Other provisions

The other provisions include death benefits. These are determined on the basis of actuarial expertise according to IAS 19.

*10. Income tax claims  
and obligations*

Taxes on income are calculated at the actually effective tax rates.

**Deferred taxes**

Deferred assets are formed by applying the liability method on temporary differences existing between the recognition of an asset or liability in the balance sheet and the fiscal recognition at balance sheet date.

Deferred tax claims and obligations are measured on the basis of the tax rates likely to become effective in the period in which an asset is realised or an obligation is fulfilled. For this purpose the tax rates (and tax laws) effective at balance sheet date are applied. Future tax rate changes are taken into account at balance sheet date provided the material conditions for their effectiveness within the scope of a legislature procedure are fulfilled.

Deferred taxes are calculated on the temporary differences between the values shown in the balance sheet and the fiscal values, and are recognised accordingly in the balance sheet or the income statement.

In doing so, deferred taxes on assets and liabilities in the balance sheet which concern the same tax authority will be netted.

Deferred taxes on losses carried forward are made to the extent that future earnings will suffice to make use of these losses carried forward.

*11. Equity*

According to IFRS the equity establishes a residual claim on the assets of a company following the deduction of its total liabilities or claims for which the lender has no right of termination.

*12. Adjustment of previous  
year's figures*

In the fiscal year deferred tax claims and liabilities were recognised as netted balances. Previous year's figures were adjusted accordingly. Last year's net earnings remain unchanged.

# SEGMENT REPORTING

## 13. Segment reporting

### 1. Description of the segments subject to reporting

For the purpose of corporate management VALOVIS BANK AG is organised according to products and services in business segments. The Bank operates almost exclusively in three lines of business that correspond to the operating segments. These are:

- > Real estate business
- > Factoring business
- > Treasury / Asset Management

Reference is made to the management report for information on the contents and the economic development of the segments.

### 2. Income Statement according to segments

The operating performance of the business segments is monitored separately by management in order to make decisions on the distribution of resources and to determine the earnings power of the segments. The development of the segments is measured on the basis of the operating performance. The segment performance corresponds to the performance reported according to IFRS.

In the following table the earnings and expenses were allocated to the individual segments.

€ thousand	Properties	Factoring	Treasury / Asset Management	Total
Net interest and interest-related income	10,780	12,006	18,390	41,176
Commission profit / loss	2,348	264	- 742	1,870
<b>Gross earnings</b>	<b>13,128</b>	<b>12,270</b>	<b>17,648</b>	<b>43,046</b>
Measurement gains / losses	—	—	- 77,920	- 77,920
Direct costs	- 1,324	- 2,027	- 1,760	- 5,111
<b>Cover amount</b>	<b>11,804</b>	<b>10,243</b>	<b>- 62,032</b>	<b>- 39,985</b>
Indirect costs / other results	- 3,279	- 602	- 3,242	- 7,123
<b>Earnings before taxes</b>	<b>8,525</b>	<b>9,641</b>	<b>- 65,274</b>	<b>- 47,108</b>
Actual income tax expense	2,728	3,085	- 10,830	5,017
<b>Net profit / loss for the period</b>	<b>5,797</b>	<b>6,556</b>	<b>- 54,444</b>	<b>- 42,091</b>

The funding margin is allocated to the segment "Treasury / Asset management". The operating margins were divided among the segments.

In the "Real estate" segment new business was taken on with foreign clients, of € 75,700 k (previous year: € 60,234 k). Repayments from foreign clients were at € 41,595 k in the year under review (previous year: € 153,399 k).

Turnover in the "Factoring" segment was made exclusively with domestic customers.

Indirect costs are attributed to the segments entailing the costs.

### 3. Allocation of financial assets and liabilities to the segments

€ thousand	Properties	Factoring	Treasury / Asset Management	Total
Segment assets	1,715,914	1,680,246	2,408,072	<b>5,804,232</b>
Segment liabilities	1,635,254	1,587,439	2,352,395	<b>5,575,088</b>
Segment equity	80,660	92,807	55,677	<b>229,144</b>

VALOVIS BANK AG allocated all financial assets and liabilities to the segments. The measurement recognitions of the segment assets and liabilities correspond to those of the balance sheet. Equity is divided among the segments "Real estate" and "Factoring" according to regulatory aspects. The remaining portion is allocated to the segment "Treasury / Asset management".

## NOTES TO THE INCOME STATEMENT

### 14. Net interest income

Interest income includes earnings from early repayment penalties of € 882 k (previous year: € 4,848 k). € 172,771 k of the total net interest income of € 271,367 k are attributable to loan and money market transactions. The interest expenses amounting to € 230,191 k include € 65,243 k used to meet the obligations from the issue of Pfandbriefe.

**Net interest income** results from the following categories:

€ thousand	2008	2007
<b>At Fair Value through Profit and Loss</b>	<b>-36,656</b>	-29,798
Net Interest income	193,535	171,606
Interest expenses	-230,191	-201,404
<b>Loans and Receivables</b>	<b>67,095</b>	53,562
Net Interest income	67,095	53,562
Interest expenses	—	—
<b>Held to Maturity</b>	<b>10,737</b>	6,063
Net Interest income	10,737	6,063
Interest expenses	—	—
	<b>41,176</b>	29,827

*15. Net commission income*

Net commission income was essentially accounted for by handling charges in the mortgage business as well as commissions paid in conjunction with the brokerage of term money during the course of the year.

*16. Result from the utilisation of the fair value option*

The following result is generated by applying the fair value option in the measurement of mortgage loans, own issues and third-party securities at market value:

€ thousand	2008	2007
Earnings from the use of the fair value option	110,802	89,556
Expenses from the use of the fair value option	190,976	66,360
	<b>-80,174</b>	<b>23,196</b>

*17. Trading performance*

The trading performance reports the valuation result of the derivatives concerning the business pertaining to interest and currencies. This year earnings totalled € 49,652 k (previous year: € - 35,393 k). The earnings essentially include the development of the market price for derivatives amounting to € 24,980 k as well as the performance generated by futures of € 23,259 k.

*18. Income from long-term investments*

Income from long-term investments includes essentially losses from the disposal of shares held in the special investment trusts of € 37,344 k (previous year: gains on sales € 16,125 k), a write-down of a security of the Landsbanki Island hf. to the amount of € 14,000 k (previous year: € — k) as well as the netted price gains of third-party securities of € 4,851 k, the losses from the sale of publicly offered funds to the amount of € 4,702 k (previous year: € — k), and the current income from shares (repo agreements) totalling € 3,028 k (previous year: € 13,789 k).

19. General administrative expenses

Personnel and other administrative expenses are composed as follows:

€ thousand	2008	2007
<b>Personnel expenses</b>		
Wages and salaries including social security contributions	5,425	4,127
Bonus and special payments	562	587
Retirement benefit costs	36	62
	<b>6,023</b>	<b>4,776</b>
<b>Other administrative costs</b>		
Legal, audit and consultancy and other similar costs	2,074	2,598
Operating costs	1,688	1,343
Association fees and costs of government supervision	1,477	1,229
Bank charges and fees	786	437
Operating expenditure of the special fund	745	185
Amortisation / depreciation on intangible assets and property, plant and equipment	718	468
Message costs	346	337
Motor vehicle costs	342	186
Seminar and travel costs	285	231
Issuing Costs for issuing and lending business	221	280
Room costs for commercially used buildings	205	905
Other personnel costs	168	156
Representation costs, gifts	160	137
Remuneration Supervisory Board	139	100
Costs for annual report incl. publication	110	57
Other administrative expenses	74	168
	<b>9,538</b>	<b>8,817</b>
<b>Total</b>	<b>15,561</b>	<b>13,593</b>

20. Balance of other income and expenses

Other operating income mainly includes earnings of € 2,639 k from a receivables portfolio purchased during the current year.

€ thousand	2008	2007
Other income	3,524	887
Other expenses	-197	-81
	<b>3,327</b>	<b>806</b>

## 21. Taxes on income

Taxes on income are classified as follows:

€ thousand	2008	2007
Actual taxes on income	2,591	1,605
Deferred taxes	-7,608	5,497
<b>Total</b>	<b>-5,017</b>	<b>7,102</b>

The reconciliation from the expected to the recognised tax expense is presented as follows:

€ thousand	2008	2007
<b>Earnings before taxes</b>	<b>-47,108</b>	13,148
Applicable tax rate	32.0 %	40.0 %
<b>Expected taxes on income</b>	<b>-15,075</b>	5,259
Effects of:		
Actual taxes incurred in previous years	-729	-135
Tax rate changes	0	-482
Tax-free income and non-deductible expenses	10,949	2,460
Other	-162	0
<b>Taxes on income</b>	<b>-5,017</b>	<b>7,102</b>

The rounded tax rate of 32.0 % to be applied to the year under review is comprised of the corporation tax rate of 15.0 % (previous year 25.0 %) currently effective in Germany, the solidarity surcharge of 5.5 % on corporation tax (previous year 5.5 %), and the effective trade tax rate of 17.0 % (previous year 17.0 %).

The actual reported tax expense includes the full tax amount attributable to ordinary business activities, shown in accordance with HGB and on the basis of fiscal regulations. Despite negative net earnings, a tax liability is generated due to losses from shares – something not recognised by the tax authorities.

# NOTES TO THE BALANCE SHEET

## 22. Cash reserve

Cash reserves are held at the Essen branch of Deutsche Bundesbank. They are not subject to any limitation of drawing powers.

## 23. Trading assets

The trading assets encompass the positive market values of interest-related transactions including the pro rata interests to the amount of € 20,134 k (previous year: € 28,138 k). In addition receivables from forward exchange deals of € 1,492 k (previous year: € 498 k) were recognised.

## 24. Lending to banks

Lending to banks mainly includes € 121,045 k overnight lending and sight deposits due on a daily basis.

## 25. Lending to clients

Lending to clients at € 2,184,713 k (previous year: € 1,592,530 k) primarily concerns **mortgage loans**. The individual receivables are basically secured by first-rate mortgages.

Receivables from the issue of mortgage loans are classified in the following order of magnitude:

Size classes € thousand	Number of clients	%	€ thousand	%
up to 10,000	1,381	98.9 %	445,815	26.0 %
more than 10,000	16	1.1 %	1,270,099	74.0 %
	<b>1,397</b>	<b>100.0 %</b>	<b>1,715,914</b>	<b>100.0 %</b>

As for the rest, we refer to the information stated in section 28 Pfandbrief Act with respect to the classification of the loans secured by mortgages according to type of property and occupancy.

## 26. Liabilities from the factoring business

In 2008 the portfolio of purchased receivables rose slightly from € 1,640,625 k to € 1,680,246 k. Retention for collateral is recognised on the liabilities side of the balance sheet, part of which will become repayable if not called upon.

The receivables from the factoring business are attributed to the volumes up to € 1,000 at € 693,262 (previous year: € 667,181 k) and from € 1,000 upwards at € 986,984 k (previous year: € 973,444 k).

## 27. Long-term investments

€ thousand	2008	2007
<b>Portfolios valued at market value</b>	<b>1,408,561</b>	1,930,422
Bonds and other fixed-interest securities	1,395,120	1,802,797
Shares and other non-fixed interest securities	13,441	127,625
<b>Held to maturity portfolios</b>	<b>263,386</b>	200,859
Bonds and other fixed-interest securities	263,386	200,859
	<b>1,671,947</b>	2,131,281

Bonds and other fixed-interest securities relate to public and other issuers to the nominal amount of € 1,691,000 k (thereof listed on the stock exchange € 1,691,000 k).

As in the preceding year, listed shares in two public special investment trusts of \$ 19,085 thousand (converted € 13,537 k) are recognised under shares and non-fixed interest securities as at 31 December 2008.

On 31 December 2008 unlisted domestic shares are held, at € 8,905 k.

*28. Intangible assets  
and property, plant  
and equipment*

The development of property, plant and equipment and intangible assets in fiscal 2007 is presented as follows:

€ thousand	Intangible assets	Land and buildings	Operating and business equipment	Property, plant and equipment total
<b>Costs of acquisition / production</b>				
As at 1 January 2007	955	3,592	427	4,019
Additions	1,069	279	302	581
Disposals	—	—	49	49
As at 31 December 2007	2,024	3,871	680	4,551
<b>Write-downs and additions</b>				
As at 1 January 2007	596	2	153	155
Scheduled depreciation	334	28	105	133
Disposals	—	—	41	41
As at 31 December 2007	930	30	217	247
<b>Carrying amounts</b>				
As at 1 January 2007	359	3,590	274	3,864
As at 31 December 2007	1,094	3,841	463	4,304

In fiscal 2008 property, plant and equipment and intangible assets developed as follows:

€ thousand	Intangible assets	Land and buildings	Operating and business equipment	Property, plant and equipment total
<b>Costs of acquisition / production</b>				
As at 1 January 2008	2,024	3,871	680	4,551
Additions	1,547	—	88	88
Disposals	—	—	31	31
As at 31 December 2008	3,571	3,871	737	4,608
<b>Write-downs and additions</b>				
As at 1 January 2008	930	30	217	247
Scheduled depreciation	586	33	99	132
Disposals	—	—	19	19
As at 31 December 2008	1,516	63	297	360
<b>Carrying amounts</b>				
As at 1 January 2008	1,094	3,841	463	4,304
As at 31 December 2008	2,055	3,808	440	4,248

The Bank itself uses the properties and buildings.

### 29. Other assets

Other assets essentially include tax claims amounting to € 1,685 k (previous year: € 15 k).

### 30. Claims against tax on earnings

Claims against tax on earnings are composed as follows:

€ thousand	2008	2007
Actual income tax claims	22,180	2,591
Deferred income tax claims	2,749	0
<b>Total</b>	<b>24,929</b>	<b>2,591</b>

Deferred claims against tax on earnings were made for the following balance sheet positions:

€ thousand	2008	2007
Trading assets and liabilities	10,860	13,271
Lending to banks and clients	349	2,827
Long-term investments	30,993	4,606
Provisions	61	1
Offset against deferred tax liabilities	-39,514	-20,705
<b>Total</b>	<b>2,749</b>	<b>0</b>

The actual earnings tax claims encompass essentially capital gains tax refunds from the tax office Essen generated by a repo agreement.

In order to determine the deferred taxes a corporation tax rate of 15.0 % (previous year: 15.0 %), the solidarity surcharge of 5.5 % (previous year: 5.5 %), and the effective trade tax of 16.5 % (previous year: 16.5 %) were taken into account.

Deferred taxes on assets and liabilities existing with the same respective authority are netted as of 2008, and last year's figures were adjusted.

### 31. Liabilities to banks

€ thousand	2008	2007
Issued registered mortgage Pfandbriefe	4,562	19,799
Other liabilities	31,964	225,586
	<b>36,526</b>	<b>245,385</b>

Other liabilities mainly include liabilities from overnight money of € 17,678 k (previous year: € — k), and from term money to the amount of € 10,346 k (previous year: € 20,303 k).

The collateralisation was made for the fund-raising within the scope of non-recourse repo transactions. The transactions were effected according to the conditions for repo agreements customary in trade. The securities deposited as collateral continue to be shown as long-term investments.

### 32. Liabilities to clients

€ thousand	2008	2007
Issued registered mortgage Pfandbriefe	1,246,494	1,133,069
Other liabilities	3,573,814	2,997,423
	<b>4,820,308</b>	<b>4,130,492</b>

Other liabilities substantially include loans against borrower's note and term monies.

### 33. Liabilities from the factoring business

The liabilities from the factoring business of € 478,237 k (previous year: € 580,382 k) essentially concern purchase price discounts and retentions for collateral from the purchase of liabilities in the mail-order house financing business.

### 34. Securitised liabilities

€ thousand	2008	2007
Issued bearer mortgage Pfandbriefe	142,708	273,142
Issued public-sector Pfandbriefe	50,568	48,466
	<b>193,276</b>	<b>321,608</b>

### 35. Trading liabilities

The negative market values of interest-related transactions including the pro rate interest amount to € 38,360 k (previous year: € 33,361 k), those concerning currency-related transactions to € 1,682 k (previous year: € — k).

### 36. Other liabilities

Apart from the capital gains tax to be withheld for the clients and payable to the tax authorities of € 1,187 k (previous year: € 909 k) other liabilities primarily result from the liabilities for bonus payments amounting to € 562 k (previous year: € 587 k) as well as from provisions in the sector "Market / factoring" of € 449 k (previous year: € 225 k), and provisions made for legal and advisory fees to the amount of € 350 k (previous year: € 50 k).

### 37. Provisions

Provisions developed as follows:

€ thousand	Provisions for pensions	Other provisions	Total
As at 1 January 2007	159	10	169
Additions	38	2	40
Liquidations	—	2	2
Depletion	—	—	—
Transfers	—	—	—
<b>As at 31 December 2007</b>	<b>197</b>	<b>10</b>	<b>207</b>
<b>As at 1 January 2008</b>	<b>197</b>	<b>10</b>	<b>207</b>
Additions	33	—	33
Liquidations	—	2	2
Depletion	—	—	—
Transfers	—	—	—
<b>As at 31 December 2008</b>	<b>230</b>	<b>8</b>	<b>238</b>

### Provisions for pensions and similar obligations

Provisions for pensions and similar obligations are based on defined-benefit direct pension commitments.

The following table shows the basic assumptions for the computation of pension obligations:

in %	2008	2007
Discount rate	5.90	5.70
Salary trend	2.50	2.00
Pension trend	2.00	1.75
Inflation	2.00	1.75
Average fluctuation rate	5	5

The following amounts for defined-benefit pension obligations were recognised in the balance sheet:

€ thousand	2008	2007
Present value of defined-benefit commitments as at 31 December	617	388
Less the fair value of the plan assets	316	121
	<b>301</b>	<b>267</b>
Plus non-recorded actuarial profits		
Less non-recorded actuarial losses	-71	-70
Less past service cost	—	—
<b>Provisions for pensions as at 31 December</b>	<b>230</b>	<b>197</b>

The change of the present value of the defined-benefit obligations is shown as follows:

€ thousand	
Defined-benefit commitments as at 1 January 2007	397
Interest expense	14
Current service cost	43
Benefits paid	—
Decrease due to staff transfers	—
Actuarial gains / losses	-66
Past service cost	—
<b>Defined-benefit commitments as at 31 December 2007</b>	<b>388</b>
Interest expense	22
Current service cost	51
Benefits paid	—
Increase due to staff transfers	185
Actuarial gains / losses	-29
Past service cost	—
<b>Defined-benefit commitments as at 31 December 2008</b>	<b>617</b>

The following amounts were recognised in the income statement under administrative and interest expenses for the subsequent components:

€ thousand	2008	2007
Current service cost	51	43
Past service cost	—	—
Interest expense	22	14
Expected return on plan assets	-7	-2
Actuarial gains and losses	3	7
<b>Annual expenses</b>	<b>69</b>	<b>62</b>
Employer's contributions	-30	-24
Curtailement of defined-benefit commitments due to departure	-6	—
Benefits paid	—	—
<b>Allocation to pension provisions</b>	<b>33</b>	<b>38</b>

The present value of the plan assets amounts to € 316 k (previous year: € 121 k). The plan assets developed as follows in the business year:

€ thousand	2008	2007
<b>Fair value of plan assets at the start of the period</b>	<b>121</b>	<b>91</b>
Expected return on plan assets	7	2
Actuarial gains and losses	-36	4
Employer's contributions	30	24
Contributions by employees participating in the plan	—	—
Benefits paid	—	—
Plan settlements	—	—
Increase due to staff transfers	194	—
<b>Fair value of plan assets at the end of the period</b>	<b>316</b>	<b>121</b>

The yield from the plan assets expected for the reporting period amounts to 6.2 % (previous year: 2.5 %).

No experience adjustments according to IAS 19.120A (p) were made on plan liabilities or plan assets, respectively.

The contributions expected to be paid to the plan during fiscal 2009 amount to € 10 k (previous year: € 8 k).

#### Other provisions

Other provisions encompass provisions for death benefits.

### 38. Tax on earnings – obligations

Tax on earnings obligations are composed as follows:

€ thousand	2008	2007
Actual income tax obligations	441	1,321
Deferred income tax obligations	—	5,257
<b>Total</b>	<b>441</b>	<b>6,578</b>

Provisions for deferred tax on earnings obligations were created for the following balance sheet items:

€ thousand	2008	2007
Trading assets and liabilities	4,236	1,478
Long-term investments	20,216	3,596
Lendings to banks and clients	12,697	11,832
Liabilities due to banks and clients, securitised liabilities	2,283	9,016
Provisions	82	40
Offset against deferred tax assets	-39,514	-20,705
<b>Total</b>	<b>0</b>	<b>5,257</b>

Deferred taxes on assets and liabilities existing with the same respective authority are netted as of 2008, and last year's figures were adjusted.

### 39. Notes on equity

#### Subscribed capital

The subscribed capital of VALOVIS BANK AG is divided into 125 million bearer shares without nominal value. The shares are fully paid in. The number of shares outstanding has not changed during fiscal years 2007 and 2008.

All of the Bank's shares are held by the KarstadtQuelle Mitarbeitertrust e.V., Essen.

#### Capital reserves

In both 2007 and 2008 capital reserves were unchanged at € 125 million.

#### Revenue reserves

Revenue reserves encompass the statutory reserves and other revenue reserves.

On 31 December 2008 the statutory reserves amounted to € 3,322 k and are subject to a restricted distribution. Included in other revenue reserves is retained income as well as the effects of the initial adoption of the transition date to IFRS on 1 January 2006.

€ thousand	Statutory reserves	Other retained earnings	Retained earnings total
As at 1 January 2007	2,267	18,667	20,934
Allocation from the net profit for the period	1,055	—	1,055
Allocations from the net income for the period	—	11,055	11,055
<b>As at 31 December 2007</b>	<b>3,322</b>	<b>29,722</b>	<b>33,044</b>
Withdrawal from retained earnings	—	-11,809	-11,809
<b>As at 31 December 2008</b>	<b>3,322</b>	<b>17,913</b>	<b>21,235</b>

#### Authorised capital

There was no authorised capital in the fiscal years 2007 and 2008.

#### 40. Residual terms

The residual term encompasses the period between the balance sheet date and the period of the contractual maturity of receivables or liabilities.

#### Residual term classification as at 31 December 2007

€ thousand	Up to 3 months	3 months up to 1 year	1 year up to 5 years	More than 5 years	Total 2007
<b>Assets</b>					
Lending to banks	183,938	—	14,328	—	198,266
Lending to clients	306,214	277,912	776,321	232,083	1,592,530
Due from factoring transactions	566,789	560,949	508,884	4,003	1,640,625
<b>Liabilities</b>					
Liabilities to banks	209,424	31,864	4,097	—	245,385
Liabilities to clients customers	1,223,625	1,275,445	639,243	992,178	4,130,492
Liabilities from factoring transactions	200,506	198,439	180,021	1,416	580,382
Securitised liabilities	10,004	122,962	168,671	19,971	321,608

### Residual term classification as at 31 December 2008

€ thousand	Up to 3 months	3 months up to 1 year	1 year up to 5 years	More than 5 years	Total 2008
<b>Assets</b>					
Lending to banks	172,859	2,812	23,013	—	198,685
Lending to clients	46,128	449,338	1,122,759	566,488	2,184,713
Due from factoring transactions	611,613	553,790	511,326	3,517	1,680,246
<b>Liabilities</b>					
Liabilities to banks	20,820	15,706	—	—	36,526
Liabilities to clients	977,106	2,088,751	812,499	941,952	4,820,308
Liabilities from factoring transactions	—	478,237	—	—	478,237
Securitised liabilities	22,866	16,076	128,611	25,722	193,276

Reference is made to note 45 regarding residual terms in conjunction with derivatives.

The outstanding commitments have residual terms of up to three months.

#### 41. Creation of collateral for own liabilities

Cover calculation mortgage Pfandbriefe € thousand	2008	2007
<b>Lending to clients</b>		
a) Mortgage loans		
Ordinary cover	1,487,375	1,340,665
Additional cover	227,233	376,738
Collateralised surplus cover	37,874	38,850
<b>Cover values in total</b>	<b>1,752,482</b>	<b>1,756,253</b>
Total of mortgage Pfandbriefe with mandatory cover requirement	1,527,184	1,433,644
<b>Surplus cover</b>	<b>225,298</b>	<b>322,609</b>

Cover calculation public-sector Pfandbriefe € thousand	2008	2007
<b>Bonds and other fixed-interest securities</b>		
Ordinary cover	63,035	58,014
Additional cover	—	—
Collateralised surplus cover	5,000	4,489
<b>Cover values in total</b>	<b>68,035</b>	<b>62,503</b>
Total of public-sector Pfandbriefe with mandatory cover requirement	50,672	48,439
<b>Surplus cover</b>	<b>17,363</b>	<b>14,064</b>

The collateral is measured regularly on the basis of established procedures.

In order to collateralise interest swaps and interest futures transactions, overnight lending at banks totalling € 59,126 k were pledged. Shares in the special investment trusts were pledged for liquidity management; the liquidity facilities were not called upon as of 31 December 2008. Mail-order receivables were pledged for the liability from the back-up transaction.

#### Information according to Section 28 Pfandbrief Act

In circulation	Mortgage Pfandbriefe	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Public-sector Pfandbriefe
€ thousand	2008		2007	
Par value	1,418,470	50,000	1,401,969	50,000
Present value of the Pfandbriefe	1,527,184	50,672	1,433,644	48,439
Cover pool	1,631,043	60,000	1,699,313	60,000
Present value of the cover pool (without protective surplus cover)	1,714,608	63,035	1,717,403	59,014
Balanced present value of risk (at +250 bp)	279,313	6,170	360,160	4,176
Balanced present value of risk (at -250 bp)	70,069	20,055	138,755	16,475

Circulation by time to maturity	Mortgage Pfandbriefe	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Public-sector Pfandbriefe
€ thousand	2008		2007	
Residual term of up to one year	120,500	—	153,000	—
Residual term of 1 year to 5 years	699,500	50,000	482,000	50,000
Residual term of 5 years to 10 years	459,370	—	454,700	—
Residual term of more than 10 years	139,100	—	312,269	—
	<b>1,418,470</b>	<b>50,000</b>	<b>1,401,969</b>	<b>50,000</b>

Cover funds by fixed-interest period	Mortgage Pfandbriefe	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Public-sector Pfandbriefe
€ thousand	2008		2007	
Residual term of up to one year	1,055,967	—	976,909	—
Residual term of 1 year to 5 years	205,914	—	219,472	—
Residual term of 5 years to 10 years	362,972	60,000	497,043	60,000
Residual term of more than 10 years	6,190	—	5,889	—
	<b>1,631,043</b>	<b>60,000</b>	<b>1,699,313</b>	<b>60,000</b>

Mortgage repayments	scheduled	non-scheduled	scheduled	non-scheduled
€ thousand	2008		2007	
Type of property				
Residential	6,908	66,864	4,768	18,671
Commercial	2,256	91,180	4,883	169,765
	<b>9,164</b>	<b>158,044</b>	<b>9,651</b>	<b>188,436</b>

Cover pool by size	€ thousand		Number of properties	
	2008	2007	2008	2007
Less than € 300,000	102,271	104,470	950	989
Up to € 5 million	174,851	114,921	107	72
More than € 5 million	1,158,921	1,092,922	57	48
	<b>1,436,043</b>	<b>1,312,313</b>	<b>1,114</b>	<b>1,109</b>

Cover pool by federal state	Mortgage Pfandbriefe		Public-sector Pfandbriefe	
	€ thousand	2008	2007	2007
Baden-Württemberg	116,986	20,000	111,943	20,000
Bavaria	70,638	—	68,532	—
Berlin	203,678	20,000	190,315	20,000
Brandenburg	40,346	—	41,000	—
Bremen	46,915	—	44,437	—
Hamburg	80,048	—	80,155	—
Hesse	165,510	20,000	164,224	20,000
Mecklenburg-West Pomerania	22,513	—	17,044	—
Lower Saxony	97,547	—	79,312	—
North Rhine-Westphalia	370,113	—	327,198	—
Rhineland-Palatinate	41,106	—	29,774	—
Saarland	20,561	—	20,671	—
Saxony	26,321	—	9,403	—
Saxony-Anhalt	11,613	—	10,523	—
Schleswig-Holstein	80,855	—	77,330	—
Thuringia	41,293	—	40,452	—
	<b>1,436,043</b>	<b>60,000</b>	<b>1,312,313</b>	<b>60,000</b>

Cover pool by type of property	€ thousand	2008	2007
Commercial – office building		109,682	101,083
Commercial – trading building		896,290	873,619
Commercial – other		146,151	111,135
Residential – single-family house		93,541	97,165
Residential – apartment house		114,411	74,392
Residential – apartments		8,188	9,217
Residential – other residential		67,780	45,702
		<b>1,436,043</b>	<b>1,312,313</b>

# MISCELLANEOUS

## 42. *Contingent liabilities and other liabilities*

Contingent liabilities result from five guarantees to four clients amounting to € 1,127 k. Other liabilities substantially concern irrevocable loan commitments in the mortgage loan business to the amount of € 181,046 k (previous year: € 128,451 k).

The fair values of the contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

€ thousand	2008	2007
<b>Contingent liabilities</b>		
Liabilities from guarantees and warranty agreements	1,127	46,200
<b>Other obligations</b>		
Irrevocable loan commitments	181,046	138,451

The contingent liabilities are offset by contingent claims of the same amount.

## 43. *Other financial obligations*

There is one other financial obligation regarding the performance of outstanding deposits on shares to the amount of € 8,000 k. In addition there are long-term IT service agreements which generate annual expenses of around € 1.6 million.

## 44. *Capital management*

It is the objective of capital management to ensure a sound capitalisation of VALOVIS BANK AG. In order to guarantee an adequacy of the capital under different aspects the capital ratios and structures are considered both from the point of view of economic and regulatory capital.

### **Economic capital**

To guarantee and monitor the economic capital the Board of Managing Directors caps a clearly defined amount as admissible total risk (upper loss limit), derived from the risk viability of the Bank. With respect to its risk propensity the Bank decided not to make available more than 65 % of its assets (present value of the Bank) for risk hedging under normal financial market situations. In case of heavy turbulences in the financial markets a resolution of the Managing Board of Directors may allow for a higher amount for a limited period of time. Due to the restriction of the upper loss limit a sufficient capital cushion for potential losses on account of extreme market fluctuations is still available. This upper loss limit serves as basis for a system of limitation. This results in a well-targeted limitation of risks. On 31 December 2008 the utilisation of the upper loss limit was around 40 %; this reflects the conservative risk policy of the Bank.

For further notes on the risk management system we refer to the risk report within the Management Report.

## Regulatory capital

The capital resources of the Bank are determined on the basis of the requirements of the German Banking Act (KWG).

The total ratio for 2008 is calculated according to the stipulations of the solvency regulation (SolvV). In the above calculation the Bank employs the standard approach for loan exposure.

According to section 10 KWG in conjunction with section 2 SolvV the ratio of the capital resources to the sum of the weighted risk assets and 12.5 times the proportion of the market risk items as well as the operational risk may not drop below 8.0 % per working day at closing time.

These requirements were observed at all times.

The **capital resources** consist of the core and non-core capital as well as the third-rating funds.

The **core capital** consists of the paid-in capital, the capital reserve as well as the other reserves and the deductible items (e. g. intangible assets).

The following table shows the composition of equity and the solvency coefficient:

€ thousand	2008	2007
<b>Equity finance</b>		
Core capital		
Issued capital	125,000	125,000
Capital reserves	125,000	125,000
Revenue reserves	15,526	11,223
Item to be deducted	-1,944	-1,094
<b>Total</b>	<b>263,582</b>	<b>260,129</b>
<b>Items whose inclusion is mandatory</b>		
Weighted risk assets	2,495,599	2,716,307
Capital requirement for operational risk	8,397	—
<b>Total ratio according to Solvability Regulation (Previous year Principle I)</b>	<b>10.1 %</b>	<b>9.6 %</b>

## 45. Derivatives

Within the scope of its business activities VALOVIS BANK AG concludes the following derivative transactions:

- > Interest-related forward transactions / derivative products in the form of interest swaps and futures
- > Currency-related transactions in the form of forward exchange deals

The nominal value specifies the traded contract volume. It serves as basis for the determination of the fair value changes of the derivative and as reference for the mutually agreed compensatory payments. However, it does not represent a receivable or liability capable of being recognised in the balance sheet.

The derivatives portfolio is composed as follows:

### Derivatives volume as at 31 December 2007

Nominal amount				
	Residual term			Total
€ thousand	Less than 1 year	1 to 5 years	More than 5 years	2007
<b>Interest related transactions</b>				
Interest swaps (same currency)	1,006,000	449,700	1,432,800	2,888,500
Futures	79,756	—	—	79,756
<b>Currency related transactions</b>				
Foreign exchange deals	20,876	60,851	13,629	95,356
<b>Total</b>	<b>1,106,632</b>	<b>510,551</b>	<b>1,446,429</b>	<b>3,063,612</b>

### Derivative volumes as at 31 December 2008

Nominal amount				
	Residual term			Total
€ thousand	Less than 1 year	1 to 5 years	More than 5 years	2008
<b>Interest related transactions</b>				
Interest swaps (same currency)	141,400	71,500	708,000	920,900
Futures	310,000	—	—	310,000
<b>Currency related transactions</b>				
Currency Alpha Index	—	20,000	—	20,000
Foreign exchange deals	223,349	—	—	223,349
<b>Total</b>	<b>674,749</b>	<b>91,500</b>	<b>708,000</b>	<b>1,474,249</b>

	Fair value	
	Positive market values	Negative market values
€ thousand	2007	
<b>Interest related transactions</b>		
Interest swaps (same currency)	4,153	48,588
Futures	132	1,410
<b>Currency related transactions</b>		
Foreign exchange deals	2,292	—
<b>Total</b>	<b>6,577</b>	<b>49,998</b>

	Fair value	
	Positive market values	Negative market values
€ thousand	2008	
<b>Interest related transactions</b>		
Interest swaps (same currency)	21,532	39,758
Futures	—	961
<b>Currency related transactions</b>		
Currency Alpha Index	—	23
Foreign exchange deals	1,492	1,659
<b>Total</b>	<b>23,024</b>	<b>42,401</b>

Counterparties	Nominal amount	
	2008	2007
€ thousand		
<b>OECD banks</b>	<b>1,474,249</b>	<b>3,063,612</b>

The fair value was determined by the mark-to-model method.

In order to collateralise foreign currency risks in conjunction with shares in public special investment trusts the Bank concluded a forward exchange deal.

On 31 December 2008 the foreign currency assets totalled € 15,308 k (previous year: € 98,846 k) and foreign currency liabilities € 1,682 k (previous year: € 1,410 k).

46. Fair Value through  
profit or loss of  
financial instruments

The financial instruments are allocated to the following categories:

	Loans and Receivables	Fair Value	Fair Value Option	Held to Maturity	Other Liabilities
<b>€ thousand</b>	<b>2007</b>				
<b>Assets</b>					
Trading assets	—	29,616	—	—	—
Lending to banks	—	—	198,266	—	—
Lending to clients	—	—	1,592,530	—	—
Due from factoring transactions	1,640,625	—	—	—	—
Long-term investments	—	—	1,930,422	200,859	—
<b>Liabilities</b>					
Liabilities to banks	—	—	245,385	—	—
Liabilities to clients	—	—	4,130,492	—	—
Liabilities from factoring transactions	—	—	—	—	580,382
Securitised liabilities	—	—	321,608	—	—
Trading liabilities	—	33,361	—	—	—

	Loans and Receivables	Fair Value	Fair Value Option	Held to Maturity	Other Liabilities
<b>€ thousand</b>	<b>2008</b>				
<b>Assets</b>					
Trading assets	—	21,626	—	—	—
Lending to banks	—	—	198,685	—	—
Lending to clients	—	—	2,184,713	—	—
Due from factoring transactions	1,680,246	—	—	—	—
Long-term investments	—	—	1,408,561	263,386	—
<b>Liabilities</b>					
Liabilities to banks	—	—	36,526	—	—
Liabilities to clients	—	—	4,820,308	—	—
Liabilities from factoring transactions	—	—	—	—	478,237
Securitised liabilities	—	—	193,276	—	—
Trading liabilities	—	41,317	—	—	—

The fair values through profit or loss largely correspond to the present values including the pro-rata interests.

No assets and liabilities were held for trading purposes in accordance with IAS 39 during the years 2007 and 2008.

#### Financial assets measured by the fair-value option:

€ thousand	2008	2007
Lending to banks	198,685	198,266
Lending to clients	2,184,713	1,592,530
Long-term investments	1,408,561	1,930,423
	<b>3,791,959</b>	<b>3,721,219</b>

The maximum loan exposure from lending to clients totals € 2,184,713 k (previous year: € 1,592,530 k).

#### Financial liabilities measured by the fair-value option:

€ thousand	2008	2007
Liabilities to banks	36,526	245,385
Liabilities to clients	4,820,308	4,130,492
Securitised liabilities	193,276	321,608
	<b>5,050,110</b>	<b>4,697,485</b>

The liabilities have a repayable amount of € 5,552,488 k (previous year: € 5,234,296 k).

#### 47. Number of staff

At year-end VALOVIS BANK AG had 66 employees (previous year: 56), two of whom are members of the Board of Managing Directors (previous year three). On the quarterly average the Bank had a staff of 62 (the equivalent of 58 full-time employees), thereof 26 female and 36 male employees.

#### 48. Appropriation of net loss for the year

In accordance with IFRS the net loss of € 42,091 k is to be carried forward to new account.

#### 49. Related party disclosures

The Bank is not a dependent company in accordance with section 312 et seq. AktG (Companies Act) and is not included in the consolidated financial statements of any other company. With the exception of remuneration, customary in the market, to the members of the Supervisory Board, there are no other related party transactions that could be significantly influenced by the legal relations of the Bank, its corporate bodies or by the relations to the corporate bodies of other companies.

50. Remunerations  
of corporate bodies

€ thousand	2008	2007
<b>Total remuneration of the Board of Managing Directors</b>		
Payments due on a short term	840	1,042
Other payments due on a long term	130	—
Non-cash remuneration	50	23
	<b>1,020</b>	<b>1,065</b>

€ thousand	2008	2007
<b>Total remuneration of the Supervisory Board</b>		
Payments due on a short term	139	100
	<b>139</b>	<b>100</b>

No remunerations were granted to former members of the Board of Managing Directors, the Supervisory Board and their survivors in 2007 and 2008. A pension provision of € 44 k (previous year: € 15 k) exists with respect to a former member of the Board of Managing Directors.

The executives in key positions encompass all members of the Board of Managing Directors and the Supervisory Board.

51. Loans to corporate bodies

Neither in 2007 nor in 2008 were the members of the Board of Managing Directors or the Supervisory Board granted advances or loans. Likewise no contingent liabilities were entered into in favour of these corporate bodies in the above-mentioned periods.

52. Auditors' fees in accordance  
with section 285 sentence 1  
No. 17 HGB

€ thousand	2008	2007
Audit of the annual accounts	277	209
General auditors' fees	1	5
Tax consultancy services	19	36
Other services	12	—
	<b>309</b>	<b>250</b>

*53. Date on which the separate financial statements were released for publication*

The separate financial statements of VALOVIS BANK AG for the year ended at 31 December 2008 were released for publication by resolution of the Board of Managing Directors on 23 March 2009.

*54. Events subsequent to the balance sheet date*

In order to strengthen the equity base of the Bank, the shareholder will allocate fresh capital of € 30,000 k to the Bank at the end of March 2009. This is to enable the expansion of the business activities in the segment consumer factoring.

*55. Risk management*

**Type and extent of risks ensuing from financial instruments**

The information on the type and extent of the risks arising from financial instruments according to IFRS 7.31 et seq. in application of IFRS 7.B6 are included in the risk report. The risk report is an integral part of the Management Report and is printed on page 26. Regarding the liquidity situation we also refer to the residual term classification in Note 40.

*56. Members of the Board of Managing Directors and the Supervisory Board*

**Board of Managing Directors**

**Robert K. Gogarten**, Sprockhövel  
Chairman

Member in Supervisory Boards to be formed by law:

Conetwork Erneuerbare Energien Holding GmbH & Co. KGaA, Hamburg

**Wolfgang Nitsche**, Kerpen

**Dr. Matthias Bergmann**, Essen

Until 5 December 2008

## **Supervisory Board**

**Ulrich Mix**, Kaarst

Chairman

Managing Director of Deutsche Pensions Group GmbH, Düsseldorf

Member of the Board of Managing Directors of KarstadtQuelle Mitarbeitertrust e. V., Essen

Member in Supervisory Boards to be formed by law:

Karstadt Warenhaus GmbH, Essen

Quelle GmbH, Fürth

**Karsten Loges**, Essen

Deputy Chairman

Head of Treasury & Corporate Finance of ARCANDOR AG, Essen

Member in Supervisory Boards to be formed by law:

Karstadt Warenhaus GmbH, Essen

KarstadtQuelle Bank AG, Neu-Isenburg (since 18 December 2008) – Chairman

KarstadtQuelle Finanz Service GmbH, Düsseldorf (since 17 December 2008) – Chairman

Quelle GmbH, Fürth

**Dr. Franz Wilhelm Hopp**, Düsseldorf

Member of the Board of Managing Directors of Grisons Peak LLP, London (Great Britain)

Member of the Board of Managing Directors of KarstadtQuelle Mitarbeitertrust e. V., Essen

Member in Supervisory Boards to be formed by law:

primion Technology AG, Stetten a. k. M.

Ruhrland AG, Essen

Membership in other controlling bodies (executive committee):

Capital Dynamics, Zug (Switzerland)

ENBW AG, Karlsruhe

Frankfurter Volksbank eG, Frankfurt

HSBC Trinkaus & Burkhardt AG, Düsseldorf

# ASSERTION OF THE LEGAL REPRESENTATIVES

We hereby guarantee to the best of our knowledge that, in compliance with the required accounting standards, the separate financial statements present a true and fair view of the net worth, financial position and results of the company, and that the Management Report gives a true and fair view of the state of affairs including the results of the company, and of the essential opportunities and risks concerning its future development.

Essen, 23 March 2009

VALOVIS BANK AG

The Board of Managing Directors



Gogarten



Nitsche

# AUDITORS' REPORT

We have audited the separate financial statements prepared by the VALOVIS BANK AG, Essen, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the separate financial statements, together with the bookkeeping system, and the management report of VALOVIS BANK AG, Essen, for the business year from January 1, 2008 to December 31, 2008. The maintenance of the books and records and the preparation of the separate financial statements and management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to section 325 paragraph 2a HGB (German Commercial Code) are the responsibility of the company's management. Our responsibility is to express an opinion on the separate financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the separate financial statements in accordance with section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net -assets, financial position and results of operations in the separate financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of 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 books and records, the separate 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 management, as well as evaluating the overall presentation of the separate 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 separate financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to section 325 paragraph 2a HGB and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with these requirements. The management report is consistent with the separate 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."

Frankfurt am Main, 23 March 2009

BDO Deutsche Warentreuhand  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft



Butte  
Wirtschaftsprüfer



Per proxy Krüper  
Wirtschaftsprüfer

### **The staff**

Even though 2008 was already adversely affected by the crisis in the financial markets VALOVIS BANK AG was able to increase the number of its staff. At the end of 2008, 60 full-time employees including members of the Board of Managing Directors as well as six part-time female staff were in the employ of VALOVIS BANK AG. In comparison to the preceding year this corresponds to the slightly lower increase of 18 % in numbers. Since the retirement of one member of the Board of Managing Directors, the Bank has been managed by two board members only.

The intensification of the factoring business led to a stronger increase of staff in this segment. Additional new staff was hired in the segments of accounting, securities back office, organisation /IT services and legal. Due to the initial presentation of the separate financial statements of the Bank in accordance with IFRS for the year ended 31 December 2007, the accounting segment was reinforced by two IFRS experts. The staff was increased in the segments securities back office, organisation /IT services and legal on account of the increased business activities.

Again, in 2008, the staff made use of the in-house training opportunities to specialise and deepen their professional knowledge. Qualified and motivated staff represent the essential potential of the Bank to cope with future challenges. The targets agreed upon and initiated in 2007 were thus implemented successfully. Therefore, our staff have contributed substantially to business success by achieving the corporate and segment targets.

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