ANNUAL REPORT

2010

L-BANK

Staatsbank für Baden-Württemberg

CONTENTS

To our Business Associates 04

Management Report 06

Financial Statements 31

WELCOME: CHAIRMAN OF THE BOARD OF MANAGEMENT

Dear Business Associates,

In brief, Baden-Württemberg's industry exceeded expectations last year. In 2010 economic performance increased nationwide by 3.6%, whereas Baden-Württemberg's gross domestic product increased by 5.5%. This positive development also fuelled demand for L-Bank's development programmes. Once again companies invested more in growth. However, last year's growth was not only limited to our economic development, but included our financing programmes for residential property and infrastructure.

The situation was different at the beginning of 2009. Baden-Württemberg's industry clearly felt the effects of the global crisis resulting, above all, from the state's sector structure and export alignment. When the cyclical upturn gained momentum in the middle of the last year, the situation changed. Sectors that had previously been affected, and exports, emerged as the growth drivers. Two-thirds of all goods were exported within Europe, while China proved an additional strong sales market.

What does this tell us? We live in an economically successful region which, thanks to the high degree of innovative power and growth dynamic, offers companies the best underlying conditions. However, the success of our location is conditional on developments in the global economy. It competes with other European regions. Baden-Württemberg is not only at the centre of Europe in terms of its geographical situation, it is firmly embedded in it in economic terms, too, as is reflected by our export figures. Furthermore, the international interdependence of economies and their positive or negative consequences have been the subject of greater scrutiny since the crisis. For example, Germany's high export surpluses are accompanied by capital exports, whose long-term effects have been assessed in a critical light. Issues involving financial market regulation that cannot be solved at national level should also be addressed in a European context.

Looking at the big picture, and not just regional matters, is therefore becoming increasingly important for our development programmes. We focus primarily, of course, on the requirements for the stable development of our SMEs, local government concerns and the support that our citizens request. However, most of the current topics, such as climate and environmental protection, do not affect Baden-Württemberg alone. Nevertheless, our development programmes geared towards regional topics play a crucial role in improving global development. To that end we offer financing for companies aiming to strike a new path in terms of production, local authorities that refurbish public buildings and private homeowners.

Baden-Württemberg is an internationally competitive location with SMEs that lead world markets. However, the future also places exacting demands, and new technical ideas are called for. This not only involves existing in competition with Asia's up-and-coming economies. It means finding solutions for worldwide problems. For example, how mobility can be secured with less energy. All the better if these ideas originate from Baden-Württemberg. Our state already enjoys a reputation as an unlimited source of builders and inventors. Visions, research and development precede a specific innovation. This is also part of L-Bank's remit: creating scope for such potentials and paving the way – irrespective of whether or not the potentials are in high-tech laboratories or enterprising handicraft operations. Via our development, we facilitate their financing for the future. We offer start-ups the necessary start-up options for their new concepts. We are there for established companies addressing growth and innovation.

However, money alone is not everything. We also need to create situations that facilitate creativity. For example our technology parks, which in the vicinity of universities offer companies an environment that smoothes the progress of collaboration with research.

Not every idea is viable, and not every new concept proves successful. Things that characterise our daily lives today were frequently unimaginable 100 or 50 years ago. L-Bank is paving the way today for the everyday lives of coming generations. L-Bank is committed to the shared journey into the future – joining forces with politics, SMEs, local authorities and the citizens of Baden-Württemberg.

Karlsruhe, 20 April 2011

Yours sincerely,

Christian Brand
Chairman of the Board of Management

MANAGEMENT REPORT – REPORT OF THE L-BANK BOARD OF MANAGEMENT FOR THE 2010 FISCAL YEAR

As the State Bank for Baden-Württemberg, L-Bank supports the federal state in fulfilling its public duties, in particular with respect to structural, economic and social policies. As an institution under public law it is subject to supervision by the federal state government, which is carried out by the Finance Ministry in agreement with the respective specialist responsible ministry.

OVERALL UNDERLYING ECONOMIC CONDITIONS

In the past fiscal year Germany's strong and swift recovery from the financial and economic crisis was above average. The upturn was largely attributable to exports, which confirmed Germany's status as a significant exporting country. Due to the positive overall economic development, GDP increased by 3.6% (status: 24.02.2011).

In this positive economic environment Baden-Württemberg's economy, which is strongly influenced by a significant mechanical engineering and automotive sector, saw an increase in export volume of 24.8% compared with the previous year. The increase in exports was attributable to order books that are once again filled, for example in the manufacturing industry, which saw 24.4% more orders than in the previous year. Overall, Baden-Württemberg's GDP at 4.4% (status: 28.02.2011) even outperformed that of the entire country. At 4.3% Baden-Württemberg's unemployment rate in December 2010 was significantly below the previous year's figure of 5.1%, and remains below the German average of 7.2%.

KEY DEVELOPMENTS AT L-BANK

In the 2010 fiscal year, L-Bank's new business volume was EUR 16,818.3 million (previous year: EUR 9,400.9 million) and compared with the previous year increased by 78.9%. In addition to a single infrastructure financing transaction, new business was largely made up of start-up loans and SME and housing construction financing.

FINANCING START-UPS AND SMES

Securing and creating jobs as well as lasting economic growth are central planks of L-Bank's operations. To this end it supports start-ups and SMEs with various financial instruments. In the past fiscal year the Bank made available financing totalling EUR 2,243.5 million (previous year: EUR 2,396.8 million).

In the year under review, financing start-ups and SMEs saw a significant increase in growth at a volume of EUR 445.0 million (previous year: EUR 363.1 million). This increase was, among other things, attributable to the start-up and growth financing programme focussing on "Gründung und

Festigung" (Start-up and Incubation), which achieved a volume of EUR 403.8 million (previous year: EUR 334.6 million). The "Starthilfeprogramm" (Help for Start-Ups Programme), a product for small start-ups, also saw positive development, with the minimum loan amount being reduced from EUR 5,000.0 to EUR 2,500.0. The volume of EUR 41.2 million (previous year: EUR 28.5 million) established a new record amount.

In 2010 support for established companies was provided in the sum of EUR 1,027.9 million (previous year: EUR 1,077.7 million). With a share of 45.8% this provided the focus of the entire start-up and SME financing. As in the case of the start-ups, the "Gründungs- und Wachstumsfinanzierung" (start-up and growth financing), in particular here the "GuW Mittelstandskredit" (GuW SME credit), was in particular demand at EUR 638.8 million (previous year: EUR 372.2 million).

In the year under review the guarantee programme was extended to include SMEs. Risk assumed by L-Bank now extends to up to EUR 10.0 million for each financing transaction (previous year: up to EUR 5.0 million). A further change was made to the unsecured "L-MezzaFin" subordinate loan. The programme volume was doubled, from EUR 100.0 million to EUR 200.0 million.

Further L-Bank activities in start-up and SME financing included support for agriculture and rural areas in the amount of EUR 480.5 million (previous year: EUR 557.3 million) and syndicated financings of EUR 290.1 million (previous year: EUR 385.0 million).

FINANCING FOR HOUSING CONSTRUCTION

In the housing construction finance business line L-Bank promotes the construction, acquisition and modernisation of both occupier-owned and rental housing. In the year under review it made available a total volume of EUR 1,206.7 million (previous year: EUR 1,122.5 million).

In the case of financing occupier-owned housing, the volume increased slightly to EUR 849.5 million (previous year: EUR 844.1 million). Of this, the federal state residential development programme as a central state instrument for promoting owner-occupied housing in Baden-Württemberg accounted for EUR 279.3 million. New business in this programme, which fell by 34.5% compared with 2009, is attributable, in particular, to the lower amount of funds available. By contrast, the volume of the "Living with Children" programme, which promotes the construction and acquisition of housing by young families, increased significantly from EUR 269.3 million to EUR 424.0 million.

The rental housing sector also saw positive development in the year under review with the volume increasing to EUR 357.2 million (previous year: EUR 278.4 million). Contrary to the financing of owner-occupied housing, L-Bank saw an increase of almost twofold in the funds made available via the federal state housing development programme (year under review: EUR 54.7 million; previous year: EUR 27.8 million).

REFINANCING AND BANK CONTROLLING

Excellent standing in national and international financial markets and the widely diversified L-Bank refinancing instruments available form the basis of reliable access to funds in all maturity ranges. As the State Bank for Baden-Württemberg L-Bank has at its disposal the state's public sector liability and guarantor liability and the explicit federal state guarantee. The latter guarantee mechanism puts L-Bank on an equal footing as a creditor with the federal state of Baden-Württemberg. This excellent position in the money and capital market is confirmed by the rating agencies Moody's Investors Service and Standard & Poor's with the first-class rating of Aaa or AA+, whereby Standard & Poor's raised the forecast in the year under review from "stable" to "positive".

Thanks to its selective approach to utilising the available refinancing alternatives, volume, maturity and structure goals have been achieved in their entirety. Due to the ongoing investor interest in commercial paper issued by L-Bank, the programme range was increased in 2010 from EUR 5.0 billion to EUR 10.0 billion. At the end of the year EUR 7.4 billion (previous year: EUR 4.1 billion) had been utilised. In strategic terms, the medium and long-term refinancing focussed on a maturity range of two to five years. The central instrument here is the Debt Issuance Programme, with a skeleton volume of EUR 30.0 billion, of which EUR 14.8 billion (previous year: EUR 16.0 billion) was utilised as at 31.12.2010. Three benchmark debentures were issued: one five-year bond in euros for EUR 1.0 billion and two bonds in US dollars with maturity periods of three and five years and a total volume of USD 2.5 billion, or EUR 1.9 billion, each. In addition, private placements were issued in various currencies. In 2010 the total volume of the medium and long-term capital market refinancing was EUR 8.7 billion (previous year: EUR 10.8 billion).

As part of the bank controlling business, L-Bank continues to adopt a conservative investment approach focussing on good to very good credit ratings. This also applies to asset-backed securities: the Bank largely holds securities with an AAA and AA rating. Rating changes in the last fiscal year were largely attributable to changes and adjustments to the valuation models on the part of the rating agencies. However, the underlying portfolios also saw a deterioration such that revaluations were necessary in the case of asset-backed securities based on loans to SMEs.

In 2010 short-term revolving securitisations with first-class ratings of trading and delivery receivables of Baden-Württemberg SMEs (Asset-Backed Commercial Papers) were acquired in the nominal amount of EUR 100.0 million. On 31.12.2010 no such securities were held in the portfolio. In 2010 no new business transactions were entered into involving Credit Default Swaps or other guarantee-like assumptions of risk. In the last fiscal year there was no reserve requirement resulting from this business segment.

All transactions regarding bank controlling were recorded in the Bank's books. Insofar as securitisation tranches were acquired with a rating below AA at the time of purchase, the interest on, and repayment of, such tranches were, without exception, covered by a government or supranational guarantee with a rating of at least AA. The following table provides an overview of L-Bank's portfolios and risk profile in Asset-Backed Securities and Credit-Linked Notes on the balance sheet date (adjusted for hedging transactions entered into at the time of acquisition).

PORTFOLIO OF ASSET-BACKED SECURITIES AND CREDIT-LINKED NOTES AS AT 31.12.2010*

	Nominal value in million	AAA	AA range	A range	BBB range	BB range	CCC range
Asset-Backed Securities	706.9	61.2%	14.4%	14.9%	0.0%	1.9%	7.7%
Credit-Linked Notes	888.1	83.3%	0.0%	0.8%	4.7%	11.2%	0.0%

* The basis for classification is the respective weakest external rating.

OTHER DEVELOPMENTS

L-Bank is responsible for administering numerous financial development programmes and therefore pursues the goal of strengthening Baden-Württemberg as a region from an economic and social aspect. The funds that are to be disbursed are made available, in particular, by the federal state, the German government and the European Union but also by federal state institutions such as Baden-Württemberg Stiftung gGmbH and MFG Medien- und Filmgesellschaft Baden-Württemberg mbH. The programme volume is entirely dependent on the provision of funds by the supporting institutions, and the one-off effect of any additional provision of funds as part of the Cyclical Programmes of the German federal government and federal states fell in 2010. Therefore, the approval volume fell by EUR 347.8 million to EUR 851.7 million. At EUR 296.1 million, support for hospitals accounted for the largest area of investment in the financial aid programme.

L-Bank strengthens municipal infrastructure by means of various financial solutions. To that end, it made available funds of EUR 360.6 million. However, this figure was below the previous year's volume of EUR 478.9 million. During the course of Cyclical Program II, and as a result of the financial crisis, the Public–Private Partnership market (PPP market) in Germany lost importance significantly in 2010. As a result, the financing volume for infrastructure projects, which includes the PPP projects, fell from EUR 353.7 million to EUR 95.0 million. This is contrasted with a considerable increase in the infrastructure programme "Investitionskredit Kommune direct", provided in conjunction with KfW, from EUR 66.0 million in 2009 to EUR 224.2 million in the same fiscal year. In addition, the year under review saw high-volume infrastructure financing of EUR 5,900.0 million.

L-Bank makes available federal parental and federal educational allowances provided by the German national and federal governments. In the 2010 fiscal year, at EUR 662.0 million the parental allowance approval volume was slightly lower than the previous year's figure of EUR 642.4 million. The number of applications for federal state educational allowance approved dropped slightly. The volume was EUR 39.3 million (previous year: EUR 50.9 million).

L-Bank enters into strategic and loan-replacing holdings in Baden-Württemberg companies. Furthermore, via subsidiaries it realises measures aimed at business location development in Baden-Württemberg. At the accounting date the holdings portfolio showed a total book value of EUR 498.6 million (previous year: EUR 497.2 million).

At the end of 2010 the book value of the strategic holdings was EUR 436.8 million (previous year: EUR 425.2 million). The change compared with the previous year was attributable to an increase in capital implemented at a specific company. A value guarantee of the federal state of Baden-Württemberg is in place for the holding in Landesbank Baden-Württemberg.

L-Bank operates L-EA Venture Fonds, the L-EA Mittelstandsfonds and the L-EA Garantiefonds to provide equity or equity-like funds for entrepreneurial risk-taking. The L-EA Venture Fonds has, in the meantime, completed its investment phase so that now only existing holdings are refinanced. At the end of the year the investment volume was EUR 86.1 million (previous year: EUR 85.6 million) and was spread over 17 commitments. In the 2010 fiscal year, depreciation totalling EUR 12.6 million was necessary. Established SMEs located in Baden-Württemberg are supported via the L-EA Mittelstandsfonds. In the 2010 fiscal year the fund volume was increased by EUR 150.0 million to EUR 500.0 million. Of this, 10% is set aside for venture capital investments. As at 31.12.2010 the overall portfolio was made up of 17 commitments and an investment volume totalling EUR 133.9 million (previous year: EUR 128.0 million). As at the accounting date, the guarantee volume in the L-EA Garantiefonds was EUR 7.1 million (previous year: EUR 7.5 million).

To improve the know-how and technology transfer between research and industry in Baden-Württemberg, L-Bank operates technology and industrial parks in the vicinity of universities and research facilities. Of the original investment of EUR 459.5 million, EUR 173.3 million had been invested as at the accounting date.

BALANCE SHEET TOTAL AND OPERATING RESULT

In the business year the balance sheet total increased by 2.2% to EUR 61,001.3 million. On the assets side the increase in the securities portfolio by EUR 1,121.5 million is one of the major reasons for such change. On the liabilities side securitised liabilities increased by EUR 1,848.3 million.

The business volume, which also contains guarantee obligations and irrevocable loan assurances, increased a great deal more than the balance sheet total, i.e. by 8.7% to EUR 76,679.3 million. This increase is attributable, in particular, to the loans in the sum of EUR 5,731.2 million for large-scale infrastructure refinancing measures assured in 2010, but which have yet to be drawn down.

The operating result was largely determined by interest income. In the past, expenses for interest subsidies were not taken into consideration in the profit and loss statement when calculating interest income. From 01.01.2010, according to commercial law interest subsidies are stated as interest expenses and deducted from net interest income accordingly. Such amounts are, therefore, no longer stated separately in the Profit and Loss Statement. By contrast, in the Management Report the previous presentation method (i.e. separate consideration given to both positions) has been retained. L-Bank records interest-subsidies as a service for the state of Baden-Württemberg, and therefore, in economic terms, as an appropriation of profits. Expenses for interest subsidies are contained in the item “Expenses for interest subsidies and other subsidies”.

Following this economic interpretation, as at 31.12.2010 the net interest income was EUR 422.1 million (previous year: EUR 394.2 million). The increase is, above all, attributable to favourable refinancing under the Commercial Paper Programme. In the case of net commission income, L-Bank saw an increase from EUR 31.8 million to EUR 40.5 million. Both the reduction in commission expenses, for example as a result of lower costs of the guarantee commission, and increased commission income are responsible for this change. The balance of other income and expenses increased by 62.7% to EUR 8.3 million.

In the past fiscal year personnel expenses fell by 0.5%, largely as a result of the effects of valuing pension commitments in accordance with balance sheet law modernisation legislation. Material costs fell by 12.6%, in particular as a result of lower building and IT costs. Overall, the Bank's administrative expenses fell from EUR 127.2 million to EUR 123.4 million. These developments are also reflected in the Cost Income Ratio, which improved in 2010 to 27.0% (previous year: 30.8%).

As in the previous year, the operating result before valuation adjustments improved. As at the accounting date it was EUR 347.5 million, and thus exceeded the previous year's figure by 14.3%. At EUR 85.5 million, income from asset revaluation for the entire loan business, including the security business, increased by 27.0% compared with the previous year's figure. Income from asset revaluation includes additions to reserves for general banking risks in accordance with Section 340 f HGB, which are contrasted with the liquidation of general provisions for losses in the same amount. Overall the operating result following deduction of the risk reserve and valuation changes was positive; as at 31.12.2010 L-Bank stated a figure of EUR 262.0 million (previous year: EUR 236.6 million).

In the 2010 fiscal year, L-Bank's distributable result was EUR 265.7 million (previous year: EUR 179.5 million).

EQUITY CAPITAL AND PROFIT DISTRIBUTION

Of the result, L-Bank made available to its owner, the federal state of Baden-Württemberg, a total amount of EUR 246.9 million (previous year: EUR 179.1 million). This amount is made up of interest and other subsidies of EUR 101.6 million (previous year: EUR 113.8 million), support for road construction in Baden-Württemberg of EUR 15.3 million (previous year: EUR 15.3 million) and a special dividend of EUR 130.0 million (previous year: EUR 50.0 million). Of the remaining balance sheet profit of EUR 20.0 million, EUR 19.0 million are allocated to other profit reserves and EUR 1.0 million transferred to a new account.

DEVELOPMENT OF SELECTED KEY FIGURES

	01.01.2010 to 31.12.2010	01.01.2009 to 31.12.2009	01.01.2008 to 31.12.2008
Equity ratio	2.8%	2.9%	2.8%
Return on equity	15.5%	10.5%	8.7%
Cost income ratio	27.0%	30.8%	32.9%

INCOME SUMMARY FROM AN OPERATIVE PERSPECTIVE in EUR million

	01.01.2010 to 31.12.2010	01.01.2009 to 31.12.2009	Change	Change in %
Interest income	422.1	394.2	27.9	7.1
Commission income	40.5	31.8	8.7	27.4
Other earnings/expenses	8.3	5.1	3.2	62.7
./. General administrative expenses	123.4	127.2	–3.8	–3.0
Operating earnings before risk provisions/assessments	347.5	303.9	43.6	14.3
./. Risk provisions/valuations	85.5	67.3	18.2	27.0
Operating income following risk provision/assessments	262.0	236.6	25.4	10.7
Extraordinary operating result	4.5	0.8	3.7	> 100.0
./. Addition to fund for general banking risks	0.0	57.0	–57.0	–100.0
Net income before taxes	266.5	180.4	86.1	47.7
./. Taxes on earnings	0.8	0.9	–0.1	–11.1
Distributable profit	265.7	179.5	86.2	48.0
./. Transfer to provision for interest subsidies and other subsidies granted	101.6	113.8	–12.2	–10.7
./. Contribution to road constructions investment programme	15.3	15.3	0.0	0.0
Net income	148.8	50.3	98.5	> 100.0
./. Special dividend	130.0	50.0	80.0	> 100.0

RISK REPORT

L-Bank has implemented a risk management system with the following objectives to manage risks associated with the banking business thus:

- To enable the Bank to assess the risk situation at all times.
- To identify and communicate the risks in good time.
- To identify possible alternative action to limit risks.

Risk management generally is implemented by way of four types of action:

- Specifying strategies (business and risk strategy)
- Internal capital allocation processes
- Specific risk management and risk controlling processes
- Rules governing the organisation and structure of processes

BUSINESS AND RISK STRATEGY

On account of its public service mission, the risk profile of L-Bank is determined to a great extent by development programmes that produce a concentration of counterparty default risks in particular geographic regions, industries or customer groups (cluster risks). The objective of risk controlling is to secure the continuing existence of the Bank without the support of the state of Baden-Württemberg. The Bank places a high priority on maintaining a sound level of capital resources that can support all risks (risk capacity). The Bank prepares a risk strategy each year on the basis of the planning undertaken for individual lines of business. This reveals the planned extent of future lending risks, cluster risks and risk capacity.

ORGANISATION OF RISK MANAGEMENT

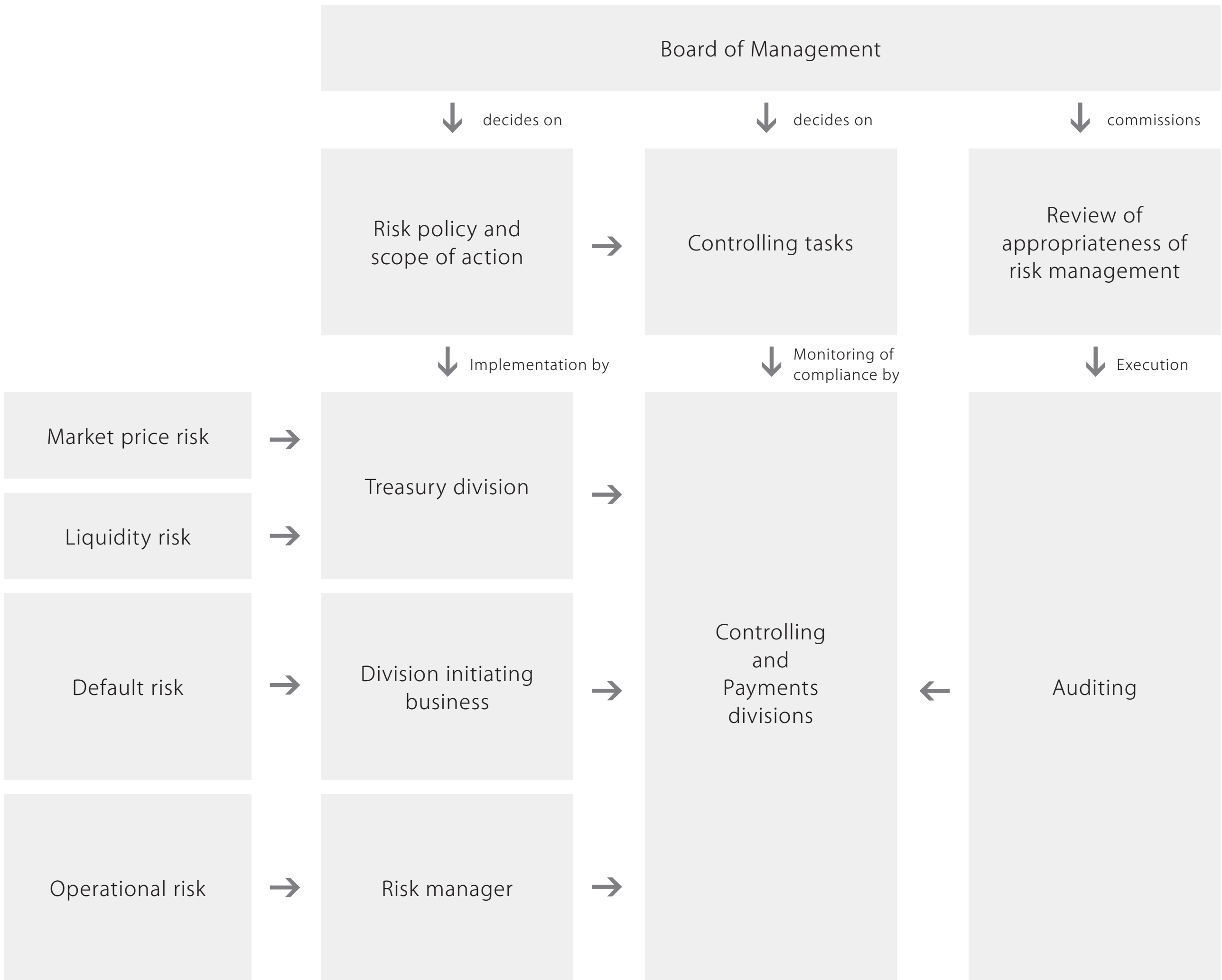
The Board of Management formulates risk policy and defines the scope of action for its implementation. The Board also defines the controlling targets, in particular by setting risk limits and target structures.

The operational departments are responsible for implementing the defined risk policy. The Treasury department is responsible for controlling interest rate and currency risks in the non-trading portfolio and for management of liquidity risk. All departments that initiate lending business are responsible for controlling default risk. Operational risks are controlled by so-called risk managers. These manage either bank-wide operational risks (central risk managers) or the risks for specific work processes (decentralised risk managers).

Risks are estimated by the Controlling department. In conjunction with the Payment Transactions department it is responsible for monitoring adherence to all specified controlling requirements, and reports to the Board of Management about the risk situation.

The Auditing department audits and evaluates the effectiveness and appropriateness of risk management and the orderly conduct of all significant activities and processes of the Bank in a risk-oriented and process-independent manner on behalf of the Board of Management. This unit is directly subordinate and reports to the entire Board of Management. The Auditing department performs its duties autonomously and independently and is not subject to instructions with respect to the assessment of the audit results or reporting.

ORGANISATION OF RISK MANAGEMENT



INTERNAL CAPACITY ADEQUACY ASSESSMENT PROCESS (ICAAP)

By way of a two-tier control system, L-Bank ensures that unexpected losses do not exceed the risk cover assets. In this respect the scope for action is determined by specifying maximum loss limits derived as part of a risk-based decision-making procedure by way of the capital for risk coverage.

Risk hedging potential

In respect of spreading risks, the Bank adopts the going concern approach. The goal of this approach has been achieved if operating the business enterprise can be continued whilst still adhering to the requirements of KWG (SolvV and GroMiKV) in the event that all unexpected losses occur simultaneously. In the year under review the Bank specified the smallest of the following amounts as risk hedging potential: reserves in accordance with HGB, 40% of the cash value of assets and liabilities, 50% of the stated capital. From 2011 the Bank has specified the following as risk hedging potential: available core capital in accordance with SolvV or GroMiKV plus reserves in accordance with Section 340 f HGB and Section 26 a KWG, old version, plus expected profit generated during the course of the year.

Total maximum loss limit

A further risk-oriented decision-making process in risk controlling determines which proportion of the risk hedging potential is set as the total maximum loss limit. The total maximum loss limit may not be greater than the risk hedging potential previously defined.

Single maximum loss limits

Depending on the nature and scope of a transaction, the defined total maximum loss limit is divided into single maximum loss limits for all main risks of the Bank (i.e. risk tolerances for default risk, market price risk, liquidity risk, operational risk). In accordance with Section 19 of the German Banking Act KWG, default risk is determined for all loans. The total maximum loss limit may not be less than the sum of the single maximum loss limits.

Business and risk strategy

The defined single maximum loss limits are compared with the value-at-risk capital required for all anticipated planned risk volumes for the following three years according to the risk strategy. If the necessary value-at-risk capital is greater than the defined single maximum loss limits, new-business planning is adapted accordingly.

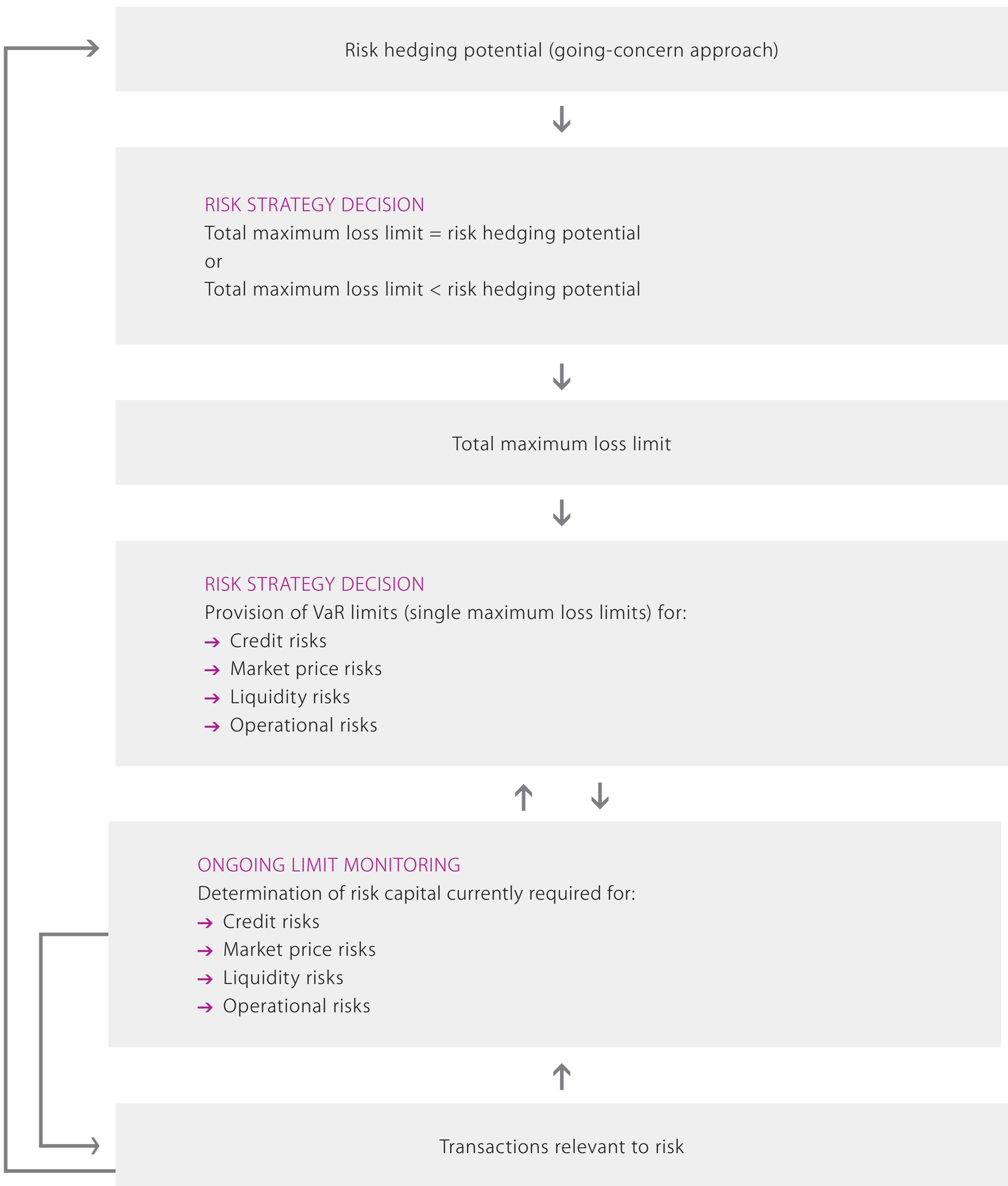
Limit monitoring and stress test

As part of the ongoing risk controlling and risk monitoring regime, the following actions are carried out at regular intervals:

- → Determination of the risk cover assets
- → Comparison of the provided total maximum loss limit with the risk hedging potential
- → Verification of adherence to the value-at-risk limits
- → Determination of the capital required to cover related losses in the event of the occurrence of stress scenarios

In the event of a negative change in risk cover assets, or if the single maximum loss limits are exceeded, general management decides on the further course of action.

INTERNAL CAPITAL ALLOCATION PROCESS (ICAAP)



RISK MANAGEMENT AND CONTROLLING

The risk controlling processes of the Bank comprise the identification, assessment, controlling, monitoring and communication of significant risks. L-Bank has identified the following types of risks as significant:

- → Default risk
- → Market price risk
- → Liquidity risk
- → Operational risk
- → Business risk

L-Bank regards anticipated losses from default risk, the value-at-risk figures and stress test results as the most important quantitative indicators of the risk situation.

Value at risk

Risks from unanticipated losses are quantified using the value-at-risk (VaR) approach, which measures the potential loss that will not be exceeded over a defined future period under normal circumstances and with a defined confidence level.

Stress tests

The extent to which stress tests are meaningful is naturally limited on account of the number of stress tests that can be performed and the fact that it is not possible to simulate all market conditions. The stress tests are defined according to L-Bank's best knowledge and belief, taking into account extreme historic market conditions. However, the occurrence of market conditions that result in losses which exceed the risk cover assets cannot be entirely ruled out.

DEFAULT RISK

Default risk refers to a possible loss from a lending transaction within the meaning of the German Banking Act (Article 19 KWG) in the event that the counterparty does not meet its contractual obligations. The cause of non-fulfilment of a contract can lie in individual factors relating to the creditworthiness of the borrower or in political reasons resulting from direct government prohibitions of performance.

Depending on when the default risk occurs, the Bank further differentiates between settlement risk, transaction risk and lending risk.

Assessment method

The risks from unanticipated losses are estimated using the value-at-risk approach.

The default risks in housing construction subsidisation are calculated using a statistical method that assumes a holding period of one year and a confidence level of 99.0%. These analyses take into consideration the proceeds from the realisation of security provided, but not correlations between individual borrowers, as the housing construction sector comprises a great number of homogeneous debtors.

In other lending, the calculation is performed using Monte Carlo simulation, on the basis of internal ratings and probabilities of rating changes–provided by rating agencies. These analyses take into consideration correlations identified for the respective home countries of the borrowers, but not the security they provide. Virtually the entire portfolio originates in Europe and the USA, so that other country risks play only a minor role.

Development and controlling in the fiscal year under review

Default risks make up the largest part of the risks that exist for L-Bank. Attributed to this risk type were 82.0% of all VaR values occurring until 31 December 2010.

Each loan is classified, whereby the Bank takes the special characteristics of the respective customer structure into account in its classification methods and also assigns general ratings for homogeneous customer groups.

Individual lending risk is limited by establishing issuer, counterparty and borrower limits. These limits (general and individual business) are set by the Board of Management on the basis of an internal analysis of creditworthiness and monitored on a daily basis by the Controlling department. When any of these limits are exceeded, risk response measures are initiated that same day. The country transfer risk is limited by setting maximum limits for countries outside the euro zone. These limits are also set by the Board of Management on the basis of an analysis of the risk situation of the respective country, and compliance with these is monitored on a daily basis by the Controlling department. Risk response measures are initiated the same day if these limits are exceeded.

Cluster risks in the lending business are controlled using portfolio limits for the various industries, regions and risk classes. These limits are set by the Board of Management as a part of the business and risk strategy. The risk structure of the securities portfolio is also limited. The Controlling department monitors compliance with the portfolio limits on a quarterly basis. When these are exceeded, the Board of Management is notified and possible risk response measures are proposed.

Loss risks from lending are limited using VaR limits. The Board of Management establishes these for the individual lines of business on the basis of the risk capacity and the business and risk strategies. The Controlling department monitors compliance with VaR limits on a quarterly basis and initiates risk response measures when these are exceeded. The allocation of the aforementioned limits for loss risks to the individual customer groups of the Bank is shown in the table below.

DISTRIBUTION OF VAR LIMITS FOR LOSS RISKS TO THE BANK'S INDIVIDUAL LINES OF BUSINESS

Total counterparty risks	EUR 625.0 million
Private customers	EUR 15.0 million
Corporate customers	EUR 350.0 million
Banks	EUR 250.0 million
Public sector	EUR 10.0 million

The lending risk profiles below summarise all transactions in which losses can occur if a counterparty is unable to meet its obligations. Security or guarantees provided have been taken into account in the determination of these amounts. The amounts stated below do not include cash reserve, nor claims from interest deferrals and corrections.

QUALITATIVE DISTRIBUTION OF THE LOAN PORTFOLIO IN RESPECT OF RISK AS AT 31.12.2010 in million EUR

	Private customers	Businesses, self-employed persons	Banks	Public sector	L-Bank total	% share
Excellent credit risk	3,550.2	5,695.9	16,945.4	13,587.4	39,778.8	58.4
Good credit risk	4,083.8	4,013.1	16,462.5	685.6	25,244.9	37.1
Fair credit risk	0.1	946.1	681.9	0.0	1,628.1	2.4
Poor credit risk	79.5	1,082.4	64.3	0.0	1,226.3	1.8
Other, in processing	36.4	149.6	1.9	0.0	187.9	0.3
Total	7,749.9	11,887.1	34,156.0	14,273.0	68,066.0	100.0

REGIONAL DISTRIBUTION OF THE LOAN PORTFOLIO RELEVANT TO RISK AS AT 31.12.2010 in million EUR

	Private customers	Businesses, self-employed persons	Banks	Public sector	L-Bank total	% share
Germany	7,749.5	11,423.5	24,904.0	10,323.9	54,401.0	79.9
Europe	0.4	440.2	7,788.9	3,938.8	12,168.3	17.9
USA	0.0	1.3	486.6	0.0	487.9	0.7
Other foreign countries	0.0	22.1	976.5	10.2	1,008.8	1.5
Total	7,749.9	11,887.1	34,156.0	14,273.0	68,066.0	100.0

Of the portfolio of loans to businesses and self-employed persons with a poor credit risk amounting to EUR 1.1 billion, EUR 729.8 million is attributable to “rental construction in Saxony”.

L-Bank defines problem loans as loans which require actions to avert or minimise loss that exceed the normal scope of loan administration, and which are beyond mere intensification of customer contact and the possible provision of additional security, in cooperation with a customer under intensive supervision. A portfolio of problem loans amounting to EUR 1,591.0 million existed as at 31 December 2010. This is distributed as follows among the Bank's lines of business:

PROBLEM LOAN PORTFOLIO
in million EUR

Private customers	339.2
Home ownership support in BW	238.2
Home ownership support in Saxony	101.0
Businesses and self-employed persons	1,176.9
Rental construction support in BW	140.3
Rental construction support in Saxony	877.6
Economic development	159.0
Banks	74.9
Total	1,591.0

L-Bank has issued clear guidelines for creation of risk provisions. The following table shows the development of individual provisions in EUR million by lines of business:

Financial instruments for risk controlling

The Bank held securities and loans against borrower's notes with a value of EUR 22,234.2 million in its investment assets. These securities were purchased in order to diversify cluster risks associated with development business. They are held to maturity.

RISK STRUCTURE OF THE SECURITY PORTFOLIO

Risk categories	Portfolio in EUR million
AAA	12,636.3
AA	7,078.1
A	1,986.9
BBB	336.1
BB	142.2
B	0.0
CCC	54.3

MARKET PRICE RISK

Market price risk is the potential loss due to disadvantageous changes in market prices. The term "market" relates to the money and capital markets so that the market price risk can be broken down according to possible influencing factors:

→ Interest rate risks
→ Currency risks

TREND OF INDIVIDUAL VALUE ADJUSTMENTS* BY BUSINESS LINE
in EUR million

	Private customers	Business customers	Banks	Public sector	Total
31.12.2008	89.5	761.7	1.6	0.0	852.8
31.12.2009	87.4	752.4	1.6	0.0	841.4
31.12.2010	82.0	751.6	1.6	0.0	835.2

* These are value adjustments for specific risks.

- Risks from stocks and other equity positions (= shareholdings)
- Option risks

Assessment method

Risks from unanticipated losses are quantified using the value-at-risk (VaR) method. With respect to market price risks, VaR is determined using a historical simulation for a holding period of ten days and a confidence level of 99%.

Development and controlling in the fiscal year under review

Market price risks exist for L-Bank primarily in the form of interest rate risks in the non-trading portfolio. In addition, the subsidiaries in which L-Bank holds a majority share are exposed to price risks in the form of real estate risks.

The Board of Management establishes VaR limits to control the assumed expected risks. Daily calculation of the VaR of interest rate and currency risks is performed in the Risk Controlling department using the historical simulation method. The reliability of this calculation method is verified using back-testing. VaR values enable the quantification of possible unexpected losses under normal market conditions. Additionally, stress, extreme and worst-case scenarios are simulated so as to estimate possible losses even in the event of extreme market changes. In the stress tests, L-Bank also examines the effects of a parallel shift in the yield curve by 130 basis points upward and 190 basis points downward. The proportion of the loss of liable capital within the meaning of the German Banking Act (Article 10 KWG) in this scenario is determined.

The Board of Management uses a further restriction to limit interest rate risk in the non-trading portfolio at regular intervals in the form of a term-related risk planning structure. This represents the target interest rate risk profile. The permissible deviation of the actual from the planned risk structure is limited by one limit interval for each duration band.

To quantify real estate risk, L-Bank calculates the reduced yield of the invested capital in the event of sale under worst-case assumptions. This is estimated taking into account historical and anticipated development of real estate prices.

Interest change and currency risks are monitored by the Risk Controlling department of the CT department. The VaR values determined daily are compared with the set limits. Risk Controlling also monitors compliance with the planned risk structure and the set limits. A daily risk and yield report provides information for the individual Board members responsible for risk controlling and the trading departments.

The table below shows the loss in market value in an assumed parallel shift of the interest structure curve by +130/–190 basis points.

TOTAL INTEREST RATE RISKS (CORRELATED)

	End of year 31.12.2010	Maximum 28.07.2010	Minimum 25.02.2010	Average
+130/–190 basis point shift*	EUR 237.4 million	EUR 264.4 million	EUR 194.8 million	EUR 229.6 million
Proportion of liable capital as per Section 10 KWG	7.5%	8.3%	6.2%	7.3%

* The least favourable value is stated.

Financial instruments for controlling

Derivatives are used (primarily in the form of interest-rate and cross-currency interest rate swaps) for the purpose of controlling interest rate and currency risks in the non-trading portfolio. As at 31 December 2010, the nominal portfolio of interest-rate swaps (including swaptions) totalled EUR 74,216.3 million (previous year: EUR 79,160.5 million). Cross-currency interest-rate swaps had a nominal volume of EUR 16,569.0 million (previous year: EUR 11,575.8 million).

LIQUIDITY RISK

Liquidity risk comprises the risk that payment obligations cannot be met when due (liquidity risk in the narrow sense). It also includes the risk that transactions cannot be concluded, or not at the expected price (market liquidity risk). Additionally, this category comprises the risk that it is not possible to obtain sufficient liquidity at the expected terms (follow-on refinancing risk).

Assessment method

The VaR for liquidity risks (follow-on refinancing risk) is calculated on the basis of the negative ratings changes observed in the past in respect of L-Bank's refinancing terms. It is assumed that the Bank is refinancing the excess payouts at the less advantageous terms resulting from the reduced rating. The resulting cash-value expenses then form the VaR.

Development and controlling in the fiscal year under review

Liquidity controlling is the task of the Treasury department. The basis for this is an IT-based liquidity forecast that takes into account all expected and planned payment flows within the next twelve calendar months. Loan disbursements, the amount or timing of which are not yet precisely established, are taken into account on the basis of statistically determined call behaviour in the various lines of business.

Compared with the previous year, the considerably more relaxed capital market situation enabled the Bank to adopt a selective approach refinancing alternatives it offered. In addition to the current refinancing requirements, refinancing agreements were entered into with fixed and advance drawdown dates (2012 to 2015). The Bank holds a nominal portfolio of EUR 13.8 billion in European Central Bank-eligible (ECB) securities. Use was not made of the option to use loans too in the investment portfolio for ECB refinancing.

The assessment and monitoring as well as the reporting of liquidity risk are performed by Controlling. The liquidity risk in the narrow sense is monitored by the Controlling department on the basis of the indicators defined by the applicable German liquidity regulation. The liquidity index is calculated on a monthly basis as part of liquidity regulation reporting. This calculation compares the payments expected to be received in the subsequent 30 days with the disbursements expected for the same period. Payments received in the reporting period must be greater than disbursements. As at year-end the liquidity index was 2.3. The average over the entire year was 2.9.

The VaR for market liquidity risk describes the possible loss in the event that the Bank is unable to buy or sell certain positions within one day, but rather within ten days, due to little or no demand on the capital market.

Follow-on refinancing runs the risk of a potential deterioration in the refinancing options of L-Bank. To avoid redundant calculation, L-Bank merely considers the follow-on refinancing risk in calculating the VaR of the liquidity risk.

To safeguard against financial risks arising from follow-on refinancing risk, L-Bank has defined a target structure for disbursement surpluses. In addition, the Bank holds a minimum portfolio of ECB-eligible securities and securities of the liquidity reserve.

Financial instruments for controlling

The guarantee of the state of Baden-Württemberg ensures that the Bank can rely on access to liquidity at all times. Ever-increasing investor interest in its commercial paper has enabled the Bank to top up its CP programme from EUR 5.0 billion to EUR 10.0 billion. Strategic capital market refinancing focussed on the maturity range of two to five years in the year under review too. Three benchmark bonds were issued, one in excess of EUR 1.0 billion and two in US dollars with a total volume of USD 2.5 billion (EUR 1.9 billion). Furthermore, favourable refinancing opportunities were utilised via private placings in various currencies, in particular in US dollars, Japanese yen, Australian dollars, Norwegian krone, Turkish lira and South African rand. L-Bank continued to perform its ongoing investment work at home and abroad.

OPERATIONAL RISK

Operational risk is the risk of losses due to the inappropriateness or failure of internal processes, individuals and systems or as a result of external events. This definition includes legal risks.

Assessment process and controlling

For operational risks, VaR is estimated using a model similar to that used in the insurance industry to determine the risk of catastrophically large losses. This is based on expert appraisals of every process of the Bank that entails risk. The estimates, which are audited, are aggregated to arrive at an overall VaR for the Bank. The use of estimates is necessary as, to date, the Bank has only experienced losses from operational risks to a negligible extent, so that it is not possible to determine the VaR on the basis of historical data.

Operational risks and their amount are identified and assessed by the Controlling department with the aid of structured interviews in all operational departments. The risks identified are assigned to five categories. These are defined in terms of the financial effects that the potential occurrence of the risk would have on the asset situation of the Bank and the expected frequency of such an occurrence.

The Bank has taken out insurance policies to reduce the economic impact of losses resulting from the occurrence of operational risks.

BUSINESS RISK

Business risks pose the threat of falling income in the case of falling subsidy volumes where expenses cannot be reduced to the same extent. L-Bank can only generate income by way of business transactions if they are in line with its public service obligations. Business risk is therefore a risk that L-Bank cannot avoid.

Assessment method and controlling

Personnel expenses are controlled by way of productivity analyses – where such action is possible and expedient. The primary goal of productivity analysis consists of determining the ideal personnel levels required to perform tasks assigned. This uncovers so-called empty capacities, whereby costs can also be reduced.

Business risks are factored into the risk cover assets by way of taking residual costs into consideration in respect of personnel and material costs. The amount of such personnel and material expenses is determined on the basis of an appraisal by a qualified expert.

SUMMARY OF RISK SITUATION

The significance of the individual types of risks for L-Bank can be highlighted by means of a table setting out their respective VaR figures, thus:

SINGLE MAXIMUM LOSS LIMITS AND THEIR UTILISATION AS AT 31.12.2010 in EUR million

	Limit	Utilisation	Proportion of total VaR
Default risks	625.0	472.3	82.0%
Market price risks	90.0	68.1	11.8%
Operational risks	20.0	6.5	1.1%
Real estate risks	20.0	16.4	2.8%
Liquidity risks	65.0	13.0	2.3%
Free scope	47.0	0.0	0.0%
Total maximum loss limits	867.0	576.3	100.0%

KEY FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN VIEW OF THE ACCOUNTING PROCESS

The accounting-related internal control and management system comprises, in particular, organisational structure and process management regulations with a view to guaranteeing adherence to the standards and requirements in place in respect of accounting, and guaranteeing accounting regularity and reliability. The accounting process itself covers from the allocation of accounts and processing a business transaction to preparing the annual financial statement.

Responsibility for organising the accounting-related internal control and risk management system rests with the Board of Management of L-Bank. Responsibility for implementation is with the Accounting department in conjunction with the Controlling and Payment Transactions department.

L-Bank prepares its balance sheet in accordance with the requirements set out in the German Commercial Code (HGB) and the Regulation on Invoicing by Credit Institutions and Financial Services Institutions (RechKredV) with due regard to the proper accounting principles. These regulations are stated in specific relation to L-Bank in manual and work instructions. The Accounting department monitors and adjusts these in line with legal and regulatory amendments. The correct accounting-related illustration of new products is guaranteed by way of incorporating the Accounting department in the standardised process that applies to the launch of new products.

The documentation of the invoicing process is coherently classified for expert third parties. The respective documents are stored by way of adhering to the statutory periods.

The functions of the involved Accounting and Payment Transactions departments are clearly separated in respect of the invoicing process. The loan, securities and passive accounting is stated in off-balance sheet accounts in the Payment Transactions department. The data are transferred to the general ledger via an automatic interface. The Accounting department is responsible for specifying account allocation regulations, booking systems, accounting program control and the administration of the financial accounting system.

L-Bank uses standard software in the financial accounting. It supports:

- Safeguards against unauthorised access by issuing authorisation in line with the respective competence level
- Error avoidance by using plausibility checks
- Error identification in line with the four-eyes principle, standardised harmonisation routines and target/actual situation comparisons

At the same time these measures are aimed at establishing the correct approach to and statement and evaluation of assets and debts. The Internal Audit department carries out regular process-independent checks in respect of the reliable performance of the accounting-related internal control and risk management system.

Up-to-date, reliable and relevant reports are filed with the Board and division management as part of the management information system. The Board of Management regularly informs the Supervisory Board and its committees of the business development. In addition, up-to-date information is provided about special events.

SECURITIES COMPLIANCE, MONEY LAUNDERING AND DATA PROTECTION

Adherence to existing statutory legal requirements on securities compliance, money-laundering prevention and data protection is guaranteed by way of suitable organisational measures and the ongoing control of relevant business transactions. The remits of securities compliance and data security on the one hand and money-laundering prevention on the other are separate in terms of function. The area of activity of the anti-money laundering officer and the area of responsibility for prevention of other criminal acts, formerly referred to as fraud prevention, were extended in the year under review. The internal guidelines were adjusted accordingly. No unusual events occurred in the year under review.

EMPLOYMENT REPORT

On the balance sheet date L-Bank had 1,222 employees, largely at the Bank's headquarters in Karlsruhe. Female employees accounted for 57.4% of the overall workforce, and 30.4% of executive staff.

As early as the beginning of the 1990s, L-Bank entered into a service agreement aimed at promoting the equal treatment of men and women. The agreement is adjusted on an ongoing basis in line with current circumstances, and in addition to general statements on promoting the compatibility of family and work, contains specific provisions for child support time and special holiday leave in the case of other family-related commitments. Furthermore, the Bank offers a comprehensive range of child support consulting services in cooperation with pme-FamilienService GmbH. To supplement this service, L-Bank has joined forces with six Karlsruhe companies and facilities and an operator to run a children's day care centre.

The concept of the family/work balance also provides the option of part-time work. In this respect the Bank gives the greatest possible consideration to its employees' preferences in respect of working hours. Executives may also make use of this offer: as at 31.12.2010, 16.0% of them worked part-time. In addition, the strong demand for working from home continued. This gives employees in executive positions the option to work from home in the event of their children falling ill.

The demographic change will be a key topic of the operational personnel work over the next few years. As at the accounting date, the average age of employees at L-Bank was 44.7 years, while the fluctuation rate was 4.8%. At 0.6%, the small number of employee dismissals suggests identification with and satisfaction at L-Bank. At the same time the Bank must address its employees' age structure resulting from these circumstances. The goal will therefore include gearing future in-service education towards corresponding programmes that facilitate and promote learning in all occupational phases. Personnel requirement planning must also be structured in this light. One of the methods adopted by the Personnel department to meet this requirement comprises recruiting new staff on an ongoing basis by way of a trainee programme for university graduates and via a course at Duale Hochschule Baden-Wurttemberg (DH), as well as work for students with university entrance qualifications.

The ordinance on supervisory law requirements for remuneration arrangements of institutions came into force on 13.10.2010. The ordinance contains provisions on the remuneration for all department managers and employees of financial institutions and financial services institutions. In respect of the requirements for remuneration systems, it distinguishes between general requirements that apply to all institutions and those for significant institutions. According to the ordinance, an institution is normally to be regarded as a significant institution if its balance sheet total has reached or exceeded EUR 40.0 billion on average at the respective appointed dates of the last three full fiscal years. This normal case assumption is intended as a guide for institutions. The normal case assumption can be refuted as part of a risk analysis that is nevertheless required. Therefore it is required that the classification as a significant institution does not appear as risk adequate, considering the authoritative criteria. In its risk analysis, L-Bank has come to the conclusion that it is not a significant institution within the meaning of Section 1, sub-section 2, of the ordinance. To justify this it cites, in particular, its special task as a development institution and its risk profile. Furthermore, the design of its remuneration systems means they are not of a kind likely to create incentives to enter into disproportionately high risk positions. The requirements of Sections 5, 6 and 8 of the ordinance are, therefore, not applicable. L-Bank honours the general requirements for remuneration systems that apply to all institutions.

STAFFING FIGURES AT DAY OF ACCOUNTING		
Employees	2010	2009
Total number of employees	1,222	1,230
Proportion of part-time employees in the overall workforce	25.2%	24.8%
Proportion of female employees in the overall workforce	57.4%	57.2%
Average age	44.7 years	44.3 years
Average length of service	15.5 years	15.0 years
Fluctuation rate	4.8%	2.3%
Illness rate	4.9%	4.7%

Vocational training/continuing education	2010	2009
DH students	28	24
Trainees	4	2
Apprentices	3	5
Interns	5	5
Training courses	414	356
Participants in training courses	1,353	1,059

Over the past fiscal year, the Bank employed 35 DH students (previous year: 31 DH students) and 28 interns (previous year: 29 interns).

SUPPLEMENTARY REPORT

No other events of particular importance occurred following the end of the fiscal year under review on 31 December 2010.

OUTLOOK

Following the export-based upturn in the 2010 fiscal year, experts believe the economic situation for 2011 and 2012 will be positive and based largely on domestic demand. The upward trend in the German economy will continue – at a slightly weakened pace – in the coming years. The early indicator for cyclical development in Baden-Württemberg determined on a monthly basis, the L-Bank-ifo cyclical test, confirms this assessment for 2011 and gives an even more optimistic forecast for Baden-Württemberg. As a result, L-Bank expects to see slightly less, but still ongoing, positive growth in the German economy, in particular in Baden-Württemberg.

During the next two fiscal years L-Bank interprets the stated overall underlying economic conditions as signalling a slight increase in the operating result, after risk reserves/evaluations, with an almost constant business volume. Development of the operating result in 2011 will be largely influenced by an increase in interest income and slightly increased personnel expenses at the Bank.

Apart from adjustments to the organisation of individual programmes, L-Bank does not intend to embark on any fundamental structural changes to its business activity.

Efforts will focus, above all, on overdue investments for the start-up and SME financing business lines and the problem currently discussed in public of follow-up financing for capital market refinanced mezzanine programmes. In this respect the Bank expects to see increasing demand compared with the previous fiscal year, above all in relation to risk assumptions or guarantees, syndicated and subordinate loans. To support the upswing, plans have been made to simplify filing applications or the filing procedure for selected economic development programmes.

In housing construction support, the federal state residential development programme commenced on 03.01.2011. Both the amount of funds and the structures of the federal state residential development programme correspond with those of the 2010 programme year such that a comparable new business volume is forecast. The long-term forecast is determined by the question of whether or not the federal government will continue to participate in financing social residential development programmes after 2013, and the extent to which the loss of federal funds can be compensated for by federal state funds.

The funding volume in 2011 and 2012 is expected to be similar to the volume in the year under review. L-Bank will continue the investor relation work domestically and internationally.

In respect of financial aid, the federal state had made enquiries about assuming additional tasks in 2011. In addition, the discussion about the definition of the new “EU structure fund period”, starting 2014, gained in importance. L-Bank already took part in this discussions last year. In view of limited public funds, a slight decline in the new approval volume is expected overall for 2011 and 2012, whereby the number of approvals will remain almost constant. Constant development is expected in the case of the parental and educational allowances, whereby the effects of the amended Act on Parental Allowance and Parental Leave (BEEG) will probably give rise to increased administrative expenses.

The coming fiscal years will be largely influenced by the new recommendations of the Basle Committee on Banking Supervision, which will see L-Bank facing great challenges too, because equity requirements will increase successively. To meet the requirements without reducing the business volume, over the next few years the Bank will reinvest significant amounts of generated net income.

REPORT OF THE SUPERVISORY BOARD

The Board of Management informed the Supervisory Board and its committees on an ongoing basis about the bank's development as well as on important business transactions.

In particular, the ongoing reporting included the report on business strategy, risk strategy, business development, the quarterly report regarding the bank's risk situation, the report on the most important internal audit results as well as the report on the design of L-Bank's remuneration systems.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Stuttgart, performed the legally mandated annual audit for the 2010 fiscal year. The unqualified auditor's opinion was provided. The auditor participated in the advising of the Supervisory Board, the Audit Committee as well as the Credit Committee in relation to the 2010 annual financial statements. In doing so, the auditor reported on the main findings of the audit, answered questions and provided supplementary information. The Supervisory Board discussed the auditor's report and did not raise any objections upon being informed of the audit results. In their meeting on 6 May 2011, the Supervisory Board determined the bank's annual financial statements for the 2010 fiscal year and took note of the Management Report.

The Supervisory Board approved the recommendation made by the Board of Management regarding 2010 fiscal year's net profit of 149,982,203.21 EUR; the recommendation was to make a dividend payment of 130,000,000.00 EUR to the state of Baden-Württemberg, to add the remaining 19,000,000.00 EUR to the retained earnings, and to carry forward the remaining amount of 982,203.21 EUR onto new account.

Stuttgart, 6 May 2011

Chairman of the Supervisory Board
Ernst Pfister MdL
(Member of State Assembly)
Minister of Economic Affairs for the
state of Baden-Württemberg

Balance sheet	32
Statement of profit and loss	36
L-Bank cash flow statement	38
Statement of changes in equity	39
Appendix to the year-end financial statement of L-Bank	40
Proposal of the Board of Management for the distribution of net profit	60
Declaration of the L-Bank Board of Management regarding the year-end financial statements	60
Auditor’s opinion	61

LANDESKREDITBANK BADEN-WÜRTTEMBERG – FÖRDERBANK
BALANCE SHEET AS AT 31.12.2010

ASSETS	EUR 31.12.2010	EUR 31.12.2010	EUR 31.12.2010	EUR 31.12.2009
1. CASH RESERVE				
a) Cash in hand		43,351.28		21,742.92
b) Current balances with central banks including with Deutsche Bundesbank EUR 350,900,350.23 (EUR 539,858,093.43)		350,856,998.95		539,858,093.43
c) Current balances with postal giro offices		–.–		–.–
			350,900,350.23	**539,879,836.35**
2. CLAIMS AGAINST CREDIT INSTITUTIONS				
a) Day-to-day		106,699,818.69		7,171,298.92
b) Other claims		19,078,132,411.97		19,497,900,431.47
			19,184,832,230.66	**19,505,071,730.39**
3. CLAIMS AGAINST CUSTOMERS including: secured through real estate liens EUR 8,446,176,775.96 (EUR 9,024,692,573.30) Municipal loans EUR 6,414,301,965.81 (EUR 5,504,887,691.63)			**21,709,361,396.75**	**21,585,703,394.87**
4. DEBENTURES AND OTHER FIXED-INTEREST SECURITIES				
a) Money market securities				
aa) from public issuers including: eligible as collateral for Deutsche Bundesbank EUR 150,369,535.64 (–.–)	150,369,535.64			–.–
ab) from other issuers including: eligible as collateral for Deutsche Bundesbank EUR –.– (–.–)	–.–			–.–
		150,369,535.64		–.–
b) Bonds and debentures				
ba) from public issuers including: eligible as collateral for Deutsche Bundesbank EUR 3,483,179,669.51 (EUR 4,475,605,375.85)	3,502,602,575.74			5,302,821,860.87
bb) from other issuers including: eligible as collateral for Deutsche Bundesbank EUR 11,903,157,915.43 (EUR 9,358,699,031.87)	14,244,300,978.79			11,369,135,177.01
		17,746,903,554.53		16,671,957,037.88
c) Own debentures Nominal value: EUR 198,044,000.00 (EUR 299,140,000.00)		200,956,776.44		304,761,337.14
			18,098,229,866.61	**16,976,718,375.02**
Carried over			**59,343,323,844.25**	**58,607,373,336.63**

ASSETS	EUR 31.12.2010	EUR 31.12.2009
Carried over	59,343,323,844.25	58,607,373,336.63
5. SHARES AND OTHER NON-FIXED INTEREST SECURITIES	–.–	–.–
6. SHAREHOLDINGS including: with financial institutions EUR 301,986,360.47 (EUR 301,986,360.47) with financial services institutions EUR –.– (–.–)	475,561,835.28	474,224,690.84
7. HOLDINGS IN AFFILIATED COMPANIES including: in financial institutions EUR –.– (–.–) in financial services institutions EUR –.– (–.–)	23,009,202.02	23,009,202.02
8. TRUST ASSETS including: trust loans EUR 107,506,707.29 (EUR 124,327,213.72)	108,352,384.92	125,179,093.45
9. INTANGIBLE ASSETS		
a) Purchased licences, industrial property rights and similar rights and assets such as licences and other rights and assets	8,061,142.11	2,141,419.30
10. TANGIBLE ASSETS	136,253,181.59	139,481,574.22
11. OTHER ASSETS	696,139,109.55	148,803,748.97
12. ACCRUED AND DEFERRED ITEMS	210,634,617.75	190,985,797.53
TOTAL ASSETS	61,001,335,317.47	59,711,198,862.96

LANDESKREDITBANK BADEN-WÜRTTEMBERG – FÖRDERBANK
BALANCE SHEET AS AT 31.12.2010

LIABILITIES	EUR 31.12.2010	EUR 31.12.2010	EUR 31.12.2010	EUR 31.12.2009
1. LIABILITIES TO FINANCIAL INSTITUTIONS				
a) day-to-day		120,830,299.74		108,973,431.39
b) with agreed term or notice period		18,408,352,701.18		19,064,911,283.29
			18,529,183,000.92	**19,173,884,714.68**
2. LIABILITIES TO CUSTOMERS				
a) Savings deposits				
aa) with agreed notice period of three months	–.–			–.–
ab) with agreed notice period of more than three months	–.–			–.–
b) Other liabilities				
ba) day-to-day	92,501,764.08			127,008,884.83
bb) with agreed term or notice period	7,592,808,938.45			6,743,286,480.04
		7,685,310,702.53	**7,685,310,702.53**	**6,870,295,364.87**
3. SECURITISED LIABILITIES				
a) Debentures issued		30,322,437,170.53		28,474,133,001.37
b) Other securitised liabilities including: money market securities EUR –.– (–.–) own acceptances and promissory notes in circulation EUR –.– (–.–)		–.–		–.–
			30,322,437,170.53	**28,474,133,001.37**
4. TRUST LIABILITIES including: trust loans EUR 107,506,707.29 (EUR 124,327,213.72)			**108,352,384.92**	**125,179,093.45**
5. OTHER LIABILITIES			**131,275,118.18**	**309,291,015.78**
6. ACCRUED AND DEFERRED ITEMS			**413,448,460.84**	**536,920,855.09**
7. PROVISIONS				
a) Provisions for pensions and similar obligations		146,773,090.82		148,293,275.00
b) Tax provisions		–.–		7,800.00
c) Other provisions		210,124,658.18		672,682,260.60
			356,897,749.00	**820,983,335.60**
8. SUBORDINATE LIABILITIES			**752,671,937.65**	**797,576,285.15**
Carried over			**58,229,576,524.57**	**57,108,263,665.99**

LIABILITIES	EUR 31.12.2010	EUR 31.12.2010	EUR 31.12.2009
Carried over		58,229,576,524.57	57,108,263,665.99
9. PROFIT-SHARING RIGHTS OUTSTANDING including: due within 2 years EUR –.– (–.–)		539,925,800.00	539,925,800.00
10. FUND FOR GENERAL BANKING RISK		304,000,000.00	304,000,000.00
11. EQUITY			
a) Subscribed capital	250,000,000.00		250,000,000.00
b) Capital reserve	950,850,789.69		950,850,789.69
c) Revenue reserves			
ca) Statutory reserve	–.–		–.–
cb) Reserve for own shares	–.–		–.–
cc) Reserves according to statute	–.–		–.–
cd) Other revenue reserves	507,000,000.00		507,000,000.00
d) Net profit	149,982,203.21		51,158,607.28
		1,857,832,992.90	1,759,009,396.97
TOTAL LIABILITIES		61,001,335,317.47	59,711,198,862.96

1. CONTINGENT LIABILITIES			
a) Contingent liabilities from settled bills of exchange passed on	–.–		–.–
b) Liabilities from guarantees and guarantee contracts	7,846,931,334.83		9,125,500,232.28
c) Liability from the provision of security for external debts	–.–		–.–
		7,846,931,334.83	9,125,500,232.28
2. OTHER OBLIGATIONS			
a) Repurchase obligations from unqualified pension transactions	–.–		–.–
b) Placement and assumption of obligations	–.–		–.–
c) Irrevocable loan commitments	7,830,995,935.27		1,718,617,997.50
		7,830,995,935.27	1,718,617,997.50

LANDESKREDITBANK BADEN-WÜRTTEMBERG – FÖRDERBANK STATEMENT OF PROFIT AND LOSS FOR THE FISCAL YEAR 1 JANUARY TO 31 DECEMBER 2010

	2010 EUR	2010 EUR	2010 EUR	2009 EUR
1. INTEREST EARNINGS FROM				
a) Lending and money market transactions	1,623,665,078.05			1,739,805,457.70
b) Fixed interest and book-entry securities	542,703,103.98			569,183,297.00
		2,166,368,182.03		2,308,988,754.70
2. INTEREST EXPENSES of which from interest subsidies for loans EUR 97,791,936.00 (EUR –.–)		1,847,606,841.05		1,921,884,615.28
			318,761,340.98	387,104,139.42
3. CURRENT INCOME FROM				
a) Shares and other non-fixed interest securities		–.–		–.–
b) Shareholdings		5,500,972.15		7,095,153.11
c) Holdings in affiliated companies		–.–		–.–
			5,500,972.15	7,095,153.11
4. COMMISSION EARNINGS			45,539,703.84	42,233,516.86
5. COMMISSION EXPENSES			5,012,993.70	10,398,431.12
6. OTHER OPERATIONAL INCOME			18,950,632.70	15,872,087.08
7. GENERAL ADMINISTRATIVE EXPENSES				
a) Personnel expenses				
aa) Wages and salaries	66,179,407.57			65,178,553.80
ab) Social contributions and expenses for pension provision and for support including: for pension provision EUR 2,197,167.91 (EUR 1,990,499.92)	12,488,802.97			13,904,346.61
		78,668,210.54		79,082,900.41
b) Other administration expenses		34,080,676.41		39,007,330.96
			112,748,886.95	118,090,231.37
8. WRITE-DOWNS AND CORRECTIONS ON INTANGIBLE AND TANGIBLE ASSETS			10,643,255.16	9,134,947.27
9. OTHER OPERATIONAL EXPENSES			24,990,851.84	29,002,390.79
Carried over			235,356,662.02	285,678,895.92

	2010 EUR	2009 EUR
Carried over	235,356,662.02	285,678,895.92
10. WRITE-DOWNS AND CORRECTIONS ON CLAIMS AND CERTAIN SECURITIES AS WELL AS TRANSFERS TO PROVISIONS IN LENDING BUSINESS "Fund for general bank risk" EUR –.– (57,000,000.00)	41,462,378.36	118,466,110.34
11. WRITE-DOWNS AND CORRECTIONS ON SHAREHOLDINGS, SHARES IN AFFILIATED COMPANIES AND SECURITIES TREATED AS INVESTMENT ASSETS	44,064,008.47	5,835,026.98
12. INCOME FROM NORMAL BUSINESS ACTIVITY	149,830,275.19	161,377,758.60
13. TAXES ON INCOME AND EARNINGS	821,470.61	906,156.01
14. OTHER TAXES NOT STATED UNDER LINE ITEM 9	185,208.65	145,459.49
15. TRANSFERS TO PROVISIONS FOR INTEREST SUBSIDIES	–.–	110,017,069.19
16. NET INCOME	148,823,595.93	50,309,073.91
17. PROFIT CARRIED FORWARD FROM PREVIOUS YEAR	1,158,607.28	849,533.37
	149,982,203.21	51,158,607.28
18. TRANSFERS TO REVENUE RESERVES a) to other revenue reserves	–.–	–.–
19. NET PROFIT	149,982,203.21	51,158,607.28

L-BANK CASH FLOW STATEMENT

	01.01.–31.12.2010 EURk	01.01.–31.12.2009 EURk
Net profit/loss for the period	**148,824**	**50,309**
NON-CASH ITEMS CONTAINED IN THE ANNUAL NET PROFIT		
1. Depreciation, value adjustments and write-ups on receivables including contingent liabilities; including liquid securities	31,391	118,862
2. Depreciation, value adjustments and write-ups on fixed assets	10,643	9,134
3. Depreciation, value adjustments and write-ups on financial assets	12,557	183,673
4. Changes in the reserves (not including lending business)	6,991	21,778
5. Other non-cash expense/income	0	3,091
6. Profit/loss on the sale of fixed assets	–52	–33
7. Profit/loss on the sale of financial assets	47	–1,813
8. Other adjustments (balance)	–451,436	–99,797
Subtotal	**–241,035**	**285,204**
CHANGES TO THE ASSETS AND THE LIABILITIES FROM ONGOING BUSINESS OPERATIONS		
9. Bank receivables	313,277	1,211,157
10. Customer receivables	–136,426	262,822
11. Securities (without financial assets)	–1,123,865	–56,889
12. Other assets	–550,157	72,924
13. Liabilities to banks	–644,702	–6,316,144
14. Liabilities to customers	815,015	482,059
15. Guaranteed liabilities	1,848,304	4,647,705
16. Other liabilities	–843,602	–437,686
17. Received interest and dividends	2,333,292	2,853,604
18. Interest paid	–1,881,035	–2,752,901
19. Extraordinary incoming/outgoing payments	0	0
20. Income tax payments	–821	–906
Cash Flow from Ongoing Operations	**–111,755**	**250,949**
21. Payments received from retirements of financial assets	5,090	5,985
22. Payments received from retirements of fixed assets	53	484
23. Investments in financial assets	–19,031	–68,673
24. Investments in fixed assets	–13,337	–15,302
25. Changes from other investment activities	0	0
Cash Flow from Investment Activities	**–27,225**	**–77,506**
26. Payments from (own) injection of new capital	0	0
27. Payments to company owners and minority shareholders	–50,000	–25,000
28. Changes from other capital	0	0
Cash Flow from Financing Activities	**–50,000**	**–25,000**
Changes to the financial capital fund	**–188,980**	**148,443**
Exchange rate and valuation-related changes to the financial capital fund	0	0
Financial capital fund at the beginning of the period	539,880	391,436
Financial capital fund at the end of the period	350,900	539,879
	–188,980	**148,443**

STATEMENT OF CHANGES IN EQUITY

	Subscribed capital EURk	Capital reserve EURk	Statement of changes in equity Retained income EURk	Retained profit EURk	Equity EURk
Status as at 31.12.2008	**250,000**	**950,851**	**507,000**	**25,849**	**1,733,700**
Dividend payout				–25,000	–25,000
Capital increase					0
Capital reserve increase					0
Withdrawal from the capital reserve					0
Capital reserve increase					0
Withdrawal from the retained income					0
2009 net income for the year				50,309	50,309
Balance as at 31.12.2009	**250,000**	**950,851**	**507,000**	**51,158**	**1,759,009**
Dividend payout				–50,000	–50,000
Capital increase					0
Capital reserve increase					0
Withdrawal from the capital reserve					0
Capital reserve increase					0
Withdrawal from the retained income					0
2010 net income for the year				148,824	148,824
Balance as at 31.12.2010	**250,000**	**950,851**	**507,000**	**149,982**	**1,857,833**

APPENDIX TO THE YEAR-END FINANCIAL STATEMENT OF L-BANK AS AT 31.12.2010

GENERAL PRINCIPLES

L-Bank (Landeskreditbank Baden-Württemberg – Förderbank) was established by a law dated 11 November 1998 effective 1 December 1998. Section 2, paragraph 1, sentence 1 of the law established the equity of L-Bank at EUR 250 million.

The balance sheet of L-Bank was prepared in accordance with the provisions of the German Commercial Code HGB and the applicable accounting directive for banks and financial services institutions (RechKredV). In accordance with Section 67, paragraph 8, HGHGB, the Bank waived adjusting the previous year's figures after applying the Balance Sheet Law Modernisation Act (BilMoG) for the first time.

The organisation of the balance sheet and the statement of profit and loss corresponds with the forms in RechKredV. The statement of profit and loss was expanded to include the expense item "Transfers to provisions for interest rate subsidies". In the previous year an amount was stated in this item (Section 265, paragraph 8, HGB). The item has been supplemented to include an "of which" note (Section 265, paragraph 5, HGB).

When taken together the stated majority holdings are of secondary importance. Preparation of a consolidated financial statement was thus waived (Article 296, paragraph 2, HGB).

PRINCIPLES OF CURRENCY CONVERSION

Currency conversion has been carried out according to the regulation of Article 340 h HGB and the BFA opinion 3/1995. Assets and liabilities denominated in foreign currencies, as well as all pending foreign currency cash transactions, are converted using the mean spot rate as at 28 December 2010.

In respect of currency conversion the Bank calculates the currency exposure by setting the claims and obligations from on-balance-sheet and off-balance-sheet transactions in the respective currency against each other. These transactions were classified and assessed as specially covered in each currency. Accordingly, all expenses and income from currency conversion within the meaning of Article 340 h HGB are included in the statement of profit and loss.

ACCOUNTING AND VALUATION METHODS

Assets, liabilities and pending transactions are valued according to the general provisions of Article 252 et seq. HGB and under consideration of the special requirements that apply to financial institutions (Sections 340 e et seq. HGB).

FINANCIAL ASSETS AND LIABILITIES

Claims against financial institutions and customers are always stated at the nominal value and liabilities at the repayment value. Differences (premiums and discounts) with respect to claims and liabilities are stated under accrued and deferred items and released on a prorated basis. Administrative charges are collected immediately. Low-interest and zero-interest claims are discounted. Zero bonds issued and similar liabilities are stated as liabilities at offer price plus prorated interest accrued at the balance sheet date.

From 01.01.2010 the Bank likewise treats loans, which it subsidises in interest as part of development programmes, as non-interest-bearing loan transactions. These programme loans are therefore discounted with the effective interest for their respective accounts. The nominal expenses reserve established to date for these transactions and the third-party interest subsidies were set off against the discount result. The difference is continued and accordingly used as planned. For the first time the Bank has stated in the net interest income the interest subsidies carried by the Bank.

All recognisable individual risks in lending as well as country risks are adequately provided for through the formation of individual provisions or reserves. General bad-debt provisions exist for latent lending risk and precautionary reserves for general banking risks. Individual and general bad-debt charges, as well as provision for general banking risks within the meaning of Section 340 f HGB, are taken into account on the asset side or met with provisions, as appropriate. Provisions were made for loan derivatives stated in the guarantee obligations in the form of portfolio adjustments.

Securities in the trading portfolio and the liquidity reserve are stated at either the purchase cost or the lower exchange or market price as at the balance sheet date, in accordance with the strict lowest-of-cost-or-market principle. Securities treated as investment assets are stated at the depreciated historical costs, whereby differences between the book value and the repayment amount are treated as income in proportion to their term. Depreciation of securities in the financial investment portfolio is only applied in the case of permanent loss of value. Provision has been made for general risks in the portfolio value adjustments.

Holdings and shares in affiliated companies are stated at the acquisition costs or, in the event of a permanent loss of value, at the lower value as at the balance sheet date, analogous to the rules governing investment assets. Income from guarantee claims and additions was set off against expenses.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Intangible and tangible assets are valued at their procurement or production costs, reduced by scheduled depreciation. Where necessary, extraordinary write-downs are made when it is anticipated that a reduction in value is of an indefinite nature. Minor value assets are consolidated in an annual compound item and depreciated over five years.

PROVISIONS

Provisions for pensions and similar obligations are determined according to actuarial principles using Dr. Heubeck's table 2005 G. As a general rule the projected one-off contribution method is used as a calculation method. An assumed rate of interest of 5.16% is used at present. Future salary and pension adjustments have been taken into consideration in the calculation with an average of 2% p.a.

The remaining provisions are stated at the required repayment amount, and take into consideration all recognisable risks from uncertain liabilities and impending losses from pending transactions. Provisions with a remaining term of more than one year are discounted at the average market interest rate over the last seven fiscal years that corresponds with their remaining term.

REPORTING SECURITY CORRELATIONS IN THE BALANCE SHEET

The Bank enters into derivative transactions primarily for controlling the overall interest-rate risk position; these transactions are not valued. Additionally, such derivative transactions are undertaken to hedge individual balance-sheet items and stated as a valuation item. The balance-sheet item and hedging instrument are, where applicable, stated as a valuation item within the meaning of Section 254 HGB. The valuation items are stated in the balance sheet using the so-called “freezing method”, in which the settling offsetting value changes (changes to the attributable current market value of balance-sheet items and hedging instruments as a result of the secured risk) are not taken into account in the balance sheet and profit and loss statement.

The balance-sheet items and hedging instruments grouped together to create valuation items correspond in full with their parameters of relevance to valuation (perfect hedges). Therefore, neither the balance-sheet item nor the hedging transaction is valuated in respect of the secured risk. The effectiveness of the valuation items was investigated using the Critical Terms Match Method. The key conditions of the balance-sheet items and hedging transactions created a match. Therefore, the offsetting payment flows or value changes created a prospective and retrospective balance for the term. The book values stated in the table below were, where applicable, converted into EUR using the mean spot rate on 30.12.2010.

BALANCE-SHEET ITEM OF VALUATION UNIT

	Book value EURk	Thereof interest risk	Thereof currency risk	Thereof price change risk	Thereof credit rating risk
Assets	594,310	76,200	–	502,110	16,000
Debts	591,920	506,000	85,920	–	–
Total	1,186,230	582,200	85,920	502,110	16,000

INTERIM ARRANGEMENTS REGARDING THE GERMAN BALANCE SHEET LAW MODERNISATION ACT (BILMOG)

A series of interim arrangements are to be observed in the case of applying the new provisions of BilMoG for the first time with effect from 01.01.2010. Section 67 of the Introductory Law to the German Commercial Code (EGHGB) contains retention and continuation options, as well as other alleviation, that the Bank applies as follows:

- The expenses provisions within the meaning of Section 249, paragraph 1, sentence 3, paragraph 2 HGB, old version, shall be continued until the event occurs for which they were established; they are to be used as intended or are to be written back because the reserve is no longer required.

- In the case of other provisions, the changed valuation of the obligations (due to higher discount rates) give rise to lower stated figures when observing the principle of individual valuation. In accordance with Section 67, paragraph 1, sentence 2, EGHGB, the higher values stated to date may be retained. The Bank made use of this retaining option as follows:
  - Provisions for pensions and similar commitments: Writing back potential EUR 11.3 million
  - Provisions for loan business: Writing back potential EUR 4.1 million

In the 2010 fiscal year possible write-backs were netted off against corresponding purchases. Accordingly, potential for further write-backs exists in the amounts stated below for:

- Provisions for pensions and similar commitments: EUR 0.7 million
- Provisions for the loan business: EUR 1.7 million

PRINCIPLES OF THE GERMAN BANKING ACT KWG

In the 2010 fiscal year, the Bank was at all times in compliance with the applicable regulations governing equity and liquidity of financial institutions, as set forth in the German Banking Act KWG.

APPENDIX TO THE YEAR-END FINANCIAL STATEMENT OF L-BANK AS AT 31.12.2010

SELECTED BALANCE SHEET ASSETS AND LIABILITIES BY TERM REMAINING OR NOTICE PERIOD

	31.12.2010 EURk	31.12.2009 EURk
CLAIMS AGAINST FINANCIAL INSTITUTIONS		
Day-to-day	106,700	7,172
Up to three months	1,822,147	1,809,894
Over three months to one year	1,558,560	1,704,491
Over one year to five years	9,594,786	8,439,895
Over five years	6,102,639	7,543,620
CLAIMS AGAINST CUSTOMERS		
Up to three months	870,229	695,125
Over three months to one year	946,755	719,884
Over one year to five years	4,491,266	4,252,251
Over five years	15,401,111	15,918,443
DEBENTURES AND OTHER FIXED-INTEREST SECURITIES		
Bonds and debentures which mature in the following year	1,919,246	2,041,454
LIABILITIES TO BANKS		
Day-to-day	120,830	108,973
Up to three months	2,710,223	1,941,538
Over three months to one year	902,302	2,150,835
Over one year to five years	5,950,866	6,335,123
Over five years	8,844,962	8,637,416
LIABILITIES TO CUSTOMERS		
Day-to-day	92,502	127,009
Up to three months	1,609,920	1,360,818
Over three months to one year	14,784	66,856
Over one year to five years	715,058	773,345
Over five years	5,253,047	4,542,267
SECURITIES LIABILITIES		
Up to three months	7,690,832	6,888,223
Over three months to one year	5,008,571	6,065,335
Over one year to five years	14,926,534	12,848,802
More than five years	2,696,500	2,671,773
Portion maturing in the following year in sub-item “Debentures issued”: EURk 12,699,403 (previous year: EURk 12,953,558)		

EXPLANATION OF INDIVIDUAL BALANCE-SHEET ITEMS

	31.12.2010 EURk	31.12.2009 EURk
CLAIMS AGAINST FINANCIAL INSTITUTIONS		
This item comprises:		
– Claims against affiliated companies	–	–
– Claims against companies with which a shareholding relationship exists	4,867,572	4,671,309
CLAIMS AGAINST CUSTOMERS		
This item comprises:		
– Claims against affiliated companies	56,954	55,145
– Claims against companies with which a shareholding relationship exists	226,597	226,918
– Subordinate claims	48,581	39,863
DEBENTURES AND OTHER FIXED-INTEREST SECURITIES		
This item comprises:		
– Claims against companies with which a shareholding relationship exists	2,114,023	2,128,893

The subordinated line item “Bonds and Debentures” does not contain any securitised subordinated claims or claims against affiliated companies or companies where a shareholding exists.

The portion of securities eligible for listing in this line item are:		
– listed	17,512,209	16,195,151
– non-listed	586,021	781,567

Securities with a book value (excluding prorated interest accrued) of EURk 17,452,277 are assigned to investment assets, of which EURk 7,112,238 is valued under investment assets. The market value of these securities is EUR 6,899,157k. The market value reserve is EURk 361,180. Stock exchange quotations were used where possible to determine the market values. If no active markets were available, model values were used which, in turn, were based on market data (interest curves, spread curves) and other available information (e.g. default probabilities).

STOCKS AND OTHER NON-FIXED SECURITIES		
Portion of securities that are eligible for listing in this line item that are		
– listed	–	–
– non-listed	–	–

APPENDIX TO THE YEAR-END FINANCIAL STATEMENT OF L-BANK AS AT 31.12.2010

EXPLANATION OF INDIVIDUAL BALANCE-SHEET ITEMS

	31.12.2010 EURk	31.12.2009 EURk
SHAREHOLDINGS		
Portion of securities that are eligible for listing in shareholdings that are		
– listed	69,330	69,291
– non-listed	0	0
HOLDINGS IN AFFILIATED COMPANIES		
This line item does not contain any shares that are securitised in the form of securities eligible for listing		
TRUST ASSETS		
This line comprises:		
– Claims against financial institutions	82,912	90,006
– Claims against customers	25,440	35,173
TANGIBLE ASSETS		
Included under this heading are:		
– Plots and buildings used for our own activities	116,258	118,251
– Operational and business equipment	5,495	5,738
OTHER ASSETS		
Subordinated	7,530	7,517
ACCRUED AND DEFERRED ITEMS ASSETS		
– Difference between disbursement amount or procurement cost and lower nominal value of claims	108,777	61,513
– Difference between disbursement amount and higher repayment amount of liabilities	53,761	59,715
LIABILITIES TO BANKS		
This item comprises:		
– Liabilities to affiliated companies	–	–
– Liabilities to companies with which a shareholding relationship exists	1,232,614	1,212,290
LIABILITIES TO CUSTOMERS		
This item comprises:		
– Liabilities to affiliated companies	–	–
– Liabilities to companies with which a shareholding relationship exists	–	–
TRUST LIABILITIES		
Trust liabilities comprise		
– Liabilities to banks	15,484	20,453
– Liabilities to customers	92,868	104,726

EXPLANATION OF INDIVIDUAL BALANCE-SHEET ITEMS

	31.12.2010 EURk	31.12.2009 EURk
ACCRUED AND DEFERRED ITEMS LIABILITIES		
– Difference between disbursement amount or procurement cost and greater nominal value of claims	26,198	33,504
– Difference between disbursement amount and lower repayment amount of liabilities	8,740	14,835
SUBORDINATE LIABILITIES This line does not contain any liabilities to affiliated companies or companies with which a shareholding relationship exists.		
Interest expenses were incurred for subordinate liabilities in the sum of	31,724	31,616

Borrowings that exceeded 10% of the total amount of subordinated liabilities are as follows:

Currency:	JPY
Amount in EUR million:	93.1
Interest rate %:	2.14
Date of maturity:	24.08.2018

The subordinated liabilities are intended exclusively for use as supplementary capital and comply with the requirements of the German Banking Act. The important factor here is the subordinated nature of the liability of the Bank in relation to all non-subordinated liabilities toward other creditors. In the event of liquidation, the liabilities of all other creditors would be satisfied in full before any payments were made to the subordinated creditors.

A retroactive limitation of the subordination, or of the original term, of at least five years or of periods of notice is not possible.

L-Bank is not capable of insolvency under state law.

APPENDIX TO THE YEAR-END FINANCIAL STATEMENT OF L-BANK AS AT 31.12.2010

INDIVIDUAL FIGURES THAT MAY BE OF IMPORTANCE IN ASSESSING THE YEAR-END FINANCIAL STATEMENTS:

	31.12.2010 EURk	31.12.2009 EURk
OTHER ASSETS		
– Balancing item from currency conversion	514,763	–.–
– Accounts receivable from swaps and other transactions	141,577	104,163
– Works of art	14,284	14,115
– Claims from the sale of developed property	8,141	9,608
– Participation certificates	7,530	7,517
– Options	2,580	5,777
OTHER LIABILITIES		
– Balancing item from currency conversion	–.–	204,128
– One-time bullet maturity payments from swaps	120,063	90,542
– Commitments from option sales	2,580	5,777
PREPAID INCOME		
– Interest-subsidy funds received in advance from third parties	–.–	420,416
– Advance one-time payments received from swaps	378,433	68,133
PROVISIONS		
Among other provisions:		
– Provision for interest-subsidy funds to be provided under development obligations	–.–	510,545
– Provisions for assured interest subsidized loans	45,164	–.–
CONTINGENT LIABILITIES AND OTHER COMMITMENTS		
The liabilities from guarantees and guarantee contracts contain the following, before deduction of risk provision:		
– Credit guarantees to financial institutions	1,391,069	2,114,630
– Credit default swaps	5,007,887	5,319,612

The overwhelming proportion of contingent liabilities contains loan risks from borrowers with a first-class credit rating. 96.2% of the overall portfolio of contingent liabilities have an Investment Grade Rating.
Of the irrevocable loan assurances in the sum of EUR 7,831 million, EUR 5,731 million are attributable to a transaction guaranteed by the state of Baden-Württemberg.

	31.12.2010 EURk	31.12.2009 EURk
COMMISSION INCOME		
– Income from other services	30,308	28,362
– Guarantee fees received	15,231	13,872
COMMISSION EXPENSES		
– Guarantee fees paid	2,807	6,100
OTHER OPERATIONAL INCOME		
– Rental income	6,107	5,832
– Income from services for third parties	5,152	6,311
– Write-back of provisions	4,188	701

INDIVIDUAL FIGURES THAT MAY BE OF IMPORTANCE IN ASSESSING THE YEAR-END FINANCIAL STATEMENTS:

	31.12.2010 EURk	31.12.2009 EURk
GENERAL ADMINISTRATIVE EXPENSES		
The following auditor's fees, including value added tax, are included under miscellaneous administrative expenses:		
– For the audit	446	446
– For other certification or valuation services	90	150
– Other services	0	6
OTHER OPERATIONAL EXPENSES		
– Expenses for subsidies granted in the course of executing development programmes for the state of Baden-Württemberg	19,157	19,157
WRITE-DOWNS AND CORRECTIONS IN RESPECT OF SHAREHOLDINGS, SHARES IN AFFILIATED COMPANIES AND SECURITIES TREATED AS INVESTMENT ASSETS		
– Unplanned write-downs	44,467	189,365
of which credit-rating-related depreciation on fixed-asset securities	31,836	–.–
TOTAL AMOUNT OF ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES		
– Assets	1,241,168	895,807
– Debts	15,868,661	10,972,469
The exchange rate risk from foreign exchange balance-sheet positions is essentially covered by off-balance-sheet hedge transactions. Currency conversions therefore gave rise to other operational income of	154	446

ASSETS ASSIGNED AS SECURITY

Securities with a total value of EUR 9,116.7 million (previous year: EUR 10,870.1 million) were deposited with the German Bundesbank for refinancing liabilities to credit institutions. As part of open-market transactions, no securities were credited as at 31 December 2010 (previous year: EUR 1,000 million).

TRANSACTIONS WITH COMPANIES AND PERSONS WITH WHOM CLOSE TIES ARE MAINTAINED RELATED PARTY TRANSACTIONS

As at 31.12.2010 the balance-sheet value of transactions entered into on conditions that are customary in the market with companies and persons with whom close ties are maintained was EUR 16.4 million.

OTHER FINANCIAL OBLIGATIONS

In the equity investment area, payment obligations for outstanding contributions to the subscribed capital not yet called in exist in the amount of EUR 12.5 million.

By acquiring a shareholding in Landesbank Baden-Württemberg (LBBW) effective 1 January 2005, L-Bank became a guarantor of LBBW. L-Bank assumed joint and several liability for all liabilities of LBBW incurred until 18 July 2005, but is liable according to its capital share in internal relationships. In the event of claims against L-Bank arising from liabilities incurred prior to 1 January 2005, it can hold the previous guarantors jointly and severally liable in full.

On the balance sheet date there were no transactions within the meaning of Section 285, paragraph 3 and 3 a HGB, new version, which are of importance in respect of assessing the Bank's financial situation.

APPENDIX TO THE YEAR-END FINANCIAL STATEMENT OF L-BANK AS AT 31.12.2010

DERIVATIVE TRANSACTIONS

As at the date of accounting, L-Bank had in its portfolio derivative financial transactions (forward transactions within the meaning of Section 36 RechKredV). With the exception of credit derivatives, these were held primarily as hedges against interest and exchange rate fluctuations. No netting of positive and negative market values from contracts with the same counterparty was performed in stating derivative transactions. As a general rule, an insolvency-proof netting agreement exists.
Fully covered derivative structures embedded in underlying transactions were not included in the tables.
In accordance with Section 285, paragraph 18, HGB, the derivative contracts valued according to the market valuation method are as follows:

DERIVATIVE TRANSACTIONS SUMMARY OF AMOUNTS In million EUR	Nominal values 31.12.2010	Nominal values 31.12.2009	Market values positive 31.12.2010	Market values negative 31.12.2010	Market values positive 31.12.2009	Market values negative 31.12.2009
INTEREST RISKS						
– Interest swaps	74,096	78,700	2,092	–3,237	2,082	–2,713
– Interest options						
Purchases (long)	60	230	2	–	8	–
Sales (short)	60	230	–	–2	–	–9
Interest risks – total –	**74,216**	**79,160**	**2,094**	**–3,239**	**2,090**	**–2,722**
CURRENCY RISKS						
– Forward currency transactions swaps	6,709	2,715	143	–59	70	–9
– Currency/interest currency swaps	9,860	8,861	720	–243	263	–361
Currency risks – total –	**16,569**	**11,576**	**863**	**–302**	**333**	**–370**
SHARE AND OTHER PRICE RISKS						
– Forward share transactions (no nominal value)	–	–	–	–	–	–
Share and other price risks – total –	–	**–**	–	–	–	–
CREDIT DERIVATIVES (CD)						
– Assignors	5,008	5,320	1	–154	1	–115
– Assignees	–	–	–	–	–	–
Credit derivatives – total –	**5,008**	**5,320**	**1**	**–154**	**1**	**–115**

On balance, no meaningful currency profit or loss and no interest valuation profit or loss obtained from interest/currency swaps and the corresponding underlying transactions, particularly the foreign-currency debentures issued, are due. Positive market values of the interest/currency swaps in the amount of EUR 719 million are due to the changes in the currency spot rates. A liability-side compensating item was formed in this amount from the currency conversion and this item is stated under “Other liabilities”.
The interest swaps of the non-trading portfolio essentially serve to control the overall interest risk position, and show a net negative market value of EUR 1,145 million as at the end of 2010. These interest swaps are not valued in the balance sheet. The assets and liabilities contain interest-induced hidden reserves that are significantly greater than the negative market values of the interest swaps.

Credit default swaps (CDS) for which L-Bank is the guarantor are included in contingent liabilities at the nominal volume of EUR 5,008 million.

DERIVATIVE TRANSACTIONS – BY COUNTERPARTY In million EUR	Nominal values 31.12.2010	Nominal values 31.12.2009	Market values positive 31.12.2010	Market values negative 31.12.2010	Market values positive 31.12.2009	Market values negative 31.12.2009
– Banks in the OECD	85,613	86,451	2,607	–3,276	2,097	–2,903
– Public authorities in the OECD	–	–	–	–	–	–
– Other counterparties (including exchange transactions)	10,180	9,605	351	–419	327	–304
Total	**95,793**	**96,056**	**2,958**	**–3,695**	**2,424**	**–3,207**

DERIVATIVE TRANSACTIONS – BY TERM Nominal values in million EUR	Interest risks 31.12.2010	Interest risks 31.12.2009	Currency risks 31.12.2010	Currency risks 31.12.2009	Credit derivatives 31.12.2010	Credit derivatives 31.12.2009
Remaining terms						
– up to 3 months	3,295	5,664	6,092	2,749	35	60
– up to 1 year	6,388	7,821	3,317	2,517	45	375
– up to 5 years	37,009	36,149	5,916	5,189	1,392	1,119
– over 5 years	27,524	29,526	1,244	1,121	3,536	3,766
Total	**74,216**	**79,160**	**16,569**	**11,576**	**5,008**	**5,320**

The transactions reflected here do not include commercial transactions.

VALUING DERIVATIVE FINANCIAL INSTRUMENTS

The market valuation of derivatives is based on market data as at 30.12.2010 that the Bank obtains from external providers: interest curves; exchange rates; CDS spread curves; CFC, swaption and FX volatilities. In the interest structure models the required parameters are, in part, obtained through calibration using historical time series (mean reversion parameter for Hull–White models and correlation parameters).

Product group	Main valuation model
Interest and currency derivatives	DCF method
Caps/floors, swaptions	Black 76
Complex interest structures	Interest structure models (BGM model, Hull–White model, modified Hull–White model for multiple currencies)
Credit derivatives	Intensity model

INFORMATION ON TAX OBLIGATIONS

In accordance with the applicable German tax statutes, (Section 5, paragraph 1, No. 2, KStG and Section 3, No. 2, GewStG), L-Bank is exempt from corporate income and trade tax.

APPENDIX TO THE YEAR-END FINANCIAL STATEMENT OF L-BANK AS AT 31.12.2010

HOLDINGS IN ACCORDANCE WITH SECTION 285, NO. 11, HGB/SECTION 340 A (4), NO. 2 HGB

No.	Name/registered office	Direct shareholding	Equity* in EURk	Earnings* in EURk
1.	Austria Beteiligungsgesellschaft mbH, Stuttgart	33.34	35,642	1,652
2.	APOGENIX Biotechnology AG, Heidelberg	20.00	***	***
3.	Baden-Württemberg International – Gesellschaft für internationale wirtschaftliche und wissenschaftliche Zusammenarbeit mbH, Stuttgart	24.00	3,427	–3,543
4.	CONTTEK Holding GmbH, Pforzheim	44.75	4,860	–4,046
5.	Dorner GmbH, Gaildorf	40.00	***	***
6.	EB Automotive Group GmbH, Wallerstein	30.97	–19,937	–1,821
7.	flyion GmbH, Tübingen	41.18	411	–322
8.	Gottmadinger Immobiliengesellschaft AG i. L., Gottmadingen	100.00	541	–342
9.	greenovation Biotech GmbH, Heilbronn	32.90	336	–2,447
10.	KOKI TECHNIK Holding GmbH, Konstanz	36.55	6,057	–4,293
11.	Louis Renner GmbH & Co. KG, Gärtringen	37.40	1,796	747
12.	MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH, Stuttgart	26.80	35,787	1,532
13.	Mellifera 3. Beteiligungsgesellschaft mbH, Weinheim	26.00	10,447	4,126
14.	Micropelt GmbH, Freiburg	20.10	–3,442	–1,757
15.	Mindlab Solutions GmbH, Esslingen	47.72	1,218	–633
16.	novalung GmbH, Talheim	23.63	572	–3,887
17.	Panoratio Holdings Inc., San Francisco, USA	20.51	–166	–1,016**
18.	IntelliShop Holding GmbH, Achern (formerly Platin 594. GmbH)	27.60	****	****
19.	PT German Centre Indonesia, Bumi Serpong Damai, Indonesia	83.67	–7,501	–239**

HOLDINGS IN ACCORDANCE WITH SECTION 285, NO. 11, HGB/SECTION 340 A (4), NO. 2 HGB

No.	Name/registered office	Direct shareholding	Equity* in EURk	Earnings* in EURk
20.	Renner, Megenhardt & Co. GmbH, Gärtringen	37.35	163	7
21.	Schwarzer GmbH, Heilbronn	21.00	771	231
22.	seleon GmbH, Heilbronn	31.70	1,481	–1,653
23.	StEP Stuttgarter EngineeringPark GmbH, Stuttgart	100.00	7,648	2,274
24.	Stulz H + E GmbH, Grafenhausen	49.00	36,671	1,705
25.	SYMPORE GmbH, Tübingen	34.98	***	***
26.	Technologiepark Karlsruhe GmbH, Karlsruhe	96.00	9,604	1,119
27.	Technologieparks Tübingen-Reutlingen GmbH, Tübingen	100.00	6,620	–422
28.	Ulrich GmbH & Co. KG, Ulm	21.29	6,781	2,711
29.	Ulrich Verwaltungs GmbH, Ulm	21.32	51	2
30.	Wessel-Werk Beteiligungsverwaltung GmbH, Karlsruhe	35.00	–560	–952

* As at the respective last fiscal year available.
** Conversion rate: EUR 1 = IDR 13.510; EUR 1 = USD 1.328.
*** No year-end financial statements were prepared due to insolvency.
**** No year-end financial statements available due to new start-up.

APPENDIX TO THE YEAR-END FINANCIAL STATEMENT OF L-BANK AS AT 31.12.2010

STATEMENT OF ASSETS

Investment capital - Balance-sheet items -	Acquisition costs 01.01.10 EURk	Purchases EURk	Sales EURk	Transfers EURk	Write-ups EURk	Write-downs and corrections cum. EURk	Book value 31.12.10 EURk	Write-downs and corrections 2010 EURk
Debentures and other fixed-interest securities	16,446,858	Net change according to § 34 (3) sentence 2 RechKredV: EURk 711,287					17,452,277	–
Shares and other non-fixed income securities	–						–	–
Shareholdings	755,797						475,562	–12,630
Holdings in affiliated companies	36,906						23,009	–
Intangible assets	11,414	8,463	–	–	–	–11,816	8,061	–2,544
Tangible assets	225,904	4,873	–340	–	–	–94,184	136,253	–8,100
Other assets	14,137	177	–8	–	–	–22	14,284	–

TOTAL REMUNERATION OF COMMITTEES AND SUPERVISORY BODIES OF L-BANK

Directors' remuneration	Fixed remuneration		Variable remuneration		Other remuneration		Total	
In EURk	2010	2009	2010	2009	2010	2009	2010	2009
Christian Brand	432	432	226	256	20	18	678	706
Jürgen Hägele	322	322	181	205	18	18	521	545
Dr Manfred Schmitz-Kaiser	284	283	158	180	24	21	466	484
Dr Karl Epple	268	268	90	103	12	12	370	383
	1,306	1,305	655	744	74	69	2,035	2,118

In 2010 the members of the Board of Management received benefits in accordance with civil service law principles totalling EURk 71. Remuneration is not granted for positions held in the Group's own companies.
The members of the Board of Management have been assured payment of a pension following the end of activity as members of the Board of Management. The amount of pension is based on an agreed percentage rate of the last basic annual remuneration.

	31.12.2010 EURk	31.12.2009 EURk
– Supervisory Board	155	153
– Remuneration for former members of the Board of Management or their survivors	844	803
– Remuneration for Advisory Board (including travel costs)	60	3
– Pension provisions formed for former members of the Board of Management and their survivors	10,908	11,718

LOANS TO SUPERVISORY BOARDS (INCLUDING LIABILITY RELATIONSHIPS)	31.12.2010 EURk	31.12.2009 EURk
– Supervisory Board	401	174
– Board of Management	694	571

All loans earn interest at an appropriate market rate.

AVERAGE NUMBER OF EMPLOYEES IN 2010

	Male	Female	Total
Employees	508	679	1,187
of which: full-time employees	487	395	882
part-time employees	21	284	305

Excluding vocational trainees and interns

DIRECTORSHIPS OF BOARD OF MANAGEMENT MEMBERS AND EMPLOYEES OF L-BANK IN ACCORDANCE WITH SECTION 340 A, PARAGRAPH 4, NO 1, HGB

CHRISTIAN BRAND, CHAIRMAN OF THE BOARD OF MANAGEMENT

BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	Member of the Supervisory Board
Sächsische Aufbaubank – Förderbank, Dresden	Member of the Administrative Board
Schwäbische Hüttenwerke Automotive GmbH, Wasseralfingen	Member of the Supervisory Board
Wüstenrot & Württembergische AG, Stuttgart	Member of the Supervisory Board
Wüstenrot Holding AG, Ludwigsburg	Member of the Supervisory Board
Vorarlberger Landes- und Hypothekenbank AG, Bregenz	Member of the Supervisory Board

JÜRGEN HÄGELE, VICE-CHAIRMAN OF THE BOARD OF MANAGEMENT

Business-Park Göppingen GmbH, Göppingen	Member of the Supervisory Board
Gottmadinger Immobiliengesellschaft AG i. L., Gottmadingen	Chairman of the Supervisory Board
Sächsische Aufbaubank – Förderbank, Dresden	Deputy Member of the Administrative Board
Internationales Bankhaus Bodensee AG, Friedrichshafen	Member of the Supervisory Board

DR MANFRED SCHMITZ-KAISER, MEMBER OF THE BOARD OF MANAGEMENT

BioPro Baden-Württemberg, Stuttgart	Member of the Supervisory Board
Gottmadinger Immobiliengesellschaft AG i. L., Gottmadingen	Deputy Chairman of the Supervisory Board
MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH, Stuttgart	Member of the Supervisory Board
Tourismus-Marketing GmbH Baden-Württemberg, Stuttgart	Deputy Chairman of the Supervisory Board

DR KARL EPPLE, MEMBER OF THE BOARD OF MANAGEMENT

Baden-Württembergische Spielbanken Managementgesellschaft mbH, Baden-Baden	Member of the Supervisory Board
Bau- und Wohnungsverein Stuttgart, Stuttgart	Chairman of the Administrative Board
EnBW Systeme Infrastruktur Support GmbH, Karlsruhe	Member of the Supervisory Board
Gottmadinger Immobiliengesellschaft AG i. L., Gottmadingen	Member of the Supervisory Board

GOVERNING BODIES OF L-BANK

BOARD OF MANAGEMENT

Christian Brand
Chairman

Jürgen Hägele
Vice Chairman

Dr Manfred Schmitz-Kaiser

Dr Karl Epple

ADMINISTRATIVE BOARD MEMBERS 2010

Regular members

Representatives of the state government *

Ernst Pfister MdL
Minister for Economic Affairs
Chairman

Willi Stächele MdL
Minister of Finance
Vice Chairman

Heribert Rech MdL
Minister of Internal Affairs
Vice Chairman

Rudolf Köberle MdL
Minister for Rural Areas, Food and Consumer Protection
Vice Chairman
from 24.02.2010

Peter Hauk MdL
Minister for Food and Rural Areas
Vice Chairman
to 24.02.2010

Tanja Gönner
Minister for the Environment, Conservation and Traffic

Dr Monika Stolz MdL
Minister for Employment and Social Affairs, Families and Senior Citizens

Hubert Wicker
State Secretary, Ministry of State

Ingo Rust MdL
Member of the state government of Baden-Württemberg
from 19.10.2010

Dr Gisela Meister-Scheufelen
Ministerial Director, Ministry of Finance
to 18.10.2010

Other members **

Martin Lamm
Managing Director
Bauunternehmung Lamm

Wirtsch.-Ing. Bernd Bechtold
President of IHK Karlsruhe

Heinz Kälberer
Former Mayor, Vaihingen

Leni Breymaier
Regional Manager
VER.DI Baden-Württemberg

Dr Jürgen Schütz
Former Chief Administrative Officer of a German state

Gerhard Burkhardt
Chairman of the Board of Management
Verband baden-württembergischer Wohnungsunternehmen e.V.

Dr Maximilian Dietzsch-Doertenbach
Managing Partner
Doertenbach & Co. GmbH

Consulting members

Clemens Meister
Chairman of the Central Staff Council of L-Bank, Karlsruhe

Reiner Enzmann
Chairman of the Staff Council of L-Bank, Karlsruhe

Thomas Dörflinger
Chairman of the Staff Council of L-Bank, Stuttgart

* Membership by law

** Personally appointed

Alternate members

Alternate members of the government of the state

Richard Drautz
State Secretary, Ministry for Economic Affairs

Dr Stefan Scheffold MdL
State Secretary, Ministry of Finance from 24.02.2010

Gundolf Fleischer MdL
State Secretary, Ministry of Finance to 24.02.2010

Günther Benz
Ministerial Director, Ministry for Internal Affairs

Dr Albrecht Rittmann
Ministerial Director, Ministry for Rural Areas, Food and Consumer Protection

Bernhard Bauer
Ministerial Director, Ministry for the Environment, Conservation and Traffic

Dieter Hillebrand MdL
State Secretary, Ministry for Labor and Social Affairs, Families and Senior Citizens

Michael Kleiner
Chief Undersecretary
Head of Dept. I, in Ministry of State

Reinhold Gall MdL
Member of government of state of Baden-Württemberg from 19.10.2010

Prof. Dr Claus Eiselstein
Ministerial Director
Head of Dept. III, Ministry of State to 18.10.2010

Alternates

Joachim Wohlfeil
President, Karlsruhe Chamber of Trades and Crafts

Dr.-Ing. Hansjörg Rieger
Managing Partner
RUD Ketten Rieger & Dietz GmbH & Co. KG

Gerhard Roßwog
President, Baden-Württembergischen Genossenschaftsverbandes e.V.

Frank Zach
Head of Economics Department, DGB District Baden-Württemberg to 31.03.2010

Roger Kehle
President, Gemeindetag Baden-Württemberg

Andreas Schmitz
Speaker for the Board of Management of HSBC Trinkaus & Burkhardt AG

Wilhelm Freiherr von Haller
Chairman of the Board of Management of Sal.Oppenheim jr. & Cie.

Other alternate members of the government of the state

Prof. Dr Willi Weiblen
Ministerial Director
Head of the Economic Principles and Administration Department, Ministry of Economic Affairs

Walter Leibold
Ministerial Director
Head of the Financial Policy and Holdings Department, Ministry of Finance

Volker Jochimsen
Ministerial Director
Head of the Constitution, Municipal and Sparkassen and Legal Affairs Department, Ministry of Internal Affairs

Joachim Hauck
Ministerial Director
Head of the Agriculture Department, Ministry for Rural Areas, Food and Consumer Protection

Jutta Lück
Ministerial Director
Head of the Administrative Department, Department for the environment, conservation and traffic

Thomas Halder
Ministerial Director
Ministry for Labor and Social Affairs, Families and Senior Citizens

Dr Georg Walch
Undersecretary
Head of the Department for Budget and Tax Policy, Tax Estimates, Properties and Holdings, in Ministry of State

Norbert Schmitt
Chief Undersecretary
Head of the Department for Public Holdings and Banking, Ministry of Finance

PROPOSAL OF THE BOARD OF MANAGEMENT FOR THE DISTRIBUTION OF NET PROFIT

The Board of Management hereby proposes to the Supervisory Board of L-Bank that the net profit of the 2010 fiscal year of EUR 149,982,203.21 be disposed of in the form of a dividend to the state of Baden-Württemberg in the amount of EUR 130.0 million, and that the remaining amount of EUR 982,203.21 be carried forward to the current fiscal year.

Karlsruhe, 22 March 2011

L-Bank

Christian Brand Jürgen Hägele Dr Manfred Schmitz-Kaiser Dr Karl Epple

DECLARATION OF THE L-BANK BOARD OF MANAGEMENT REGARDING THE YEAR-END FINANCIAL STATEMENTS AS AT 31.12.2010

We ensure, based on our best knowledge, that the annual financial statements were completed in accordance with the applicable accounting standards and that they represent a fair and accurate view of the bank's asset, finance and income position. Moreover, we also ensure that the management report is presented in such a way as to accurately describe the bank's current state of business operations as well as to highlight the most important opportunities and risks along with the most probable future development.

Karlsruhe, 22 March 2011

Christian Brand Jürgen Hägele Dr Manfred Schmitz-Kaiser Dr Karl Epple

AUDITOR'S OPINION

We have audited the annual financial statements – consisting of balance sheet, profit and loss statement, notes, cash flow statement and the statement of changes in equity – taking into consideration the accounting system and the Management Report of the Landeskreditbank Baden-Württemberg – Förderbank, Karlsruhe, for the fiscal year from 1 January 2010 to 31 December 2010. The accounting and the preparation of the annual financial statements and management report in accordance with the German commercial regulations are the responsibility of the L-Bank's Board of Management. Our job is, on the basis of the audit completed by us, to provide an assessment of the annual financial statements, the method of accounting and the management report.

We have conducted our audit of the annual financial statements in accordance with Art. 317 German Commercial Code (HGB) under consideration of the German auditing standards as determined by the IDW (Institute of German Auditors). According to this, the audit must be planned and implemented in such a fashion that falsities and irregularities that could potentially have a considerable effect on the overall picture represented by the annual financial statements can be – under consideration of the principles of proper accounting and the status of the assets, finance and earnings position reflected in the management report – recognised with a sufficient level of certainty.

In determining the audit procedures, the knowledge of the business activity and of the economic and legal environment of the company as well as the expectations of possible errors is considered. Within the scope of the audit, the effectiveness of the accounting-related internal control systems as well as confirmations of the details presented in the accounting reports, annual financial statement and management report are made largely on the basis of spot checks. The audit includes the assessment of the accounting principles used and the most important estimation of the Board of Management as well as the appraisal of the overall depiction of the annual financial statements and the management report.

We are certain that our audit provides a sufficiently certain basis for our assessment. Our audit did not lead to any exceptions. In accordance with our assessment, which was based on the knowledge attained during our audit, the annual financial statements meet the statutory requirements under consideration of the generally accepted accounting principles of the true and fair representation of the company's asset, finance and income position.

The management report is in accordance with the annual financial statements and portrays an overall accurate picture of the company's situation as well as accurately representing the opportunities and risks of future developments.

Stuttgart, 22 March 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Jürgen Breisch
Auditor

ppa. Ralf Steffan
Auditor

MIX
Paper from responsible sources
FSC® C011500
www.fsc.org

Printed by: Dr. Cantz'sche Druckerei GmbH & Co. KG

Published by:
L-Bank

Schlossplatz T +49 721 150-0
76113 Karlsruhe F +49 721 150-1001

Börsenplatz 1 T +49 711 122-0
70174 Stuttgart F +49 711 122-2112

Federal Republic of Germany
www.l-bank.de