ANNUAL REPORT 2014

L-BANK
Staatsbank für Baden-Württemberg

CONTENTS

GREETINGS FROM THE CHAIRMAN OF THE BOARD

Dear Business Partners,

Last year, L-Bank financed investments by businesses, public bodies and individuals in Baden-Württemberg to the tune of EUR 8.8 billion. By this means our support provides a decisive stimulus to the improvement of housing, working and living conditions in the state. To support our region optimally with stimuli for development of its competitiveness and sustainability we base our work on four pillars: the traditional provision of development loans for businesses, accommodation and infrastructure is complemented by the use of our own capital, the development of business locations as well as the administration on behalf of the federal state of financial support from the EU, the German Federal Republic and Baden-Württemberg.

These financial products and development packages are continually improved by us in close cooperation with the federal state and its relevant ministries. In order to support the state's overall goals and current developments successfully, we establish dialogues with enterprises, chambers of commerce, trade associations and our co-financiers. The results of such exchanges are evident when we put our offerings to the test.

In this context, last year we evaluated how our programmes might give added stimuli to changing the sources of energy. The immediate result of this exercise is Resource Efficiency Financings for SMEs, with which we have been promoting investment in the (thermal) efficiency of materials and environmental technologies. A further focus is the bolstering of innovation-based businesses. We have improved our offering of equity products for technology-oriented companies in the growth phase by increasing our Venture Capital portfolio to EUR 100 million. We are making new in-roads in the field of business location development and are ready to assist with our long-established expertise in the construction of commercial property for specific investment projects. These are just three examples of how development support is finding new ways to meet its future tasks to best effect.

Changes of this nature can only achieve rapid success if all involved are fully on board. All L-Bank staff have been encouraged to participate in the strategic review process that started last year. The proposals it produced were evaluated in staff meetings, and a large portion of the proposals have already been, or are in the course of being, implemented. This process worked because each member of L-Bank's staff brought their professional skills to bear purposefully. It is with precisely this attitude that our staff constantly creates the basis for successful development activity. How such development activities operate in detail is best explained by our specialists themselves. This is why we asked some of them to describe their respective responsibilities in video clips. These films can be seen on our website, where seven staff members representing all 1,250 employees describe what it is that L-Bank stands for and to what precisely they apply themselves with obvious enthusiasm. I offer my heartfelt thanks to our staff for such commitment.

Dr. Axel Nawrath
Chairman of the Board of Management of L-Bank

CORPORATE GOVERNANCE REPORT 2014

L-Bank, in its capacity as the development bank for the State of Baden-Württemberg, has a statutory remit to support the federal state in the performance of its public duties and, in doing so, to implement and manage various development initiatives. A sound and responsible approach to corporate governance has always been a self-evident component of the Bank's approach to these non-commercial activities. In mid-2013, L-Bank enshrined the Public Corporate Governance Code of the federal state of Baden-Württemberg in the Bank's in-house rulebook by resolutions of both the Board of Management and Supervisory Board, and since then has observed the terms of the Code. This Corporate Governance Report covers fiscal year 2014; the following declaration applies in full as at the reporting date, 31 December 2014.

DECLARATION OF COMPLIANCE

The Board of Management and Supervisory Board of L-Bank declare that:

We have complied and continue to comply with the recommendations of the Public Corporate Governance Code of the federal state of Baden-Württemberg (PCGK BW) to the extent that such recommendations apply to L-Bank in its capacity as a public-law institution, with the exception of the following two recommendations.

→ *Indexation of fixed remuneration paid to members of the Board of Management (Clause 37 PCGK BW)*
Any contracts of employment concluded with members of the Board of Management since mid-2013, in other words since the entry into force of the Public Corporate Governance Code of the federal state of Baden-Württemberg, have not included any provision for indexation of fixed remuneration. Contracts concluded prior to this time still contain provisions to the effect that fixed remuneration shall be increased in line with movements in collectively agreed wages in the banking sector; this indexation is used to compensate for inflation and avoid recurring negotiations of appropriate salary increases.

→ *Setting of targets for variable remuneration paid to members of the Board of Management (Clause 38 of PCGK BW)*
The metrics upon which calculations of variable remuneration paid to members of the Board of Management are based – where such variable remuneration has been agreed – are specifically detailed in their employment contracts; no other set targets have been agreed in view of the fact that all policies relating to the Bank's activities are derived directly from the relevant statutory provisions and L-Bank's own statutes. At the end of 2014, the employment contracts for members of the Board of Management were amended to the effect that no further variable remuneration will be paid as from 1 January 2015.

PROPORTION OF WOMEN ON THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD, AND IN EXECUTIVE MANAGEMENT POSITIONS

As at 31 December 2014, no women were represented on the four-strong Board of Management. As at the reporting date, five of the eighteen members of the Supervisory Board (27.8%) and 75 of the 223 employees in managerial positions (33.6%) were women.

REMUNERATION PAID TO MEMBERS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

REMUNERATION PAID TO MEMBERS OF THE BOARD OF MANAGEMENT FOR 2014 in EURk

Name	Fixed remuneration	Performance-related remuneration	Other non-cash benefits	Payments from third parties in relation to Board of Management activities	Total
Christian Brand[1] Chairman	237.1	118.6	10.8	44.1	410.6
Dr. Axel Nawrath[2] Chairman	353.0	–	11.2	7.5	371.7
Prof. Dr. Manfred Schmitz-Kaiser Vice-Chairman	533.5	–	19.8	4.7	557.9
Dr. Karl Epple	409.5	–	25.1	9.6	444.2
Dr. Ulrich Theileis	482.2	–	19.4	2.6	504.2
Total	2,015.4	118.6	86.3	68.4	2,288.6

1 Mr Brand resigned from the Board of Management with effect from 30 June 2014.
2 Dr. Nawrath became the Chairman of the Board of Management on 1 July 2014.

Performance-related remuneration of EUR 697,500 was paid out in 2014 for fiscal year 2013.

In 2014, the members of the Board of Management received benefits totalling EUR 30,600 according to their entitlements under civil-service law.

A commitment has been made to the members of the Board of Management undertaking to pay a pension upon termination of their Board of Management contract.

REMUNERATION PAID TO MEMBERS OF THE SUPERVISORY BOARD FOR 2014 in EURk				
Name	Membership of Supervisory Board	Membership of committees	Attendance fees	Total
Dr. Nils Schmid[1] Chairman	9.0	3.9	1.1	14.0
Alexander Bonde[1] Vice-Chairman	7.5	3.9	0.5	11.9
Reinhold Gall[1] Vice-Chairman	7.5	3.9	0.9	12.3
Katrin Altpeter[1]	6.0		0.2	6.2
Leni Breymaier	6.0		0.6	6.6
Dr. Maximilian Dietzsch-Doertenbach	6.0	3.9	1.1	11.0
Roger Kehle	6.0		0.5	6.5
Gabriele Kellermann	6.0	2.4	1.1	9.5
Dr. Peter Kulitz	6.0		0.8	6.8
Klaus-Peter Murawski[1]	6.0		0.6	6.6
Dr. Dieter Salomon	6.0		0.3	6.3
Claus Schmiedel	6.0		0.3	6.3
Edith Sitzmann	6.0		0.5	6.5
Franz Untersteller[1]	6.0	2.4	0.6	9.0
Joachim Wohlfeil	6.0		0.5	6.5
Clemens Meister	6.0		0.8	6.8
Tatjana Aster	6.0		0.8	6.8
Thomas Dörflinger	6.0		0.8	6.8
Total	114.0	20.4	11.4	145.8

1 Subject to a duty of surrender to the State of Baden-Württemberg.

The Board of Management

The Supervisory Board

MANAGEMENT REPORT – REPORT OF THE BOARD OF MANAGEMENT OF L-BANK FOR FISCAL YEAR 2014

BACKGROUND

L-Bank is the development bank of the German federal state of Baden-Württemberg. The Bank has its head office in Karlsruhe, with a branch office in Stuttgart. L-Bank is wholly owned by the State of Baden-Württemberg, and, as a public-law institution, is subject to the supervision of the federal state government. Up until 3 November 2014, L-Bank, in its capacity as a credit institution, was supervised by Germany's Federal Financial Supervisory Authority (BaFin) and by Deutsche Bundesbank. Since 4 November 2014, in the context of the Single Supervisory Mechanism (SSM) introduced within the European Union, L-Bank has come under the direct supervision of the European Central Bank (ECB).

The Bank's business activities are governed by its statutory remit, namely to support the state government of Baden-Württemberg in the fulfilment of its public duties, especially in terms of structural, economic and social policy, by implementing development initiatives in accordance with the European Union's rules on state aid. L-Bank's development goals and operational targets – such as, for example, the Bank's target customers and development priorities – are determined by the Bank's owner in accordance with the provisions of the L-Bank Act, relevant political priorities and, with respect to activities relating to development programmes, the specific terms of each individual programme. As a result, key areas of L-Bank's business operations are heavily influenced by external factors and can therefore only be controlled to a limited extent.

ECONOMIC REPORT

BASIC PARAMETERS

Following two years of moderate growth, the German economy picked up momentum again in early 2014, despite the otherwise modest pace of global economic growth and the persistent weakness of the eurozone. By the second half of the year, however, economic growth in Germany practically ground to a halt as the generally unfavourable state of the world economy was compounded by heightened geopolitical risks. According to the Federal Statistical Office, Germany's gross domestic product (GDP) for the year as a whole showed an increase of 1.5% compared to the previous year (as at January 2015). Despite this loss of economic impetus, the German labour market remained consistently stable during the second half of 2014, representing a year-on-year improvement. Germany's unemployment rate for the year, as calculated by the Federal Employment Agency, averaged 6.7% (as at January 2015).

Economic performance in Baden-Württemberg tracked the national trend, with a marked slowdown after the strong start to the year. With a growth rate of 1.75% (Statistical Office of Baden-Württemberg, as at December 2014), Baden-Württemberg once again outperformed Germany as a whole in 2014. A key driver of this performance during the first half of 2014 was manufacturing in general, and the automotive and mechanical engineering segments in particular. Meanwhile, employment levels continued to rise. Compared to the rest of Germany, Baden-Württemberg recorded above-average growth in employment levels, with the number of people in work in the federal state reaching an all-time high. According to the Statistical Office of Baden-Württemberg, the average unemployment figure for the year was 4.0%, with a year-end rate of 3.8% (as at January 2015).

The economic slowdown and persistently low market interest rates had a significant influence on L-Bank's business activities during the year under review.

BUSINESS PERFORMANCE

The main focus of L-Bank's development activities during the year under review was on economic development. Levels of new business remained high, albeit slightly down on the previous year. There was also a small dip in housing development. In 2014, the "Growth Finance" programme and programmes for financing energy efficiency initiatives recorded the highest business volumes among both small and medium-sized enterprises (SMEs) and in the residential housing sector. Infrastructure development and family, education and social development also showed positive growth. L-Bank achieved its goal of maintaining a consistently high level of new business across all lines of business.

Enterprise development

With a view to supporting the sustainable growth of Baden-Württemberg's economy and safeguarding jobs, L-Bank works with commercial banks to finance investment projects by new business start-ups and established SMEs, and also supports agricultural initiatives. The Bank issues low-interest loans and grants, and also assumes certain specific kinds of risk. The slowdown in economic growth and emergence of geopolitical risks during the year under review also had some impact on the volume of new business in the enterprise development sector. Companies showed an increasing reluctance to invest, meaning that the demand for certain development programmes showed a decline. Nevertheless, with a total new business volume of EUR 2,962.7 million (2013: EUR 3,211.5 million) in 2014, L-Bank posted another successful result in this area of activity.

As in the previous year, L-Bank continued to support new start-ups and fledgling companies, making particular use of the "Start-up Finance" programme, which helps businesses to establish themselves and also assists existing companies as they plan for further expansion or acquisitions. Despite a slight decline in the number of new business start-ups in Baden-Württemberg, the volume of funding grew from EUR 437.7 million to EUR 439.9 million.

Established SMEs in Baden-Württemberg received total funding of EUR 2,174.6 million (2013: EUR 2,398.0 million) in 2014, delivered through a number of different programmes. The "Growth Finance" programme, which funds all types of corporate investment activity, remained the biggest programme in terms of funding volume, with commitments totalling EUR 838.8 million (2013: EUR 925.9 million). Demand for loans to fund corporate investment in energy-saving measures also held up, although commitments did not match the significantly above-average volumes recorded in 2013. Finance provided under the "Energy Efficiency for SMEs" programme fell from EUR 730.0 million to EUR 641.4 million. The new business figures for the "Liquidity Facility" programme (EUR 79.7 million compared to

EUR 117.2 million in 2013) demonstrate the extent to which companies are still benefiting from a successful 2013 and, consequently, are less reliant on loans for working capital, consolidations and takeovers. Demand for loans through the "Investment Finance" programme showed positive growth. The programme provides funding for business investment in rural areas in Baden-Württemberg, which rose by EUR 12.6 million to EUR 227.8 million (2013: EUR 215.2 million).

As far as agricultural programmes are concerned, new business, at EUR 144.2 million, was almost on a par with the previous year (EUR 148.8 million). Demand for the "New Energy – Energy from the Countryside" programme, which supports energy production from renewable energy sources, grew from EUR 29.3 million to EUR 37.5 million, marking a significant year-on-year improvement. However, this rise was not enough to fully offset the decline elsewhere, particularly in the "Agriculture – Growth" programme, which experienced a dip from EUR 86.8 million to EUR 75.0 million. This programme supports agricultural investment projects that aim to cut production costs or improve production and working conditions, and ultimately help to make the sector more competitive. L-Bank attributes this decline to a reduced willingness to invest, a trend that has also been evident across the agricultural sector as a whole.

Housing development

L-Bank uses low-interest loans to help private individuals and companies in Baden-Württemberg build and acquire residential property for rental or owner occupation. By financing modernisation and renovation projects, the Bank is also helping to implement energy-efficiency programmes and conversion projects that improve physical access to properties. Contrary to expectations, L-Bank did not quite succeed in achieving the high levels of new business recorded in 2013; the total funding volume amounted to EUR 1,985.9 million (2013: EUR 2,229.9 million). Programmes for financing energy-efficiency projects were particularly hard hit by waning demand for funding during the year under review.

In terms of financial assistance for home ownership, the Bank approved new business totalling EUR 1,515.4 million (2013: EUR 1,634.9 million). New approved funding under the federal state's housing assistance programme, with loans totalling EUR 264.7 million, was only slightly down on 2013 levels (EUR 273.4 million), despite the fact that general market interest rates made the programme less attractive during certain periods in 2014. Funding approved under the energy efficiency programmes made up the biggest share, accounting for EUR 858.0 million (2013: EUR 961.2 million). Loans totalling EUR 532.3 million (2013: EUR 575.6 million) were issued under the "Energy Efficiency Finance – Construction" programme, which supports the building and acquisition of energy-saving housing and condominiums. L-Bank's "Energy Efficiency Finance – Renovation" programme provided a total of EUR 325.6 million (2013: EUR 385.6 million) in financial assistance for individual schemes to improve energy efficiency and for the refurbishment of existing properties to bring them into compliance with the "Effizienzhaus" (Efficient House) quality standard. Following exceptionally high levels of new business under these programmes in 2013, the Bank now appears to have attained a sustainable level of business with good market penetration. The volume of loans awarded through the "Living for the Future: Renewable Energies" programme, focusing on the installation of heating systems and hot water processing systems that use renewable energy, was also down on the previous year at EUR 20.0 million (2013: EUR 49.5 million). This decline can be attributed to L-Bank's conservative approach to setting loan conditions; installations of systems supported by this programme have already received comparatively high levels of federal subsidy. By contrast, demand for L-Bank's "Living with Children" programme remained high, with loans totalling EUR 300.0 million (2013: EUR 279.3 million) awarded to families with at least one child to enable them to build or buy their own homes. A key factor behind this increase was the high level of awareness of this programme, not to mention the straightforward application process.

In addition to financial assistance for home ownership, the Bank is also involved in programmes for creating and modernising rental accommodation. The state housing assistance programme showed especially positive growth in this regard, with new business increasing by EUR 126.0 million to EUR 132.6 million (2013: EUR 6.6 million). A large number of applications submitted in 2013 were processed in the year under review. This was due to the delay in approval of the state aid programme by the EU, which was not finalised until September 2013, with the result that application processing was also held up. By contrast, the Bank's own development programme for new builds experienced a decline, as many investors spent the year under review working on existing projects and only showed interest in a handful of new ones. New business totalled EUR 54.3 million (2013: EUR 78.4 million). Commitments under other L-Bank programmes, while down on the previous year at EUR 265.2 million (2013: EUR 491.1 million), were still up on 2012 levels. This decline can be attributed in particular to a one-off high-volume project in 2013. In terms of total funding for rental accommodation projects, the volume of new business came to EUR 452.1 million (2013: EUR 576.1 million).

Finance for apartment owners' associations, designed to implement energy-efficiency projects and conversion projects for improving physical access to properties, remained steady at EUR 18.4 million (2013: EUR 18.8 million).

Other developments

With the aim of strengthening Baden-Württemberg's position as a business hub, L-Bank offers finance solutions for municipal and social infrastructure projects and also helps the state to implement infrastructure projects by providing loans or other financial instruments. The Bank is involved, for example, in syndicated finance for public-private partnerships and also funds licensing and rental models. In addition, L-Bank provides its owner with support for infrastructure projects. In response to rising demand in the public sector, EUR 2,637.4 million (2013: EUR 968.3 million) of new funding was issued during the year under review.

As a service provider to the State of Baden-Württemberg, L-Bank is responsible for implementing many different types of financial assistance. In addition to funds from the State of Baden-Württemberg, the European Union and the German federal government, L-Bank also distributed grants from Baden-Württemberg Stiftung gGmbH and MFG Medien- und Filmgesellschaft Baden-Württemberg mbH. During the year under review, the Bank processed EUR 809.6 million of approved funding, which equates to 9.2% of L-Bank's total volume of new business in 2014. This figure was down on the previous year (EUR 1,046.8 million) as a number of special funding schemes came to an end. As before, the most significant programmes were finance for hospitals (EUR 317.3 million; 2013: EUR 524.8 million) and projects relating to water, waste water, flood protection, contaminated sites and hydropower (EUR 102.0 million; 2013: EUR 101.5 million), as well as investments in new schools (EUR 96.8 million; 2013: EUR 85.7 million). L-Bank also paid out federal family allowances and childcare allowances on behalf of the federal and state governments. Approved funding for family allowances increased from EUR 749.4 million to EUR 840.3 million, due to the increased number of couples in which both parents were entitled to apply for the allowance. Childcare allowance payments rose from EUR 67.8 million to EUR 197.7 million. The Bank first started to manage this benefit on 1 August 2013, with the result that 2014 is the first full reporting year in which childcare allowances have been paid out.

As at the balance-sheet date, L-Bank's investment portfolio had a book value of EUR 594.1 million (2013: EUR 512.8 million). The investment portfolio includes strategic and credit-equivalent shareholdings, as well as shares in subsidiaries involved in the regional development of Baden-Württemberg.

The book value of the strategic investments held by L-Bank on behalf of the State of Baden-Württemberg totalled EUR 488.9 million (2013: EUR 430.1 million) at the year-end. The change compared to the previous year can be attributed to a capital reserve addition affecting an associate company.

Through L-EA Mittelstandsfonds, L-Bank either assumes the role of co-investor in well-established SMEs based in Baden-Württemberg or supports such companies by providing them with tailor-made mezzanine financing instruments. L-Bank has allocated EUR 50.0 million of the funding to support companies in the IT and software sector that have already launched their products on the market but require financial support to grow further (Venture Capital sub-portfolio). Demand for L-EA Mittelstandsfonds products remained as high as ever, as also reflected in the brisk level of investment activity. The investment volume, including subordinated loans, totalled EUR 30.7 million in 2014 (2013: EUR 19.9 million). EUR 10.6 million (2013: EUR 5.4 million) of this related to the Venture Capital sub-portfolio. L-Bank made use of prevailing market conditions to sell off five of its commitments (including two from the Venture Capital sub-portfolio). As at the balance-sheet date, the L-EA Mittelstandsfonds portfolio comprised 20 commitments, representing a total investment volume of EUR 170.5 million (2013: EUR 159.0 million). The Venture Capital sub-portfolio, with five commitments, accounted for EUR 27.4 million (2013: five commitments, EUR 20.4 million).

The book value of the shareholdings in the L-EA Mittelstandsfonds and additional credit-equivalent shareholdings totalled EUR 82.2 million (2013: EUR 57.1 million).

L-Bank operates technology and business parks through subsidiary companies. Based near higher education and research institutions, the aim of these parks is to facilitate technology transfers from academia to industry via the medium of real estate. These parks differ from other commercial premises by the way they are managed and the additional services on offer, which include conference and training facilities as well as nursery and primary school provision. In addition to these parks, L-Bank also operates a number of national infrastructure projects, as well as the German Centre in Indonesia. As at 31 December 2014, L-Bank had provided funding of EUR 83.0 million (2013: EUR 65.1 million) to these companies for regional development purposes; the book value of these regional development shareholdings fell to EUR 23.0 million (2013: EUR 25.6 million).

As part of the Bank's approach to asset/liability management, L-Bank continues to pursue a conservative investment strategy, with a clear focus on borrowers with good and very good credit ratings. Securities with AAA and AA ratings account for more than two-thirds of the portfolio.

MANAGEMENT REPORT

Income situation

The summary of operational income below is intended to provide a clear breakdown of L-Bank's results. The summary treats interest subsidies as interest expenses (as required under commercial law) and other development expenditure as services to the State of Baden-Württemberg, hence as an appropriation of profits. As expected, net interest income was down during the year under review, reflecting the persistently low level of interest rates (EUR 38.5 million or 9.3%). Nevertheless, it remains L-Bank's largest source of income.

Net commission income, at EUR 42.4 million (2013: EUR 41.2 million), mainly comprised payments from the State of Baden-Württemberg for services provided by L-Bank. These included, in particular, the distribution of family benefits (family allowance, education allowance and childcare allowance payments) and the granting of financial aid (hospital funding etc.). The increase of EUR 1.2 million in net commission income is mainly attributable to additional cost reimbursements for distributing EU grants.

Administrative expenses, which include depreciation on tangible assets as well as personnel and general expenses, rose as expected by 11.4% over the previous year to EUR 165.6 million (2013: EUR 148.7 million). The main reasons for this rise were expenses for construction work required on bank buildings (primarily for fire prevention and renovation), increases in contractually agreed wages, and expenses incurred by IT projects.

As expected, the balance of other operating income and expenses showed negative growth (EUR –4.9 million; 2013: EUR 12.7 million), due to the absence of any income from the provision of services to third parties. Expenses for leased buildings also had a negative impact. Operating income before risk provisions/valuations also fell, as expected, to a total of EUR 247.4 million (2013: EUR 319.2 million).

At EUR 61.0 million, net valuation income was up on the previous year, compared to expenses of EUR –25.4 million in 2013. This change can be attributed to higher reversals of risk provisions and income from the sale of investments. As a result, the operating result increased by EUR 14.6 million to a total of EUR 308.4 million. L-Bank's distributable income amounted to EUR 307.5 million (2013: EUR 293.2 million).

Out of the Bank's profit for the year, the State of Baden-Württemberg received a total of EUR 128.3 million (2013: EUR 142.4 million). Of this, EUR 114.2 million (2013: EUR 127.1 million) was spent on interest subsidies and grants. The Bank's contribution to Baden-Württemberg's road construction programme came to EUR 14.1 million (2013: EUR 15.3 million). EUR 130.0 million (2013: EUR 50.0 million) was allocated to the fund for general banking risks.

Net income totalled EUR 49.2 million (2013: EUR 100.8 million). Taking into account the profit carried forward from 2013, net profit amounted to EUR 50.3 million. The board is planning to allocate EUR 50.0 million of this income to other retained earnings in order to increase the Bank's Tier I capital ratio, and to carry forward the remaining EUR 0.3 million.

BREAKDOWN OF OPERATING INCOME in EUR millions

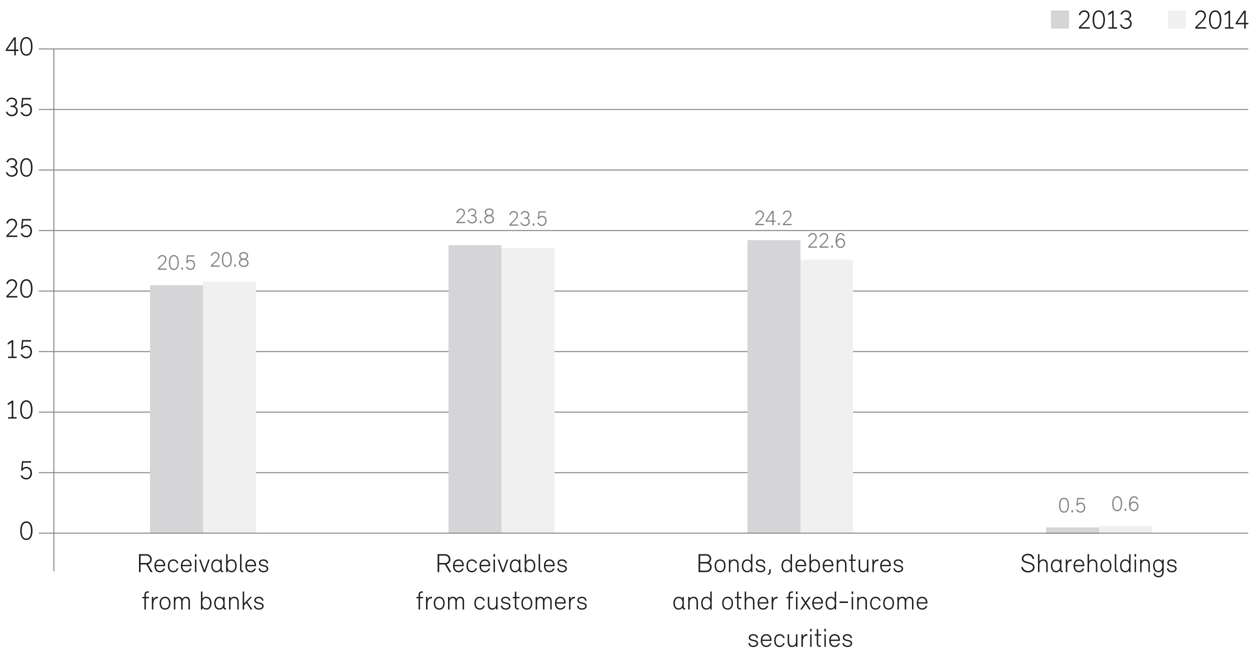
	01.01.2014 to 31.12.2014	01.01.2013 to 31.12.2013	Change	Change in %
Net interest income	375.5	414.0	–38.5	–9.3
Net commission income	42.4	41.2	1.2	2.9
Net result from other income/expenses	–4.9	12.7	–17.6	< –100.0
Administrative expenses	165.6	148.7	16.9	11.4
Operating result before risk provisions/ valuations	**247.4**	**319.2**	**–71.8**	**–22.5**
Income from asset revaluation	61.0	–25.4	86.4	>100.0
Operating result	**308.4**	**293.8**	**14.6**	**5.0**
Taxes on income	0.9	0.6	0.3	50.0
Distributable income	**307.5**	**293.2**	**14.3**	**4.9**
Expenses for interest subsidies and other subsidies	114.2	127.1	–12.9	–10.1
Contribution to road construction programme	14.1	15.3	–1.2	–7.8
Addition to fund for general banking risks	130.0	50.0	80.0	>100.0
Net income	**49.2**	**100.8**	**–51.6**	**–51.2**

Assets and liabilities

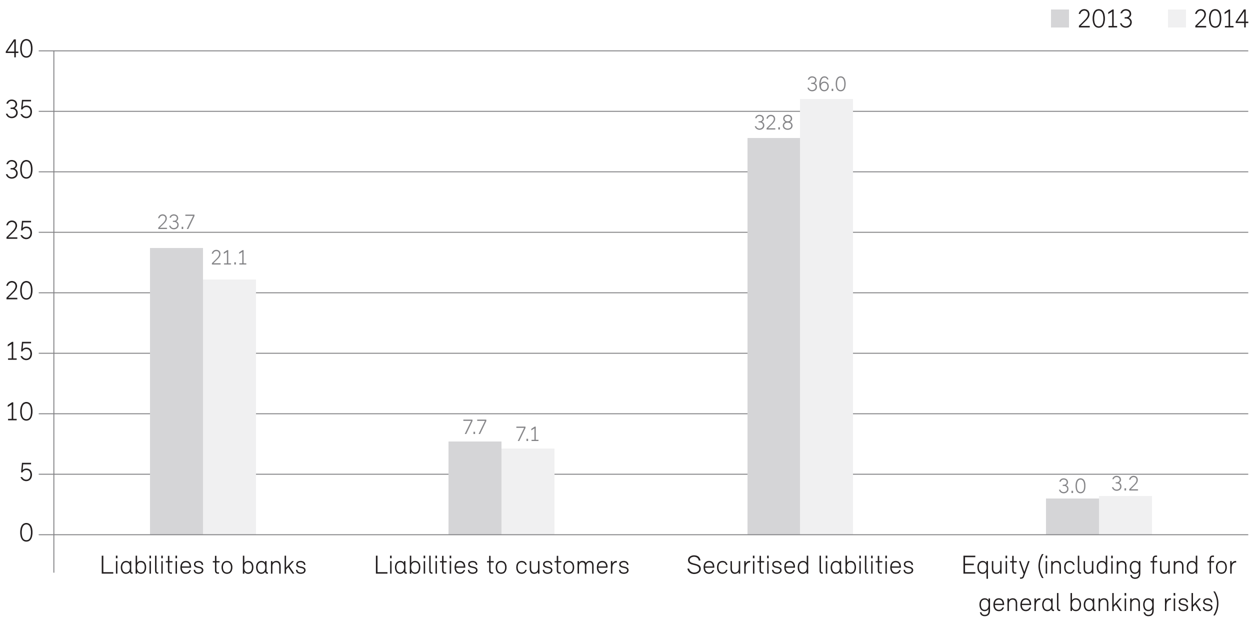
In line with expectations, L-Bank's total assets remained more or less unchanged, totalling EUR 70,190.1 million (2013: EUR 70,682.1 million). There were no changes to the structure of the assets side of the balance sheet. On the liabilities side, there was a shift in refinancing as at the balance-sheet date from liabilities to banks to securitised liabilities.

The business volume, which also encompasses contingent liabilities and irrevocable loan commitments, was slightly down at the balance-sheet date, falling by 1.8% to EUR 77,995.2 million (2013: EUR 79,391.8 million).

SELECTED ITEMS UNDER ASSETS in EUR billions



SELECTED ITEMS UNDER LIABILITIES in EUR billions



Financial situation

As the State Bank of Baden-Württemberg, L-Bank is able to call on the federal state's maintenance and public (statutory) guarantee obligation, as well as an explicit state guarantee. The latter means that L-Bank's de facto credit rating is identical to that of the State of Baden-Württemberg. Credit rating agencies Moody's Investors Service and Standard & Poor's consequently continue to rate L-Bank as Aaa and AAA respectively, these being their top ratings. In addition, banks can count L-Bank bonds towards their short-term liquidity coverage ratios (LCR) as assets with the highest liquidity level.

During the year under review, L-Bank was once again able to make diversified use of the refinancing alternatives on offer to meet its objectives in terms of funding volumes, maturity profiles and structure. In strategic terms, refinancing activity continued to focus on maturities ranging from two to five years. The principal instrument used here is the Bank's Debt Issuance Programme, with a funding limit of EUR 30,000.0 million, of which EUR 21,341.9 million was utilised as at 31 December 2014 (2013: EUR 18,728.1 million). In the year under review, L-Bank issued one five-year EUR 1,000.0 million benchmark bond and two benchmark bonds in US dollars, each with a volume of EUR 2,000.0 million and terms of two and five years respectively. In addition, the Bank issued private placements in various currencies, denominated primarily in euros, US dollars, British pounds sterling and Japanese yen. Also during the year under review, L-Bank carried out two refinancings for AUD 350.0 million and AUD 200.0 million with terms of four and eleven years respectively, and issued a bond on the Chinese market in the amount of CNY 750.0 million with a full 12-month term. The total volume of medium and long-term refinancing through borrowings on the capital markets came to EUR 9,858.6 million (2013: EUR 7,475.5 million). Given the low level of interest rates, L-Bank made somewhat higher use of its termination rights in relation to its own issues. Consequently, the 2014 refinancing volume was higher than planned. As at the year-end, utilisation of the Commercial Paper Programme, which has an upper funding limit of EUR 15,000.0 million and is used for short-term refinancing, amounted to EUR 9,446.3 million (2013: EUR 8,572.8 million).

For certain development programmes, L-Bank also made use of refinancing products available from KfW and Landwirtschaftliche Rentenbank, to the extent that such products were compatible with the Bank's programmes.

During the past financial year, the Bank's liquidity was secured and the Bank complied with all regulatory capital requirements at all times.

Capital adequacy is calculated in accordance with the requirements of the Capital Requirements Regulation (CRR). The following table provides a breakdown of the Bank's equity as at 31 December 2014, prior to approval of the annual financial statements by L-Bank's Supervisory Board.

EQUITY INSTRUMENTS in EUR millions	
Common Equity Tier I capital after deductions	2,985.9
Additional Tier I capital after deductions	0.0
Supplementary capital after deductions	568.8
Total equity instruments	3,554.7

On 4 November 2014, in the context of the SSM, the ECB took over direct supervision of 120 banking groups in the eurozone. Since that date, L-Bank is one of the banks subject to direct supervision by the ECB. In preparation for assuming this supervisory role, the ECB carried out a Comprehensive Assessment of the banks concerned. This financial health check comprised an asset quality review and a stress test. L-Bank passed

both the balance-sheet test and the two stress test scenarios (comprising a baseline scenario and an adverse scenario). No corrections were required following the balance-sheet test. The ECB set the minimum equity ratio for the baseline scenario in the stress tests at 8% Common Equity Tier 1 (CET1). This had to be achieved at the end of the three years considered in the test, namely 2014, 2015 and 2016. L-Bank's ratio in the baseline scenario was 13.8%. A minimum equity ratio of 5.5% was specified for the adverse scenario. Banks only had to comply with this ratio by the end of the projected three-year period, in other words in 2016. L-Bank's CET1 figure for the adverse scenario was 11.2%. The detailed results of the Comprehensive Assessment are available online at www.l-bank.de, using the search term "AQR".

SUMMARY OF THE BANK'S BUSINESS DEVELOPMENT AND POSITION

L-Bank's business development and its assets, liabilities, financial position and operating results were satisfactory in the year under review.

PERSONNEL

As at the balance-sheet date, the number of staff employed by L-Bank totalled 1,250 (2013: 1,252), of whom 58.5% (58.3%) were women. The average length of service as at 31 December 2014 was 17.4 years, slightly up on the previous year (17.0 years). There was also a small increase in the average age of the Bank's employees, at 46.2 (2013: 45.8). L-Bank's staff turnover rate is typically low, amounting to 2.47% at the 2014 year-end (2013: 1.7%).

When filling executive positions, L-Bank always strives to achieve an appropriate gender balance where candidates are equally suitable and have the same skills and levels of achievement. This generally means that male and female candidates are considered in equal proportions. As at the balance-sheet date, L-Bank employed 75 women managers (2013: 77), which equates to a ratio of 33.6% (2013: 34.2%). In terms of senior management reporting directly to the Board, the ratio of female staff was 32.0% (2013: 33.3%).

In order to help staff to find an appropriate balance between work and family life, L-Bank offers flexible working hours, childcare places and parent-and-child offices in Karlsruhe and Stuttgart. Employees' individual working time preferences are also taken into consideration when agreeing part-time conditions. As at the balance-sheet date, 24.8% of the Bank's staff worked part-time (2013: 25.3%). Since the year under review, almost all job vacancies at the Bank have been advertised as open to candidates interested in working part-time.

Junior managers are frequently recruited from the Bank's own ranks. L-Bank gives school-leavers the opportunity to work towards Bachelor degrees on a work-study basis, in cooperation with the Baden-Württemberg Cooperative State Universities in Karlsruhe and Stuttgart. As in the previous year, 38 employees completed work-study degree courses during 2014. University graduates are prepared for future specialist or managerial careers at L-Bank by means of individually tailored training programmes.

The revised version of the German Remuneration Ordinance for Institutions (InstitutsVergV) entered into force on 1 January 2014. Given that, in the context of the SSM, L-Bank has been made subject to direct supervision by the ECB since 4 November 2014, the Bank is now classed as a significant institution pursuant to Art. 17 InstitutsVergV. As such, it is required to comply with the more demanding requirements of Art. 18 et seq., over and above the general requirements applying to remuneration systems. In order to fulfil the statutory requirements, L-Bank restructured its remuneration systems during the year under review, based on resolutions by the executive committees responsible. L-Bank has entered into a new agreement with the Central Staff Council for those employees covered by collective wage agreements. Corresponding amendments to employment contracts have also been agreed with those members of staff who are not subject to collective wage agreements. L-Bank's remuneration systems no longer include variable components at any level.

Following Christian Brand's retirement from the Bank on 30 June 2014, as planned, Dr. Axel Nawrath took over as Chairman of the Board of Management of L-Bank with effect from 1 July 2014.

SUSTAINABILITY REPORT

The Bank's statutory public-service mandate requires that it act in the interests of the sustainable development of L-Bank and the State of Baden-Württemberg, and that this mission should form the basis of its business activities. L-Bank's development products contribute to this mission. Additionally, as a company owned by the federal state, L-Bank has a particular responsibility for protecting the environment and conducting its business in an exemplary fashion.

In order to promote and enshrine the concept of sustainability in the federal state's enterprises, Baden-Württemberg has developed the WIN Charter. As one of the Charter's first signatories, L-Bank has assumed a pioneering role in this regard. At the same time, signing this Charter is a practical step backing up the Bank's voluntary commitment – in 2013 – to the target defined in the Baden-Württemberg Climate Protection Act.

For the first time, the Bank published a sustainability report in early 2014, focusing on the non-financial impacts of L-Bank's business activity. The report is based on a sustainability management system that can be used to measure and monitor sustainable development at L-Bank. During the year under review, for example, a paper policy was added to this system. The Bank has also started setting up a fully documented environmental management system by taking, for example, first steps towards implementing the Energy Efficiency Directive 2012/27/EU, which requires companies to carry out regular energy audits. This has already had a positive impact by improving the Bank's workflow transparency and facilitating the traceability of consumption.

SUPPLEMENTARY REPORT

No other incidents or events of particular significance occurred after the fiscal year-end on 31 December 2014.

OUTLOOK

Geopolitical tensions and the threat of a worsening euro crisis have sparked a mood of uncertainty among companies and consumers alike. This is likely to have a negative impact on economic performance, at least during the first quarter of 2015. Corporate investment in particular, which is so important to manufacturing growth in Germany, looks likely to remain static at 2014 levels. On the other hand, falling commodity prices, the weakness of the euro against the dollar, and the growing strength of key trading partners like the USA and the UK will all have a positive impact. Faced with this economic stalemate, L-Bank expects the real gross domestic product to show modest growth – ranging from 1.0% to 1.2% – during 2015. Given the stable labour market situation and likelihood of real wage increases, private consumption is likely to continue the current positive trend, further bolstering economic growth. There may be a slight increase in unemployment in 2015, given business reluctance to invest in expansion at the present time. L-Bank agrees with the joint diagnosis published by

German economic research institutes in autumn 2014, predicting that jobless figures for 2015 would rise slightly to 6.8%.

The ambivalent state of the German economy also applies to Baden-Württemberg's economy, albeit even more acutely in view of the federal state's above-average reliance on industry and exports. With oil prices likely to remain low and a euro exchange rate conducive to exports, the key industrial sectors in Baden-Württemberg should gain impetus. To this extent, the Baden-Württemberg economy may be expected to outperform the German economy in 2015. Even so, Baden-Württemberg's economy will only see moderate growth until at least the middle of 2015. The Statistical Office of Baden-Württemberg expects a price-adjusted increase in GDP of 1.25% in 2015 (as at December 2014). Based on this forecast, L-Bank is expecting real economic growth of between 1.2% and 1.4%. Once again, the robust labour market and further prospects for above-average increases in real wages, coupled with stable prices and anticipated wage growth, can be expected to create domestic economic conditions that will favour growth in 2015. Following good employment rates in 2014, L-Bank expects that the number of people in work in Baden-Württemberg will continue to rise, albeit by a modest 0.6%.

In the coming year, L-Bank will focus once again on supporting new start-ups, established SMEs and agricultural enterprises. Given the economic forecasts, overall demand is expected to show only moderate growth. In order to be able to offer companies products that are better tailored to their needs, plans are in place for changes to some of the Bank's programmes. The "Energy Efficiency for SMEs" programme, for example, is to be extended in the coming financial year to include a "Material efficiency and environmental technology" component, and will continue under a new name: "Resource Efficiency Finance". This change will mean that measures to improve resource efficiency will also become eligible for funding, as will general environmental protection initiatives. Based on attractive conditions and supplementary sales activities, slightly higher levels of new business are anticipated compared to the year under review. L-Bank is also expecting the "Start-up Finance" programme to show positive growth. With effect from 1 December 2014, the funding term has already been extended to cover a five-year period (originally three years) after business launch, with the possibility of unlimited funding for setting up associated businesses. These measures seek to address a broader target audience, which in turn should generate a slightly higher volume of new business in 2015. In addition to these programme changes, L-Bank will also be reviewing the possibility of introducing an innovation finance programme, as well as concluding a guarantee agreement with the European Investment Fund (EIF) relating to the Bank's surety programme. L-Bank's investment activities are also likely to be partly reorganised. The Bank is planning to significantly boost venture capital activities by investing an additional EUR 50.0 million in this area over the medium term. L-Bank is also planning to expand its regional development activities, not least by finding new locations for technology parks. Meanwhile, the sale of properties in the parks will remain part of the overall strategy. New L-EA Mittelstandsfonds business will also be outsourced to external fund vehicles where appropriate.

With respect to housing development, new business is expected to expand slightly in 2015. Home ownership assistance commitments under the state's housing assistance programme are expected to increase slightly over 2014 levels, especially in light of a further reduction in the subsidised interest rate. New business figures for programmes for financing energy efficiency projects are also expected to climb slightly, due to increased repayment bonuses for large-scale energy efficiency projects and the introduction of even more favourable interest-rate conditions for the construction of properties that comply with "Effizienzhaus" (Efficient House) quality standards 55 and 40. To promote investment in needs-based rental accommodation, the federal state's housing assistance programme is to be further upgraded with an increase in the total costs eligible for funding and an extension of the geographical scope to include major towns outside conurbations. In light of the high number of projects currently being prepared, the volume of new commitments is expected to rise significantly above 2014 levels. With regard to finance for apartment owners' associations, the Bank aims to at least match last year's level. Approximately EUR 15.0 million has been earmarked for the new "Housing for Refugees" grant programme; L-Bank expects all of this funding to be allocated.

Despite the relatively stable economic environment overall, L-Bank is predicting a significant fall in operating income in 2015 before risk provisions/valuations. This prediction is partly based on the expectation that interest rates will remain low during the coming year, causing net interest income to dip to a similar extent as in the previous year. At the same time, there will be a considerable increase in general expenses for banking operations, primarily as a result of IT expenditure required to meet targets under new European and German legislation, and for modernising the Bank's IT systems. L-Bank also expects a major increase in supervisory fees now that the Bank has been placed under the direct supervision of the ECB. Compared to the year under review, the Bank is also anticipating a significant decline in net valuation income, mainly because L-Bank cannot expect a repeat of the substantial risk provision reversals and disposal gains made during the year under review. In 2015, L-Bank's first contribution to the European Single Resolution Fund will also place a considerable burden on its income.

There is unlikely to be any significant change in total assets in 2015 compared to the year under review.

In terms of refinancing, L-Bank expects to be able to continue to raise funds on the capital market without any problems, thanks to its very good rating. The Bank is well placed on the national and international money and capital markets, with good diversification of funding sources. Taking into account existing maturity structures, L-Bank anticipates a significant fall in medium and long-term refinancing levels in 2015.

Overall, L-Bank is forecasting a slight decline in new business in 2015, mainly on the grounds of volatility in infrastructure development. With the exception of the burden created by the contribution to the European Single Resolution Fund, no significant impairments of the Bank's income, assets or financial position are expected compared to 2014.

OPPORTUNITIES AND RISK REPORT

To manage risks associated with L-Bank's business activities, the Bank has installed a risk management system with the aim of enabling it to:

- assess the Bank's overall risk exposure at any time,
- immediately identify, value, communicate and control material individual risks,
- identify risk-related developments combined with possible responses.

The Bank's risk management concept is based on the premise that, even in the event of unexpected losses, the Bank's survival should be sustainably assured without the support of the State of Baden-Württemberg (going-concern approach). It is based primarily on:

- application of a coherent business strategy and resulting risk strategy,
- constant monitoring of the Bank's risk-bearing capacity and related reporting to the Board of Management,
- full documentation in writing of the Bank's corporate structure and all business processes involving risks,

- creation and continuous updating of risk management and risk control processes, and
- creation of a compliance controlling and a risk controlling function, as well as an internal audit unit.

The design of the risk management system is specific to the Bank and is largely determined by its statutory development mandate.

By setting up development programmes, targeting specific market segments for financial support, and determining the regional focus, the State of Baden-Württemberg effectively defines the Bank's business activities. In return, it also explicitly and unconditionally guarantees the Bank's liabilities through a public (statutory) guarantee and maintenance obligation.

On the basis of the Bank's public development mandate, the business strategy produced by the Board of Management formulates the key principles underpinning the Bank's business activities, which are set down in detail in the Bank's risk strategy – with particular attention to the Bank's risk-bearing capacity – and defined operationally in the Bank's procedures and workflows.

HOW RISK MANAGEMENT IS ORGANISED

The Board of Management defines an interest-rate and currency risk profile. Responsibility for implementing this profile lies with the Treasury department, which is also responsible for liquidity management. The Bank's individual lending departments manage counterparty default risk through a system of competencies and limits. Operational risks are managed by "risk managers". The latter are divided into central risk managers, who manage operational risks affecting the entire Bank, and decentralised risk managers, who manage the risks associated with specific working procedures. Whereas central risk managers are appointed by senior management, the role of decentralised risk manager is generally fulfilled by the heads of the individual departments, who may also delegate specific tasks to departmental staff as part of their organisational remit.

The Controlling department, working together with the risk managers, is responsible for the quantitative and qualitative assessment and communication of risks. This assessment is based on a company-wide database containing standardised records detailing all of the Bank's transactions. The evaluations produced as part of the risk management process are regularly compared against balance sheet-based evaluations and data used for reporting purposes (e.g. CRR). The Controlling department is also responsible for monitoring compliance with all risk management policies, and for reporting on the risk situation to the Board of Management.

The Bank takes a highly controlled approach to counterparty risks, market price risks and liquidity risks, managing such risks in accordance with the relevant regulatory and commercial requirements. With regard to operational risk, L-Bank pursues an avoidance strategy, whilst adhering to the principle of profitability.

The Credit Analysis department assesses the credit standing of individual borrowers and specific portfolios, and proposes appropriate borrower-based lending limits to the Board of Management, as well as lending limits for portfolios and countries. The Credit Analysis department also casts the back-office vote on business decisions involving risk. In order to assess risk exposure in qualitative terms, the stress committee carries out regular stress analyses, paying particular attention to risk concentrations.

Taking a risk-focused, process-independent approach, the Internal Audit department reviews and assesses the effectiveness and adequacy of the Bank's risk management system, as well as the orderly conduct of all

L-Bank's key activities and processes, doing so on behalf of the Board of Management. This department is directly accountable and reports to the Board of Management as a whole. The Internal Audit department carries out its duties independently and impartially, and is not required to accept instructions regarding the evaluation or reporting of audit results.

L-Bank's risk management takes account of the Bank's shareholdings to the extent that losses directly or indirectly caused or arising from the latter could have a long-term negative impact on the Bank's assets, income or liquidity position.

BUSINESS STRATEGY AND RISK STRATEGY

In the Bank's business strategy, the Board of Management sets a target for Tier I capital, and decides which products should be used to meet the Bank's public-service mandate through development programmes and other development business. The Board of Management uses the development business matrix to allocate selected products to the Bank's respective business activities. The Bank's statutory public-service mandate results in concentrations of counterparty default risk (cluster risks) in particular industries, types of collateral, and regions. In order to achieve a balanced aggregate risk profile, the Board of Management sets down in the Bank's business strategy quality requirements for the portfolio structure as a whole. These include policies defining the credit rating criteria (risk categories) for new business that must be satisfied by borrowers who are not involved in the Bank's development programmes.

The Bank's risk strategy is derived from its business strategy. In the risk strategy, the Board of Management specifies the procedures that should be used to audit the Bank's risk-bearing capacity, lays down policies for new products and markets, and defines the strategies for dealing with counterparty default risk, market price risk, liquidity risk and operational risks.

As part of a quantitative assessment of the Bank's risk-bearing capacity, the Board of Management uses the risk strategy to define risk tolerance limits by specifying the scope of risk coverage capital that should be set aside as cover for losses. This process identifies the extent to which counterparty default risk, market price risk, liquidity risk, operational risk and general business risk constitute types of material risk. Based on current risk analysis, real estate risks associated with the Bank's own technology parks are, as of 1 January 2014, no longer classed as material. The quantitative assessment of the Bank's risk-bearing capacity is supplemented by stress analyses, with a particular emphasis on risk tolerances.

With respect to managing credit risk, the risk strategy includes policies specifying borrowers' minimum credit ratings and risk margins, and obliges business units to accept collateral from borrowers that is deemed to be recoverable. In addition, the Board of Management budgets and imposes ceilings for aggregate lending by each business unit over the next three years. Budgets for development programmes are based on the amount of subsidy funding that has been made available in each case. Budgets for other development business are based primarily on levels of demand from the commercial banks with which L-Bank cooperates. Lending business associated with liquidity management is primarily determined by the refinancing options available. Any investments made for this purpose must meet exceptionally high standards of creditworthiness. Taking risk-bearing capacity into account, the risk strategy accordingly shows – after making due allowance for existing risk concentrations – the projected scope of future counterparty default risks.

With respect to market price risks, the Bank pursues a strategy of following projected interest-rate developments to generate predictable levels of income with acceptable levels of risk. The underlying projections of interest-rate developments are derived from capital market parameters. Due to the current volatility, these transactions are intensively monitored on a daily basis, with ongoing reviews being conducted at least weekly by senior management.

In order to obtain refinancing on favourable structural and cost conditions, the Bank has recourse to the national and international capital markets. The public guarantee and maintenance obligation provided by the State of Baden-Württemberg means that the Bank benefits from the latter's excellent credit standing on the capital markets. Potential refinancing risks due solely to a substantial downgrade of the federal state's credit rating are classified as negligible over the long term.

The Bank controls operational risks by applying the principle of profitability. This means that regardless of the existing comprehensive internal control procedures, and regardless of statutory or regulatory requirements, the Bank only takes special mitigation or avoidance measures if the potential loss exceeds the costs of taking such measures.

RISK-BEARING CAPACITY

Monitoring risk coverage capability using going-concern and liquidation approaches

The aim of monitoring L-Bank's risk-bearing capacity and of controlling risks is to safeguard the Bank's continuing existence over the long term without relying on external support by the guarantor (going-concern approach). In parallel, the Bank also calculates its risk-bearing capacity based on the "liquidation approach". Risk-bearing capacity is continually monitored, with regular reporting to the Board of Management and/or responsible supervisory body.

Going-concern approach

Calculations of the relevant economic risk coverage capability are based on profit and loss projections. Initially, only equity that is not required to satisfy the capital adequacy requirements of the CRR is taken into account. Given that the risks are calculated on the basis of a holding period of one year, the Bank uses equity requirements based on those that will apply twelve months after the valuation date, in accordance with the phase-in scheme. For reasons of prudence, L-Bank increases the required ratio by 0.5 percentage points. The Bank then supplements the resulting disposable equity components with any reserves that, in terms of their loss-compensation function, are comparable in quality to the available equity capital and – when calculating the Bank's risk exposure as defined by regulatory requirements – have not already been treated as risk-reducing factors. In addition, "write-up reserves" that stem from the fall in value of interest-subsidised loans and pre-date the German Accounting Law Modernisation Act (BilMoG) are also taken into account.

Value-at-risk (VaR) limits are specified for all material types of risk, based on a uniform confidence level of 99.0%; these are offset against the Bank's risk coverage capability. The sum total of these VaR limits represents the aggregate loss ceiling as defined by the Bank, which, in view of the requirement to secure L-Bank's long-term survival, may not exceed 80.0% of the Bank's risk coverage capital.

The following table illustrates the development of the Bank's risk coverage capabilities as well as the specific risks to which they pertain. "Risk exposure" includes the capital charges for counterparty default risks and the sum of capital charges for market price risks and operational risks (both multiplied by a factor of 12.5). The Bank calculates credit risk using the standardised approach to credit risk, market price risks using the standard method, and operational risks using the basic indicator approach.

REGULATORY CAPITAL ADEQUACY REQUIREMENTS

Regulatory capital ratios	31.03.2014	30.06.2014	30.09.2014	31.12.2014
Risk exposure in EUR millions	21,231.8	21,327.8	21,221.7	21,072.7
Tier I capital in EUR millions	2,776.1	2,983.9	2,986.8	2,985.9
Tier I capital requirement in EUR millions (5.5%)	1,167.7	1,173.0	1,167.2	1,159.0
Equity in EUR millions	3,389.1	3,613.2	3,584.0	3,554.7
Tier I capital ratio in %	13.07	13.99	14.07	14.17
Total capital ratio in %	15.96	16.94	16.89	16.87

Taking into account the CRR requirements applicable twelve months following the calculation date and the Bank's own mark-up of 0.5 percentage points on the minimum Tier I capital ratio, the disposable Tier I capital is as follows:

	31.03.2014	30.06.2014	30.09.2014	31.12.2014
Disposable Tier I capital in EUR millions	1,382.3	1,585.4	1,595.7	1,604.6

As at the balance-sheet date, with disposable Tier I capital amounting to EUR 1,604.6 million, a profit for the preceding year of EUR 180.1 million (before additions to contingency reserves pursuant to Art. 340g HGB), and eligible contingency reserves totalling around EUR 141.8 million, the Bank's P&L-based risk coverage capability amounted to EUR 1,926.5 million. This risk coverage capability is counterbalanced by the aggregate loss ceiling of EUR 940.0 million, as set by the Board of Management in line with the Bank's business and risk strategies. As at the balance-sheet date, this limit was distributed as follows:

AGGREGATE LOSS CEILING AND INDIVIDUAL LOSS CEILINGS AS AT 31.12.2014
in EUR millions

	Limit
Aggregate loss ceiling	940.0
Counterparty default risks	400.0
Market price risks	250.0
Liquidity risks	65.0
Operational risks	10.0
Modelling risks	40.0
Immaterial business transactions	10.0
Buffer	165.0
Proportion of risk coverage capital taken up by aggregate loss ceiling	48.8%

Thus the aggregate loss ceiling accounted for 48.8% of the Bank's economic risk coverage capability as at the balance-sheet date. Over the past fiscal year, this proportion has varied between 48.8% and 60.2%.

Liquidation approach

In a further calculation, the value of the Bank as whole is expressed as economic risk coverage capacity, which also takes into account any hidden liabilities in fixed assets resulting from the avoidance of lower of cost or market write-downs, as well as negative market values of credit default swaps (CDS). This capacity is then assessed relative to counterparty default risks (including modelling risks), market price risks, liquidity risks, operational risks, spread risks and migration risks. Migration risk is assessed with the help of a Monte Carlo simulation, based on the risk of a decline in the value of securities due to issuers' deteriorating credit ratings. Market-wide spread risk is assessed with the help of historical simulations, based on the risk of a rating-independent decline in the value of securities due to market-wide spread movements. To assess changes in the lower of cost or market write-downs and negative market values, the Bank continuously subjects them to a variety of stress tests.

As at the balance-sheet date, the business portfolio's net present value is calculated as EUR 5,304.8 million. This is offset by present-value administrative expenses totalling EUR 230.3 million, plus imputed risk provisioning costs of EUR 279.3 million and hidden liabilities from CDS of EUR 2.0 million, resulting in a value-based risk coverage capability of EUR 4,793.2 million. As at the balance-sheet date, 88.9% of this was taken up by value at risk totalling EUR 4,260.9 million, based on a confidence level of 99.98% using the liquidation approach. Utilisation of the value-based aggregate loss ceiling in 2014 ranged between 88.6% and 98.7%.

Capital planning

As in previous years, the Bank has prepared medium-term simulations based on current and anticipated risk exposure and taking the new regulatory requirements into account. This risk coverage capital will not be used in full to cover risks as it is not possible to exclude the possibility that further increases in equity requirements will be imposed on banks alongside the new supervisory rules. Based on these preliminary calculations, the Bank's risk-bearing capacity meets the criteria of both the going-concern and liquidation approaches.

Performing stress analyses

VaR models are used to carry out quantitative risk measurements. By their nature, the actuarial models used for risk measurement assume, when setting various influencing parameters, a degree of stability in financial market conditions. However, the financial market crisis has revealed obvious limits to the predictive powers of quantitative risk models in various areas. In view of the fact that actuarial models cannot by their very nature reflect all events, all quantitative risk assessments are continuously complemented by comprehensive analyses in the form of stress scenarios. By performing stress-scenario analyses, the Bank identifies clusters of risk factors that may have a major impact on the Bank's assets, liabilities, financial position and profit or loss.

When performing these analyses, the Bank starts by developing and analysing scenarios that, in terms of their effects, have an isolated impact on a single type of risk (e.g. counterparty default risk, market price risk, liquidity risk, operational risk). In a second stage, the key risk factors for each individual risk type are defined as actual risk carriers (e.g. unemployment as a factor in counterparty default risk), and the Bank then investigates how they interact with risk factors affecting other types of risk. At this stage of the process, the analysis is based on, inter alia, the Bank's in-house expertise combined with a scoring method. By identifying the interactions between risk factors, the Bank gains an insight into risk concentrations both within individual risk types and across all risk types. This enables the Bank to formulate stress scenarios that match the interactions between risk factors.

The analytical system described above does not entirely preclude the possibility that certain scenarios threatening the Bank's existence may never be identified. Consequently, in order to clarify the limits of the Bank's risk-bearing capacity, the Bank makes certain assumptions regarding charges arising from losses, and retroactively determines the conditions under which such losses might arise (using inverse stress tests).

Currently, identifying the quantitative impact of the formulated scenarios is dependent on expert estimates from which quantitative data are derived. These estimates, and thus also their quantitative implications, are of course subject to greater uncertainty. For this reason, the Bank is developing a multidimensional scoring system by means of which the quantitative, one-dimensional expert estimate can be further developed into a qualitative, multidimensional analysis. The latter can then be combined with time-series analyses of observable risk factors. The Bank believes that this approach will allow in-house expertise to be used more comprehensively for quantitative analysis than is possible with the method currently in use.

For counterparty default risks, the applied scenarios result in increasing credit risks and consequently in a greater need for regulatory and economic capital. These scenarios cover both sensitivity analyses relating to the various risk factors and also scenario analyses in which certain extraordinary but possible events are simulated. With an eye to Baden-Württemberg's economic structure, for example, one of the scenarios is predicated on a severe cyclical downturn in the automotive industry. With respect to market price risk, various extraordinary changes in yield curves are modelled on the basis of interest-rate curves over the past 20 years. These include exceptionally sharp interest-rate rises and falls, as well as changes in the shape of the yield curve. In stress analyses of liquidity risk, underlying criteria for market-wide effects include a change in the Central Bank's refinancing policy and capital market-driven changes in refinancing conditions. In terms of the Bank itself, the scenarios explore the impact of a downward shift in the Bank's own credit rating, as well as changes in client and investor behaviour. Operational risks are also identified and assessed by means of scenario analyses. For the purposes of stress scenarios, it is assumed that both the probability of occurrence and quantitative impact of these loss scenarios are heightened.

RISK MANAGEMENT AND RISK CONTROL

L-Bank's risk management and risk controlling processes include the identification, assessment, management, monitoring and communication of material risks. Counterparty default risk and market price risk, as well as liquidity risk and operational risk, are identified as material risk types.

COUNTERPARTY DEFAULT RISK

Counterparty default risk refers to a possible loss from a lending transaction as defined in the German Banking Act (Art. 19 KWG) in the event that the counterparty does not meet its contractual obligations. The reason for non-fulfilment of a contract may be specific, relating to the borrower's credit standing or particular circumstances, or political in nature.

The active management of counterparty default risk begins with the lending process, involving

- → the borrower's credit rating (including a review of the borrower's capacity to meet principal repayments),
- → the acceptance of collateral where applicable,
- → the calculation of a risk margin based on probability of default,
- → a review of the need to implement a new product process, and
- → a review of the need for a second vote.

When managing counterparty default risk, the Bank stipulates a minimum risk category for the individual business segments using a 14-level system. It is up to the Board of Management to take a decision on any exceptions from these minimum risk categories.

Business segments	Risk category
Loans provided under programmes	The credit ratings required for programme-related activities are stipulated in the development programmes agreed between the State of Baden-Württemberg and L-Bank and in the Bank's in-house directives.
Other loans (including securities and financial investments)	1 to 5
Structured products (ABS) Interest-rate derivatives without collateral Interest-rate derivatives with collateral Credit derivatives	1 and 2 1 to 3 1 to 5 1 to 5
Countries (transfer risk)	1 to 12, but no new business in the peripheral eurozone countries Liquidity management: focusing on risk categories 1 and 2

Outside programme-related business, loans may be issued to borrowers in risk categories below 5 by requiring additional collateral if necessary.

In order to limit the losses associated with all loan-related decisions that create a new or increase an existing counterparty default risk for the Bank, care is taken to ensure that appropriate collateral is provided to the extent that such collateral is suitable for bank use in view of the legal form or credit rating of the counterparty concerned. To limit the credit risk associated with the acceptance of collateral, the value of the security provided must not be dependent on the borrower's credit rating.

The Bank experiences losses when borrowers default on their loans. To compensate for these losses, risk-based margins should be applied. In view of L-Bank's business model, however, it is not possible to set individual risk-based margins for development loans provided in the context of development programmes. In terms of liquidity management, most transactions are conducted with capital-market participants. For these borrowers, the Bank mainly trades in credit spreads on the capital markets, meaning that L-Bank only has limited influence on margins. In the case of all loans for which margins are not fixed by third parties (programme loans) and for which conditions are not set on the capital markets, a risk margin is calculated on the basis of the probability of default and incorporated into the decision-making process.

In order to ensure that the Bank only grants loans with levels of risk that can be adequately processed and managed, when new types of lending are devised, the Bank reviews test cases before offering the new products to borrowers for the first time. The review process determines the extent to which the loan can be covered by the Bank's existing processes and procedures. The test run is used to generate a concept depicting all the consequences of the new transaction in terms of personnel, organisation, IT, accounting and tax law.

The front and back offices for lending business are strictly separated at L-Bank, up to and including Board of Management level. Divisions I and II are front-office departments, and divisions III and IV are back-office departments. This organisational separation of powers is also consistently guaranteed in the event of deputising. Given that risk-related loan decisions require the approval of the back office (back-office vote) and the back office is responsible, in particular, for controlling credit risks, the organisational separation of lending business into back and front offices avoids any imbalance when making loan-related decisions.

The table shows the composition of the loan portfolio by product type:

FIGURES in EUR millions

	Private clients	Companies and self-employed persons	Companies in the financial sector	Public sector	L-Bank total	Allocation in %
Loans	6,091.8	9,381.4	15,655.3	1,064.3	32,192.9	45.8
Borrowers' notes	0.0	55.0	3,042.9	6,210.1	9,308.1	13.2
Securities (bearer bonds)	0.0	870.4	8,733.3	11,656.5	21,260.2	30.2
Securities (ABS)	0.0	0.0	121.5	0.0	121.5	0.2
Securities (CLN)	0.0	0.0	500.0	0.0	500.0	0.7
Total securities	0.0	870.4	9,354.8	11,656.5	21,881.7	31.1
CDS	0.0	0.0	145.0	3,814.0	3,959.0	5.6
Sureties	0.0	495.6	544.6	17.2	1,057.3	1.5
Financial derivatives	0.0	0.0	1,083.0	0.1	1,083.1	1.5
Time deposits	0.0	0.0	37.0	0.0	37.0	0.1
Shareholdings	0.0	203.9	302.0	89.0	595.0	0.8
Current accounts, cash	0.0	0.0	46.6	188.1	234.7	0.3
Lending	0.0	0.0	0.0	0.0	0.0	0.0
Total	6,091.8	11,006.3	30,211.3	23,039.4	70,348.9	100.0

QUANTITATIVE ASSESSMENT OF VALUE-AT-RISK CALCULATIONS

Risks on unanticipated losses are restricted by applying the VaR limits enshrined in the risk-bearing capacity concept.

As a general rule, unanticipated losses are estimated using the Monte Carlo simulation method based on probabilities of default. The probability of default is allocated on the basis of the external or internal rating category assigned to the customer on the basis of the Bank's analyses. As well as the customer's credit rating, the sector in which the customer operates and other risk-related portfolio characteristics are also taken into account. The calculation assumes a holding period of one year and a confidence level of 99% for the going-concern approach or 99.98% for the liquidation approach. These estimates also take into consideration correlations with the borrowers' respective home countries. Furthermore, the risk assessment takes account of the cash collateral provided, real-estate liens on residential properties, and loans granted to end-borrowers in accordance with the "borrower's bank" principle. Recovery rates of 55% are applied to the Bank's "Companies in the financial sector" and "Public sector" business lines, with a 30% rate applied to "Companies and self-employed persons". Due to the structure of the Bank's portfolio, transfer risks as a whole are only deemed to be of secondary importance. The risk that L-Bank might incur losses as a result of restrictions on payment transactions due to legal constraints in the various countries concerned is consequently regarded as very minor.

The following table provides an overview of the proportion of the aggregate loss ceiling taken up by counterparty default risks in the course of 2014:

VALUE AT RISK FOR COUNTERPARTY DEFAULT RISKS IN 2014 in EUR millions

	01.01.2014		31.03.2014		30.06.2014		30.09.2014		31.12.2014	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	334.9	940.0	283.8	940.0	302.4	940.0	297.0	940.0	347.4
Share of counter-party default risks in %	42.6	74.4	42.6	77.0	42.6	67.7	42.6	75.4	42.6	68.4
Counterparty default risks	400.0	249.0	400.0	218.5	400.0	204.8	400.0	223.8	400.0	237.8
Private clients	60.0	45.0	60.0	43.3	60.0	40.9	60.0	40.7	60.0	40.5
Companies in the financial sector	100.0	52.1	100.0	46.1	100.0	47.8	100.0	60.2	100.0	64.4
Other companies	190.0	133.0	190.0	110.3	190.0	116.1	190.0	122.9	190.0	132.9
Public sector	50.0	18.8	50.0	18.8	50.0	0.0	50.0	0.0	50.0	0.0

Timely and adequate risk provisions

L-Bank makes adequate allowance for risks that have become acute by setting aside provisions. For this purpose, the Bank has set up dedicated processes based on various tools used for the early detection of risks, and has issued appropriate guidelines. The following table shows the changes in value adjustments for each business unit, as well as their associated risks. It includes valuation allowances that are deducted from the book values to determine net positions when calculating the capital required pursuant to the CRR.

Any valuation adjustments that are not deducted from book values when calculating the required capital pursuant to the CRR remain available to L-Bank as risk coverage capital under the going-concern approach (e.g. contingency reserves pursuant to Art. 340f HGB). The corresponding risk portfolios are comprised of the gross book values of loans, the gross book values of securities and shareholdings, as well as surety balances and credit-equivalent levels of interest-rate derivatives calculated in compliance with the CRR and taking netting and collateral agreements into account.

VALUE ADJUSTMENT RATIOS AS AT 31.12.2014 in EUR millions

	Private clients		Corporate clients		Companies in the financial sector		Public sector		Total		Ratio in %
	Adjustment	Portfolio	Adjustment	Portfolio	Adjustment	Portfolio	Adjustment	Portfolio	Adjustment	Portfolio	
31.12.2009	91.4	8,195.8	788.0	14,408.5	31.6	35,584.0	0.0	8,907.2	910.9	67,095.6	1.4
31.12.2010	87.9	7,749.9	674.2	11,887.1	31.6	34,156.0	0.0	14,273.0	793.7	68,066.0	1.2
31.12.2011	100.4	7,251.9	567.1	11,659.9	31.6	33,710.5	0.0	20,177.2	699.1	72,799.5	1.0
31.12.2012	88.6	6,771.8	505.8	10,959.8	31.6	31,236.1	0.0	23,941.6	626.0	72,909.2	0.9
31.12.2013	92.9*	6,373.7	432.1*	10,886.2	31.6	31,300.6	0.0	23,846.3	556.6	72,406.8	0.8
31.03.2014	91.9	6,280.6	421.9	10,894.1	31.6	31,460.0	0.0	23,727.0	545.4	72,361.7	0.8
30.06.2014	91.3	6,204.5	404.5	10,958.1	31.6	30,847.6	0.0	23,243.8	527.4	71,254.0	0.7
30.09.2014	78.6	6,149.3	399.9	10,999.9	31.6	30,268.2	0.0	23,297.5	510.1	70,715.0	0.7
31.12.2014	87.6	6,091.8	373.2	11,006.3	21.9	30,211.3	0.0	23,039.4	482.7	70,348.9	0.7

* Allocation to private and corporate client categories modified compared to previous year.

Qualitative assessment of credit-rating and collateral classifications

For the qualitative assessment of counterparty default risks, each borrower is assigned a credit rating expressed as a risk category. In assigning individual ratings, L-Bank takes account of the peculiarities of the relevant client's structure. For borrowers involved in development finance for owner-occupied housing, the homogeneity of the customer group means that they are assigned a default rating based on the average probability of default. The following table shows the default probabilities for the individual risk categories and shows internal risk categories against the corresponding external risk categories.

RISK CATEGORIES AND THE CORRESPONDING DEFAULT PROBABILITIES

Risk category	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Mean probability of default in %	0.01	0.03	0.06	0.13	0.27	0.56	1.15	2.35	4.75	9.37	17.63	30.72	100	100
Range of default probability in %	0.01	0.02	0.04	0.09	0.19	0.39	0.80	1.65	3.35	6.70	12.95	23.55		
	0.02	0.04	0.09	0.19	0.39	0.80	1.65	3.35	6.70	12.95	23.55	100	100	100
External		AA+		A		BBB			BB–	B	CCC+	CC		
	AAA	AA	A+	A–	BBB+	BBB–	BB+	BB	B+	B–	CCC	C	Default	Default
		AA–									CCC–			
	Investment grade						Non-Investment grade							

Organisation units responsible for issuing loans are always obliged to ensure that lending decisions are backed by sufficient collateral, in order to reduce both the unsecured portion and loss exposure. L-Bank has specified acceptable types of collateral, and also specified the maximum value that should be assigned to each type when determining the unsecured portion of the loan. Collateral that – for material or formal reasons – may not be assigned any explicit collateral value must still be accepted when granting loans if the acceptance of such collateral is standard industry practice and if, in the event of realisation, the Bank can expect to realise recovery proceeds.

To indicate the loss exposure, the risk-mitigating effects of certain types of collateral are taken into account. Payables from regional banks that are guaranteed by “grandfathering” and are underwritten by public guarantee and maintenance obligations are assigned to risk category 1. Similarly, loans that are guaranteed by local authorities and real-estate loans secured on residential properties in Baden-Württemberg are also allocated to risk category 1. Where collateral is provided in the form of property charges on residential property in Baden-Württemberg – independent of the real-estate loan, but within the relevant lending ratio – it is assigned to risk category 4. In the case of Pfandbriefe and similar bond issues (e.g. covered bonds), the external rating is used.

The following table shows the risk portfolios for each of the Bank’s business units. The relevant risk portfolios are made up of the gross book values of loans, the net book values of securities and investments, plus surety balances and the credit-equivalent amounts of interest-rate derivatives calculated in compliance with the CRR and taking netting and collateral agreements into account.

RISK STRUCTURE OF THE LOAN PORTFOLIO AS AT 31.12.2014 in EUR millions						
	Private clients	Companies and self-employed persons	Companies in the financial sector	Public sector	L-Bank total	Allocation in %
Risk category 1	2,121.7	4,562.0	8,980.3	18,918.7	34,582.7	49.2
Risk category 2	11.0	274.4	2,806.7	3,475.5	6,567.6	9.3
Risk category 3	0.0	870.0	5,305.4	31.5	6,207.0	8.8
Risk category 4	3,425.1	2,173.1	11,539.1	0.0	17,137.2	24.4
Risk category 5	73.8	1,189.0	922.6	0.0	2,185.4	3.1
Risk category 6	383.0	325.8	359.5	451.0	1,519.2	2.2
Risk category 7	0.1	597.3	36.3	91.2	724.8	1.0
Risk category 8	0.2	281.9	208.6	71.5	562.2	0.8
Risk category 9	0.0	242.5	51.0	0.0	293.5	0.4
Risk category 10	0.0	109.7	0.0	0.0	109.7	0.2
Risk category 11	33.6	40.2	0.0	0.0	73.7	0.1
Risk category 12	20.4	139.6	0.0	0.0	160.0	0.2
Risk category 13	0.0	91.3	0.0	0.0	91.3	0.1
Risk category 14	22.9	109.7	1.9	0.0	134.6	0.2
Total	6,091.8	11,006.3	30,211.3	23,039.4	70,348.9	100.0

The total exposure shown above, amounting to EUR 70,348.9 million, includes securities and CDS totalling EUR 25,840.7 million. L-Bank aims to hold securities and CDS to final maturity. With the exception of buybacks of own issues, all securities are assigned to fixed assets. The Bank consequently treats them as loans and applies a moderated form of the lower of cost or market principle. No securities have been written down due to anticipated or actual permanent impairments. The general value adjustment of EUR 30.0 million on the uncollateralised securities portfolio of the PIIGS states has been reduced by EUR 10.0 million to EUR 20 million. The credit quality of the securities and CDS is shown below. Any savings on the lower of cost or market value of securities or negative market values of CDS are reported under hidden liabilities.

RISK STRUCTURE OF THE SECURITIES/CDS PORTFOLIO AS AT 31.12.2014 in EUR millions

Risk category	Portfolio	Hidden liabilities	Spread risks
1	18,996.4	3.4	1,218.8
2	2,991.3	0.9	68.9
3	485.4	0.0	6.2
4	1,585.3	2.4	24.4
5	807.9	3.2	19.6
6	620.3	0.1	15.4
7	230.0	0.2	1.9
8	74.1	7.8	3.5
9	50.0	14.2	6.4
10 to 14	0.0	0.0	0.0
Total	25,840.7	32.2	1,365.1

Monitoring of problem loans

With respect to problem loans, L-Bank makes a distinction between non-performing loans and forborne loans. There are also certain loans that fall into both categories.

Loans being processed as problem loans include all loans pursuant to Art. 19 KWG (i.e. including off-balance-sheet and derivative transactions) where there are strong indications that in order to avert or minimise losses, actions may be necessary that go beyond the normal scope of client support and intensified contact with the client, and may extend to requiring the provision of additional collateral as part of collaboration with the client in an intensive support process. In addition to payment defaults or interruptions, such indications include very low credit ratings (risk category 9 or worse). The volume of problem loans also includes non-performing loans as well as any forborne loans that are not currently in the forbearance period. L-Bank distinguishes between different kinds of problem loans; miscellaneous problem loans (risk categories 9 to 12), restructuring exposure (risk category 13) and workout exposure (risk category 14). As at 31 December 2014, the Bank's portfolio of loans at the problem-loan processing stage amounted to EUR 985.7 million. This was distributed across the Bank's business units as shown below.

LOANS BEING PROCESSED AS PROBLEM LOANS AS AT 31.12.2014 in EUR millions

	Risk portfolio Total	Problem loan portfolio		Restruc-turing	Workout	Workout ratio in %	Value adjust-ments
		Total	In %				
Private clients	6,091.8	243.0	4.0	195.6	47.4	0.8	92.7
Companies in the financial sector	30,211.3	52.9	0.2	51.0	1.9	0.0	1.9
Other companies and self-employed persons	11,006.3	689.8	6.3	563.7	126.1	1.1	315.2
Public sector	23,039.4	0.0	0.0	0.0	0.0	0.0	0.0
Total	70,348.9	985.7	1.4	810.3	175.4	0.2	409.8

The Bank classifies as non-performing loans any loans (excluding off-balance-sheet transactions) where at least one of the following criteria applies:

- Value adjustment or write-down
- Payment arrears of more than 90 days
- Risk category 13 or poorer
- Loans subject to forbearance measures during forbearance period

As at the year-end, non-performing loans amounted to EUR 741.0 million, of which EUR 441.2 million (59.6%) was covered by appropriate collateral. Value adjustments of EUR 248.7 million have been made for the remaining portion (EUR 299.8 million or 40.5%).

Forborne loans are loans (excluding off-balance-sheet transactions) where the bank has given a borrower in financial difficulties extra concessions (e.g. in the form of debt deferral agreements, maturity extensions, redemption holidays or debt rescheduling) in order to re-establish or assure the borrower's capacity to meet principal repayments in the event that the latter has ceased to exist or is acutely at risk. Loans must be reported as forborne loans for up to two years after such concessions cease to apply (forbearance period). As at the year-end, the forborne loan portfolio amounted to EUR 385.5 million.

Assessing risk concentrations

Due to its public-service mandate, L-Bank is exposed to certain risk concentrations.

In housing finance, for example, there is a concentration risk associated with the collateral provided. The value of residential property is determined according to the provisions of the Lending Value Ordinance, whereby L-Bank claims the privileges associated with small loans and generally omits on-site inspections. Due to the general conditions in the housing development market, a proportion of around 48.0% is secured independently of real-estate loans. The collateral is contractually agreed in the form of land charges.

Because housing development funding is restricted to the jurisdiction in which the guarantor is located, the Bank's housing finance activities are associated with a concentration risk linked to residential property in Baden-Württemberg. In the event of a severe economic downturn, the default rate would rise and earnings from the realisation of collateral would fall. In order to assess this risk, L-Bank analysed the cyclical sensitivity of the various regions in Baden-Württemberg. The Bank also analysed regional risks threatening the solvency of borrowers in the individual regions in the event of a severe economic downturn. The risk that a borrower in a given region becomes insolvent increases as a function of the regional economy's dependence on exports, as well as the level of unemployment in the region at the relevant time. The risk of insolvency decreases if price levels for residential property in the region are low and the region has a well-integrated infrastructure. The risk of insolvency is expressed as the variance between the level of borrowers' risk in a region and the risk confronting an average borrower in Baden-Württemberg. The Bank used a scoring system to determine the relative exposure in each case. The table below shows L-Bank's housing finance portfolio broken down accordingly. The highest rank indicates the highest level of relative risk. A total of 59.2% of the Bank's housing development finance is committed in regions with above-average sensitivity to economic cycles (ranked 1 to 4 inclusive). Thus, measured in terms of the federal state's economic sensitivity, the economic sensitivity of the loan portfolio rates as slightly above average.

FINANCE FOR RESIDENTIAL PROPERTY IN BADEN-WÜRTTEMBERG AS AT 31.12.2014		
Rank	Portfolio in EUR millions	Proportion of total portfolio in %
1	492.7	4.8
2	2,856.6	28.1
3	1,104.0	10.9
4	1,573.1	15.4
5	1,356.8	13.3
6	923.0	9.1
7	729.3	7.2
8	1,144.2	11.2
Total	10,179.7	100.0

Guarantees are subject to another collateral-related concentration risk. Of the guarantees received (without public guarantee or maintenance obligation) worth around EUR 8,866.6 million, the State of Baden-Württemberg accounts for some EUR 7,252.3 million. Due to the credit standing of the State of Baden-Württemberg, L-Bank regards this risk as negligible. Another EUR 984.9 million is associated with sureties/guarantees provided by other local authorities in Germany. A total of EUR 629.5 million is based on sureties/guarantees provided by private individuals, companies, banks, public-sector bodies in Germany other than local authorities, and central and regional governments abroad.

Due to L-Bank's business model, there is a further concentration risk associated with receivables from banks (EUR 29,006.7 million). However, the risk of any associated interrelationship on the capital markets is classed as exceptionally low. L-Bank issues enterprise development loans through borrowers' banks, with the result that the Bank's exposure to these banks amounted to EUR 14,843.8 million as at 31 December 2014. These lendings to banks are secured by the assignment to L-Bank of the claims on end-clients. Another EUR 1,095.5 million is attributable to the fact that L-Bank has underwritten the commercial banks' exposure to end-client risk. EUR 13,057.4 million of the Bank's total lending commitment relates to transactions that supplement the Bank's development business, whereby L-Bank invests low-cost funds from refinancing in low-risk or risk-free issuers. Of this amount of EUR 13,057.4 million, EUR 9,779.0 million is secured by the public guarantee/maintenance obligation, and EUR 819.3 million against Pfandbriefe. Of the remaining EUR 2,459.2 million, roughly 89.4% is assigned to risk categories 1 to 4. Approximately 10.6% is allocated to risk categories 5 to 8.

In regional terms, the Bank's public-service mandate means that it is exposed to a concentration risk for the region “Germany”. A total of 88.1% of the risk portfolio is assignable to Germany, of which 65.8% relates to the federal state of Baden-Württemberg and the Free State of Saxony.

REGIONAL STRUCTURE OF THE LOAN PORTFOLIO AS AT 31.12.2014 in EUR millions	Private clients	Companies and self-employed persons	Companies in the financial sector	Public sector	L-Bank total	Allocation in %
Germany total	6,091.4	10,620.3	25,738.6	19,558.4	62,008.6	88.1
Austria	0.0	144.1	485.7	781.8	1,411.6	2.0
Belgium	0.0	0.0	0.0	171.1	171.1	0.2
Denmark	0.0	0.0	128.9	275.6	404.4	0.6
Finland	0.0	0.0	0.0	325.6	325.6	0.5
France	0.3	17.5	436.9	299.0	753.7	1.1
Great Britain*	0.0	11.5	440.7	182.2	634.4	0.9
Greece	0.0	0.0	0.0	0.0	0.0	0.0
Ireland	0.0	0.0	532.0	0.0	532.0	0.8
Italy	0.0	0.0	133.4	401.0	534.4	0.8
Luxembourg	0.0	10.0	66.7	0.0	76.7	0.1
Netherlands	0.0	72.6	617.1	497.8	1,187.5	1.7
Portugal	0.0	14.1	0.0	91.2	105.3	0.1
Spain	0.0	0.0	266.5	50.0	316.5	0.4
Switzerland	0.2	59.2	200.5	0.0	259.9	0.4
Rest of Europe	0.0	0.0	17.4	405.6	423.0	0.6
Europe total	0.4	328.9	3,325.8	3,481.1	7,136.2	10.1
USA	0.0	55.5	265.8	0.0	321.3	0.5
Other countries	0.0	1.6	881.1	0.0	882.8	1.3
Overseas total	0.4	386.0	4,472.7	3,481.1	8,340.2	11.9
Total	6,091.8	11,006.3	30,211.3	23,039.4	70,348.9	100.0

* Includes Guernsey, Jersey, Isle of Man and Cayman Islands.

The table also includes securitised assets. These are allocated to specific countries on the basis of the home country of the special-purpose issuing vehicle.

The Bank's risk exposure in the crisis-affected peripheral eurozone nations stood at approximately EUR 1,488.2 million as at 31 December 2014. Of this, some EUR 236.8 million (15.9%) is secured against public-sector Pfandbriefe, Pfandbriefe or covered bonds. Roughly EUR 542.2 million (36.4%) is payable by national governments. Around 37.3% or EUR 555.8 million is associated with uncollateralised securitised loans. Unsecured claims against banks amount to around EUR 90.0 million (6.0%) in total.

Managing and monitoring counterparty default risk

Counterparty default risk is managed by setting individual limits for issuers, counterparties and borrowers. The Bank limits cluster risk by establishing portfolio limits for risk categories, industries and regions. In this respect, L-Bank's public-service mandate imposes tight constraints. Consequently, the representation of cluster risks is useful, above all, as a means of raising awareness of the concentration risks associated with the Bank's public-service mandate. The maximum loan amount that L-Bank may issue to a single borrower incurring a commercial risk outside the Federal Republic of Germany is restricted by appropriate limits set at country level (country limits).

The issuer, counterparty, borrower and country limits are set by the Board of Management based on an internal analysis of credit quality and monitored on a daily basis. When any of these limits are exceeded, appropriate risk response measures are initiated on the same day.

Cluster risks in the Bank's lending business are managed by applying portfolio limits to industries and regions. These limits are set by the Board of Management as part of the Bank's business and risk strategy. Compliance with the portfolio limits is monitored on a quarterly basis. If these limits are exceeded, the Board of Management is notified and possible risk-response measures are proposed.

As part of the Bank's risk strategy, the Board of Management stipulates the credit rating requirements to be fulfilled by any development business unrelated to development programmes, as such transactions are generally carried out in the context of liquidity management, with the Bank seeking to generate income from refinancing rather than the assumption of risk. For the purposes of proper risk management, the Board has stipulated that a market-standard, risk-based margin should be set for those transactions where the margins are not specifically stipulated under the terms of a development programme.

The operational management of counterparty default risk is based on first-time, ongoing and incident-related evaluations of credit standing and collateral. The latter are used for managing portfolios when extending credit, and also for initiating risk-response measures at the earliest possible moment, thereby minimising lending losses. As part of this risk early warning system, the Bank analyses deteriorating credit ratings at client level, analyses loans at the intensive processing or problem loan processing stage, and analyses levels of compliance with Art. 18 KWG, as well as changes in earnings ratios for defaulted loans in the housing development sector.

The specified processes for dealing with problem loans and non-performing commitments include a tightly controlled system of warning processes, which ensures that claims are safeguarded and outstanding debts are settled as early as possible.

Counterparty default risk is strongly influenced by the state of the economy. To this extent, an improvement in the economic situation can have a positive impact on the portfolio's risk structure and lead to value adjustments being reversed.

MARKET PRICE RISK

Market price risk refers to potential losses caused by unfavourable price movements on the money and capital markets. L-Bank has no trading book, thus market price risks only arise in the non-trading portfolio (bank book). Market price risk mainly exists in the form of interest-rate risks and, to a negligible extent, currency risks.

In the case of structured transactions and foreign-currency transactions, market price risk is excluded using micro hedges. Essentially, market price risk relates to the investment of equity. The Bank avoids such interest-rate positions – especially in the medium-term and long-term segments – primarily by the use of interest-rate swaps and cross-currency interest-rate swaps. As at 31 December 2014, the portfolio of interest-rate swaps (including swaptions) had a nominal value of EUR 73,644.4 million. Cross-currency interest-rate swaps had a nominal value of EUR 17,962.9 million. As a general rule, hedging relationships are reported in the balance sheet in the form of valuation units as defined in Art. 254 HGB, adhering to Art. 256a in conjunction with Art. 340h HGB with regard to currency translation, and complying with BFA 3 in respect of the loss-free valuation of the bank book.

Quantitative assessment based on value at risk

Risks on unanticipated losses are calculated using a VaR model. For this purpose, the Bank uses the historical simulation method. To take full account of different market patterns, a total of ten models are produced for the daily monitoring of limits, with the highest risk value from these calculations ultimately being used in the daily utilisation statement. For the purposes of monitoring risk-bearing capacity, four models with a respective confidence level of 99% or 99.98% and a holding period of 250 days are used for each of the going-concern and liquidation approaches. Again, the highest risk value in each case is used for the monthly monitoring of risk-bearing capacity. The risks calculated using the going-concern approach are shown on a period-specific basis. The following table shows the parameters that are being used for the current calculations:

PARAMETER SETTINGS USED IN HISTORICAL SIMULATIONS	Holding period (trading days)	Historical observation period (trading days)	Confidence level	Application
Absolute interest-rate changes	10 and 25	250	99.00%	Daily limit monitoring
Relative interest-rate changes	10 and 25	250	99.00%	Daily limit monitoring
Absolute interest-rate changes, mirrored	10 and 25	250	99.00%	Daily limit monitoring
Relative interest-rate changes, mirrored	10 and 25	250	99.00%	Daily limit monitoring
Weighted interest-rate changes	10 and 25	250	99.00%	Daily limit monitoring
Absolute interest-rate changes	250	2,500	99.00%	RBC, going-concern, period-specific
Relative interest-rate changes	250	2,500	99.00%	RBC, going-concern, period-specific
Absolute interest-rate changes, mirrored	250	2,500	99.00%	RBC, going-concern, period-specific
Relative interest-rate changes, mirrored	250	2,500	99.00%	RBC, going-concern, period-specific
Absolute interest-rate changes	250	5,000	99.98%	RBC, liquidation approach
Relative interest-rate changes	250	5,000	99.98%	RBC, liquidation approach
Absolute interest-rate changes, mirrored	250	5,000	99.98%	RBC, liquidation approach
Relative interest-rate changes, mirrored	250	5,000	99.98%	RBC, liquidation approach

The following table provides an overview of the proportion of the aggregate loss ceiling taken up by market price risks in the course of 2014:

VALUE AT RISK FOR MARKET PRICE RISK IN 2014 in EUR millions

	01.01.2014		31.03.2014		30.06.2014		30.09.2014		31.12.2014	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	334.9	940.0	283.8	940.0	302.4	940.0	297.0	940.0	347.4
Share of market price exposure in %	26.6	8.0	26.6	9.4	26.6	21.2	26.6	13.0	26.6	21.2
Market price risks	250.0	26.8	250.0	26.6	250.0	64.0	250.0	38.6	250.0	73.6

Qualitative assessment based on stress scenarios

VaR values allow potential unanticipated losses to be quantified based on certain assumed market continuities. Because such steady, linear market trends can no longer be taken for granted – especially in view of the experience of the last few years – the Bank also systematically simulates stress, extreme and worst-case scenarios.

L-Bank uses the stress tests to investigate potential losses as a result of various, more or less extreme market changes. For example, the impact of a regulatory scenario involving a parallel shift in the yield curve by 200 basis points upwards or downwards is explored with a view to assessing the impact of any resulting loss on liable equity capital. Given that the open interest-rate risk positions in the medium-term and long-term segments essentially relate to the investment of equity capital, the reported loss largely reflects an estimated decline in earnings. The following table shows the loss of market value in the event of such a parallel shift of the yield curve:

NEGATIVE CHANGES IN NET PRESENT VALUE DUE TO A SHIFT OF 200 BASIS POINTS IN THE YIELD CURVE

	Year-end 31.12.2014	Maximum 2014		Minimum 2014		Average 2014
Loss of net present value in EUR millions	436.8	(30.01.2014)	538.8	(27.10.2014)	368.0	437.0
Percentage of liable equity capital pursuant to Art. 10 KWG	12.3	(30.01.2014)	15.8	(24.10.2014)	10.3	12.4
Loss of net present value with repayment of equity in EUR millions	80.4	(30.01.2014)	157.6	(24.10.2014)	4.9	64.9
Percentage of liable equity capital pursuant to Art. 10 KWG in %	2.3	(30.01.2014)	4.6	(24.10.2014)	0.1	1.8

MANAGING MARKET PRICE RISKS

The VaR limits specified by the Board of Management are used as the basis for managing market price risks. To further limit interest-rate risk in the non-trading portfolio, the Board of Management regularly defines a maturity-based target risk structure. This sets out the target interest-rate risk profile. The permissible variance of actual from target risk structure is restricted by setting a limit for each maturity band.

The Controlling department is responsible for monitoring interest-rate risk and currency risk by comparing the VaR figures calculated each day with the specified limits. A daily risk report is submitted to the individual Board members responsible for risk controlling and the trading departments. The entire Board is also kept informed about market price risks in a full monthly report.

The Bank generates a large part of its income from the investment of equity and from margin-based lending business. Interest-rate risks relate mainly to the relatively long-term investment of equity capital. Any increase in capital market interest rates would have a positive impact on net interest income.

LIQUIDITY RISK

As far as L-Bank is concerned, liquidity risk encompasses the risk that payment obligations cannot be met when they fall due (insolvency risk). It also includes the risk that sufficient levels of liquidity cannot be obtained on the expected terms when required (refinancing risk).

In the year under review, L-Bank's excellent position on the capital markets – supported by the State of Baden-Württemberg's guarantee – meant that refinancing could be obtained on terms that were favourable to both the Bank and its investors. Overall, with respect to cost and structure, the Bank was able to obtain refinancing in line with its budgetary projections. At no time did the Bank have to resort to its liquidity reserves.

Quantitative assessment using value at risk

Refinancing risk is the risk of a potential deterioration in the refinancing options available to L-Bank. The value at risk is calculated on the basis of historical changes

VALUE AT RISK FOR REFINANCING RISK IN 2014 in EUR millions

	01.01.2014		31.03.2014		30.06.2014		30.09.2014		31.12.2014	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	334.9	940.0	283.8	940.0	302.4	940.0	297.0	940.0	347.4
Share of liquidity risk in %	6.9	3.0	6.9	1.3	6.9	0.0	6.9	0.0	6.9	0.0
Liquidity risks	65.0	10.0	65.0	3.8	65.0	0.0	65.0	0.0	65.0	0.0

in L-Bank's refinancing conditions. The underlying assumption is that the Bank is only able to refinance net disbursements on less advantageous terms. The net present value of the resulting expenses represents the VaR.

Quantitative assessment using regulatory ratios

Insolvency risk is monitored by the Controlling department using the ratios specified in the German Liquidity Regulation. As required by regulation, the liquidity ratio is calculated and reported on a monthly basis. The calculation compares anticipated payments over the next 30 days with anticipated disbursements over the same period. In the period under review, incoming payments should exceed outgoing disbursements. As at the year-end, the liquidity ratio was 6.44. The mean liquidity ratio over the year was 3.67.

LIQUIDITY RATIO IN 2014 PURSUANT TO THE LIQUIDITY REGULATION

Month	Liquidity ratio
January	2.16
February	2.28
March	2.23
April	2.52
May	3.50
June	3.61
July	2.70
August	4.51
September	4.47
October	3.78
November	5.85
December	6.44
Average ratio	3.67

Quantitative assessment based on stress scenarios

L-Bank holds liquidity reserves in order to cover short-term refinancing needs. To calculate these liquidity reserves, the securities portfolio is broken down into highly liquid (7-day liquidity buffer), liquid (30-day liquidity buffer) and other securities. It is important to ensure that the Bank's liquidity requirements for time frames of one week or one month are covered by appropriate liquidity buffers.

L-Bank also ensures that it has liquidity reserves capable of bridging any additional funding needs that may arise from stress scenarios over time frames of at least one month. For this purpose, the Bank analyses stress scenarios based on in-house, market-driven or combined causes. Liquidity buffers are reviewed on a monthly basis. By limiting and monitoring – on a daily basis – the maximum liquidity requirements for one month, the Bank ensures that the liquidity buffer is not just sufficient to cover the funding needs on the reporting date, but over the whole of the following month.

For the liquidity forecast, when reviewing the liquidity buffer that equates to the liquidity required over days 8 to 30, the Bank assumes – for reasons of prudence – that the maximum permissible monthly liquidity threshold of EUR 10,500.0 million (less the liquidity requirement for days 1 to 7) will be required, even if the liquidity forecast indicates that the actual liquidity requirement will be lower. Stress scenarios are also used for purposes of liquidity management. An in-house stress scenario is used to simulate the early outflow of liquid funds as a result of the exercising of all termination rights relating to deposit business over a one-month period. A market-wide stress scenario is used to simulate an immediate deterioration of 100 basis points in the refinancing conditions across all maturities with a simultaneous fall in the price of all securities in the amount of the haircut. Additionally, the two scenarios are considered in combination, without taking any risk-reducing correlation effects into account.

In the stress scenarios, when reviewing the liquidity buffer that equates to the liquidity required over days 8 to 30, the Bank assumes that the maximum amount of the maximum monthly permissible liquidity threshold (less the liquidity requirement for days 1 to 7), plus the liquidity requirement calculated on the basis of the relevant stress scenario, will be required.

The minimal variance between the liquidity forecast and the stress scenarios is due, first, to the fact that the liquidity forecast is drawn up in line with the principle of prudence, so for example the Bank does not assume that the maturities of due time deposits will be extended. Second, thanks to L-Bank's business model, in terms of refinancing the Bank only has a very negligible amount of indeterminate cash flows that could, in stress situations, create an unexpected need for liquidity.

Management policies

Operational liquidity management comes under the remit of the Treasury department. The system is based on a computer-assisted liquidity forecast that depicts all anticipated cash flows over the next ten years. The system produces a daily analysis for the current month and the following two months. A monthly analysis is produced for any months remaining in the fiscal year, and for the following fiscal year. An annual analysis is produced for years 3 to 10. When producing this liquidity forecast, the Bank assumes that contractual maturities will apply. For future interest-rate adjustments relating to housing development,

LIQUIDITY BUFFER SUBJECTED TO STRESS SCENARIOS AS AT 31.12.2014 in EUR millions

		Stress scenario		
	Liquidity forecast	In-house causes	Market causes	In-house and market causes combined
Day 1 to day 7				
Liquidity buffer	15,063.9	15,063.9	14,552.4	14,552.4
Liquidity requirement	837.6	837.6	865.0	865.0
Disposable liquidity buffer	14,226.3	14,226.3	13,687.4	13,687.4
Day 8 to day 30				
Liquidity buffer	16,678.6	16,678.6	15,823.7	15,823.7
Liquidity requirement	9,662.5	9,748.0	9,662.5	9,748.0
Disposable liquidity buffer	7,016.2	6,930.7	6,161.3	6,075.8

the Bank extrapolates the current nominal interest rate. No assumptions are made regarding the extension of time deposits. These are updated on a daily basis as part of liquidity management. Budgeted figures for anticipated disbursements are updated monthly, based on new business forecasts.

The Bank has formulated a number of policies for managing liquidity risk. Limits have been placed on participation in individual securities issues and on liquidity requirements for a single month. Holdings of ECB-eligible securities and securities that can be converted on demand may not fall below a minimum threshold.

Liquidity risk is assessed on a daily basis and included with market price risk in a daily report submitted to the Board members responsible.

The explicit refinancing guarantee that the State of Baden-Württemberg provides for L-Bank means that the latter can obtain refinancing on very favourable terms. During periods of tension on the financial markets, the Bank's own refinancing spreads improved significantly. Opportunities arise for the Bank whenever investors invest more of their money in safe havens.

OPERATIONAL RISK

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

Assessment procedures and management

For operational risks, VaR is estimated using a model similar to that used in the insurance industry to determine the risk of major disasters. The model is based on historical observations and expert estimates of the probability of occurrence of, and extent of damage resulting from, disruptions in any risk-bearing process at the Bank. The estimates, which are audited, are aggregated to arrive at an overall VaR for the Bank as a whole. The Bank is obliged to resort to estimates simply because, to date, the Bank has only experienced a minimal number of loss events associated with operational risks, and the consequential damages have been negligible. Hence it is not possible to provide an informed calculation of the VaR on the basis of historical data sets.

VALUE AT RISK FOR OPERATIONAL RISK IN 2014 in EUR millions

	01.01.2014		31.03.2014		30.06.2014		30.09.2014		31.12.2014	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	334.9	940.0	283.8	940.0	302.4	940.0	297.0	940.0	347.4
Share of operational risk in %	1.1	1.2	1.1	1.4	1.1	1.3	1.1	1.0	1.1	0.9
Operational risks	10.0	3.9	10.0	3.9	10.0	4.0	10.0	3.1	10.0	3.1

The size and scope of operational risks are identified and assessed with the aid of structured interviews across all departments. The identified risks are assigned to five categories, according to the financial impact on L-Bank of a potential risk were it to materialise, and also the anticipated frequency of such an occurrence.

In addition to standard levels of insurance taken out in order to reduce the business impact of certain loss events, the internal control system acts as the basis for avoidance of operational risks. This encompasses comprehensive implicit and explicit procedures for safeguarding the Bank's process workflows (e.g. two-person verification, random spot checks, a new product process governing new types of transactions or processes, explicit authorisation of payments exceeding EUR 1.0 million, an IT permissions management system that excludes conflicts of interest between incompatible activities, rigorous selection criteria for new recruits). The system as a whole is based on the Bank's written documentation, which takes a modular approach to the formulation of the rules governing corporate structure and workflow.

Additionally, operational risk is reduced by ongoing reviews of the Bank's adherence to the relevant statutory and legal requirements (e.g. securities compliance, money laundering and fraud prevention, data protection). Pursuant to the revised version of MaRisk and in accordance with the Public Corporate Governance Code of the State of Baden-Württemberg, the Bank expanded its existing Compliance department during the year under review. The aim of the Compliance department is to exclude risks that could arise from non-compliance with legal requirements. Consequently, it is the role of the department to help implement effective procedures to ensure that L-Bank complies with the statutory regulations and policies that govern the Bank's activities, and to put in place the necessary controls. The Compliance department's remit also includes the monitoring of existing statutory regulations concerning money laundering, fraud prevention and data protection. Compliance is assured by means of appropriate organisational measures and the ongoing monitoring of relevant business transactions. During the year under review, the internal procedures used to ensure that the Bank fulfils its duty of care to prevent money laundering were optimised. In addition to other measures, the process for identifying customers in the home ownership funding sector was converted in full to the "Post-Ident" procedure. In terms of data protection activities, the focus has been on reviewing enquiries from the specialist departments regarding customer data protection issues and employee privacy issues, and on revising the data protection statement on the Bank's website. No extraordinary incidents occurred in any of the above areas during the year under review.

With respect to workflow organisation, the Bank differentiates between operational directives – which represent binding prescriptions for action – and operational manuals. Operational directives always apply, regardless of the underlying workflow or IT systems used. Operational manuals, on the other hand, are either IT user manuals or describe specific processes. L-Bank has broken down the entire loan administration process into multiple stages: granting of loans, further processing of loans, processing of problem loans, loan restructuring and loan workout (settlement). Criteria have been established for each stage in the process and must be complied with when a loan is being processed. These processing criteria constitute the master lending process. A master process has also been established for trading transactions. This sets down the processing criteria for reviewing opportunities for trades; for agreeing, recording, forwarding and changing closing dates; for updating the trading portfolio; for the legal form of contracts; for closing trades outside the Bank's own trading rooms and normal working hours (late trades); for recording and monitoring telephone calls; and for ongoing supervisory activities relating to settlement and controls.

The rules governing corporate structure specify where particular business activities are carried out (organisation chart and schedule of responsibilities). The rules governing "management and representation" specify who may carry out specific business activities. Statutory requirements pertaining to employment law and industrial relations are managed by service agreements and employment policies.

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

With respect to the accounting process, L-Bank has put a comprehensive internal control and risk management system in place that is being continuously reviewed and developed. The system includes specific rules relating to corporate structure and workflow management. These rules ensure compliance with existing accounting standards and regulations, as well as the orderliness and reliability of the Bank's accounting functions. The accounting process set down in the system covers everything from the booking and processing of a transaction through to the preparation of the annual financial statements and management report. L-Bank's Board of Management is responsible for defining the Bank's internal control and risk management system as it relates to the accounting function. System implementation is the responsibility of the Accounting department, in collaboration with the Controlling and Payment Transactions departments. In addition, the Internal Audit department carries out regular, process-independent checks in order to monitor the reliability of the internal control and risk management system as it affects accounting.

L-Bank prepares its financial statements in accordance with the provisions of the German Commercial Code (HGB) and German Bank Accounting Directive (RechKredV), with due regard for generally accepted accounting principles. The practical interpretation of these regulations is set out in internal manuals and directives governing the various workflows within L-Bank. The Accounting department is responsible for monitoring internal documents on a regular basis, and for adapting them in line with any legal or regulatory changes. The comprehensive management reporting function and Accounting department's involvement in the standardised new products process also help to ensure that the accounting treatment of new products is correct.

Documentation of the accounting process is carefully organised so that it is easy to understand. All relevant documents are archived in compliance with the statutory time frames.

The two departments most heavily involved in the accounting process have clearly separated functions: the Payment Transactions department manages subledgers for loans, securities, and debt and equity accounting. The data is automatically transferred by an interface to the general ledger. The Accounting department is responsible for managing the general ledger, laying down rules for assigning items to accounts, operating the bookkeeping and ledger management system and administrating the financial accounting system.

L-Bank uses standard software for its financial accounting. This supports the following functions:

- prevention of unauthorised access by a system of permissions based on authorisation levels,
- prevention of errors by means of plausibility checks, and
- detection of errors by means of two-person verification, standardised reconciliation routines and comparisons of budgeted and actual figures.

These measures also serve to ensure that assets and liabilities are correctly assigned and reported and also plausibly valued.

The annual financial statements and management report are derived from the Bank's financial accounting. For the management report in particular, financial and risk control data is obtained from the internal management information system, which is subject to a comparable internal control system. The annual financial statements and management report are also subject in their entirety to manual controls based on the two-person verification principle (routine double checks).

Up-to-date, reliable and relevant reports on the risk management system as it relates to accounting are regularly submitted to the Board of Management and heads of department. The Board of Management provides the Supervisory Board and its committees with regular updates on the progress of the Bank's business activities, and also provides ad-hoc reports on any exceptional events as and when they occur.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board and its committees have discharged the duties assigned to them by law, statute and rules of procedure. The Supervisory Board's Risk Committee performs the role of Audit Committee and uses the decision-making powers entrusted to it in respect of the Bank's investment and lending business. The Supervisory Board's Personnel Committee is responsible for the duties of the Nomination and Remuneration Supervisory Committees, as well as specific powers relating to personnel issues.

The Board of Management kept the Supervisory Board and its committees informed of the Bank's development and major business transactions throughout the year under review. In particular, the Board provided regular reports on business strategy, risk strategy and business development, as well as quarterly reports on the Bank's risk exposure and a report on the structure of L-Bank's remuneration systems. The Bank's Internal Audit department provided the Risk Committee with quarterly reports, and the Risk Committee and Supervisory Board with an annual report on internal audits carried out during 2014, as well as the results of these audits. During the year under review, a compliance report and a remuneration review were also submitted to the Supervisory Board.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, carried out the statutory annual audit for fiscal year 2014, issuing an unqualified auditor's opinion. The auditor took part in discussions of the 2014 annual financial statements by the Supervisory Board and Risk Committee in its role as Audit Committee. In these discussions, the auditors reported on the main findings of their audit activities, answered questions and provided additional information. The Supervisory Board discussed the auditor's report and did not raise any objections to the final outcome of the audit.

At its meeting on 4 May 2015, the Supervisory Board examined and approved the Bank's annual financial statements for fiscal year 2014 and took note of the Management Report.

The Supervisory Board approved the Board of Management's proposal to allocate EUR 50,000,000.00 of the net income for fiscal year 2014 (totalling EUR 50,250,540.41) to other retained earnings and to carry forward the remaining amount of EUR 250,540.41.

Stuttgart, 4 May 2015

Nils Schmid

Chairman of the Supervisory Board
Dr. Nils Schmid MdL
Minister of Finance and Economic Affairs
for the State of Baden-Württemberg

LANDESKREDITBANK BADEN-WÜRTTEMBERG – FÖRDERBANK
BALANCE SHEET AS AT 31.12.2014

ASSETS	31.12.2014 EUR	31.12.2014 EUR	31.12.2014 EUR	31.12.2013 EUR
1. CASH RESERVE				
a) cash in hand		44,090.66		40,120.74
b) current balances with central banks thereof: with Deutsche Bundesbank EUR 38,402,500.49 (EUR 419,883,165.22)		38,402,500.49		419,883,165.22
			38,446,591.15	**419,923,285.96**
2. RECEIVABLES FROM BANKS				
a) due on demand		350,594,759.25		13,066,818.98
b) other claims		20,419,717,987.34		20,470,942,680.36
			20,770,312,746.59	**20,484,009,499.34**
3. RECEIVABLES FROM CUSTOMERS thereof: secured through real-estate liens EUR 6,183,620,756.85 (EUR 6,560,782,947.36) municipal loans EUR 8,572,752,987.61 (EUR 8,901,133,978.56)			**23,475,321,677.25**	**23,773,515,357.49**
4. BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES				
a) money market securities				
aa) from other issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 99,896,370.00 (EUR 0.00)		149,887,000.00		0.00
b) bonds and debentures				
ba) from public issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 4,975,618,124.08 (EUR 5,159,524,868.02)	5,156,500,948.72			5,338,258,284.24
bb) from other issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 14,552,325,711.89 (EUR 15,890,505,688.54)	16,872,176,807.31			18,374,475,407.31
		22,028,677,756.03		23,712,733,691.55
c) own notes nominal value EUR 373,700,000.00 (EUR 466,129,000.00)		376,340,162.28		468,299,364.55
			22,554,904,918.31	**24,181,033,056.10**
Carried forward			66,838,985,933.30	68,858,481,198.89

ASSETS	31.12.2014 EUR	31.12.2013 EUR
Carried forward	66,838,985,933.30	68,858,481,198.89
5. SHAREHOLDINGS thereof: in financial institutions EUR 301,986,360.47 (EUR 301,986,360.47)	572,798,395.71	488,766,696.51
6. HOLDINGS IN AFFILIATED COMPANIES	21,309,201.82	23,990,154.28
7. FIDUCIARY ASSETS thereof: fiduciary loans EUR 62,597,017.86 (EUR 72,767,215.66)	62,668,402.97	72,839,569.44
8. INTANGIBLE ASSETS		
a) purchased licences, industrial property rights and similar rights and assets, and licences to such rights and assets	10,184,454.53	9,232,811.93
9. TANGIBLE FIXED ASSETS	108,115,608.25	117,511,985.45
10. OTHER ASSETS	1,784,073,625.62	355,858,932.24
11. ACCRUED ITEMS	791,955,648.82	755,417,825.94
TOTAL ASSETS	70,190,091,271.02	70,682,099,174.68

LANDESKREDITBANK BADEN-WÜRTTEMBERG – FÖRDERBANK
BALANCE SHEET AS AT 31.12.2014

LIABILITIES	31.12.2014 EUR	31.12.2014 EUR	31.12.2014 EUR	31.12.2013 EUR
1. LIABILITIES TO BANKS				
a) due on demand		6,363,902.81		4,977,902.69
b) with agreed term or notice period		21,106,229,651.38		23,703,011,843.89
			21,112,593,554.19	**23,707,989,746.58**
2. LIABILITIES TO CUSTOMERS				
a) other liabilities				
aa) due on demand	120,655,474.52			118,518,484.22
ab) with agreed term or notice period	6,975,093,961.28			7,589,479,460.40
		7,095,749,435.80	**7,095,749,435.80**	**7,707,997,944.62**
3. SECURITISED LIABILITIES				
a) notes issued			**35,983,355,643.03**	**32,773,245,874.41**
4. FIDUCIARY LIABILITIES			**62,668,402.97**	**72,839,569.44**
thereof: fiduciary loans EUR 62,597,017.86 (EUR 72,767,215.66)				
5. OTHER LIABILITIES			**354,718,480.80**	**769,640,312.74**
6. DEFERRED ITEMS			**1,034,322,604.54**	**1,032,473,668.50**
7. PROVISIONS				
a) provisions for pension and similar obligations		200,006,151.79		180,428,130.00
b) other provisions		168,063,244.25		170,964,844.57
			368,069,396.04	**351,392,974.57**
8. SUBORDINATED LIABILITIES			**394,010,623.55**	**709,680,130.58**
Carried forward			66,405,488,140.92	67,125,260,221.44

LIABILITIES	31.12.2014 EUR	31.12.2014 EUR	31.12.2013 EUR
Carried forward		66,405,488,140.92	67,125,260,221.44
9. PROFIT-SHARING RIGHTS OUTSTANDING		**539,925,800.00**	**539,925,800.00**
10. FUND FOR GENERAL BANKING RISKS		**530,000,000.00**	**400,000,000.00**
11. EQUITY			
a) subscribed capital	250,000,000.00		250,000,000.00
b) capital reserve	999,426,789.69		950,850,789.69
c) retained earnings			
ca) other retained earnings	1,415,000,000.00		1,315,000,000.00
d) net income	50,250,540.41		101,062,363.55
		2,714,677,330.10	**2,616,913,153.24**
TOTAL LIABILITIES		**70,190,091,271.02**	**70,682,099,174.68**

1. CONTINGENT LIABILITIES		
a) liabilities from sureties and guarantee contracts	**5,485,405,440.29**	**6,068,612,914.98**
2. OTHER COMMITMENTS		
a) irrevocable lending commitments	**2,319,685,131.44**	**2,641,108,486.04**

LANDESKREDITBANK BADEN-WÜRTTEMBERG – FÖRDERBANK
STATEMENT OF INCOME FOR THE FISCAL YEAR 1 JANUARY TO 31 DECEMBER 2014

	2014 EUR	2014 EUR	2014 EUR	2013 EUR
1. INTEREST EARNINGS FROM				
a) lending and money market transactions	1,261,990,197.72			1,380,641,049.80
b) fixed-interest and book-entry securities	623,367,226.86			626,383,379.47
		1,885,357,424.58		**2,007,024,429.27**
2. INTEREST EXPENSES thereof: from interest subsidies on loans EUR 108,457,366.59 (EUR 119,410,478.29)		1,624,861,199.12		1,716,814,537.83
			260,496,225.46	**290,209,891.44**
3. CURRENT INCOME FROM				
a) shareholdings			**6,584,622.93**	**4,408,408.39**
4. COMMISSION EARNINGS			**47,634,343.63**	**45,656,024.62**
5. COMMISSION EXPENSES			**5,279,197.90**	**4,442,170.53**
6. OTHER OPERATING INCOME			**8,318,515.32**	**15,923,752.83**
7. GENERAL ADMINISTRATIVE EXPENSES				
a) personnel expenses				
aa) wages and salaries	74,853,274.89			72,279,422.65
ab) social security contributions and expenses for pensions and other benefits thereof: for pension provision EUR 5,502,923.96 (EUR 5,680,699.78)	17,386,369.05			17,042,401.26
		92,239,643.94		89,321,823.91
b) other administrative expenses		56,081,629.09		49,616,782.53
			148,321,273.03	**138,938,606.44**
8. WRITE-DOWNS AND VALUATION ADJUSTMENTS ON INTANGIBLE ASSETS AND TANGIBLE ASSETS			**17,307,004.34**	**9,827,796.53**
9. OTHER OPERATING EXPENSES			**32,875,035.17**	**26,012,749.94**
Carried forward			119,251,196.90	176,976,753.84

	2014 EUR	2013 EUR
Carried forward	119,251,196.90	176,976,753.84
10. WRITE-DOWNS AND VALUATION ADJUSTMENTS ON RECEIVABLES AND CERTAIN SECURITIES AS WELL AS ADDITIONS TO PROVISIONS FOR LOAN LOSSES Addition to "Fund for general banking risks" EUR 130,000,000.00 (EUR 50,000,000.00)	**93,434,823.40**	**81,003,841.06**
11. INCOME FROM REVALUATION OF SHAREHOLDINGS, SHARES IN AFFILIATED COMPANIES AND SECURITIES TREATED AS FIXED ASSETS	**24,434,197.52**	**5,620,884.08**
12. INCOME FROM NORMAL BUSINESS ACTIVITIES	**50,250,571.02**	**101,593,796.86**
13. TAXES ON INCOME AND EARNINGS	**878,163.52**	**641,055.99**
14. OTHER TAXES NOT STATED UNDER ITEM 9	**184,230.64**	**184,617.14**
15. NET INCOME	**49,188,176.86**	**100,768,123.73**
16. PROFIT CARRIED FORWARD FROM THE PREVIOUS YEAR	1,062,363.55	294,239.82
	50,250,540.41	**101,062,363.55**
17. NET PROFIT	**50,250,540.41**	**101,062,363.55**

L-BANK CASH FLOW STATEMENT AS AT 31.12.2014

	01.01.–31.12.2014 EURk	01.01.–31.12.2013 EURk
Net profit/loss for the period	**49,188**	**100,768**
NON-CASH ITEMS INCLUDED UNDER NET PROFIT/LOSS FOR THE PERIOD AND RECONCILIATION WITH CASH FLOW FROM OPERATING ACTIVITIES		
1. Depreciation, value adjustments and write-ups on receivables including contingent liabilities and securities	75,133	85,161
2. Depreciation, value adjustments and write-ups on fixed assets	17,307	9,828
3. Depreciation, value adjustments and write-ups on financial assets (excluding securities)	1,799	704
4. Changes in provisions (excluding loan loss provisioning)	54,278	37,335
5. Other non-cash expenses/income	0	0
6. Profit/loss on the sale of fixed assets	–49	–7
7. Profit/loss on the sale of financial assets	–18,990	–3,111
8. Other adjustments (net)	–257,895	–113,767
Subtotal	**–79,229**	**116,911**
CHANGES TO ASSETS AND LIABILITIES FROM OPERATING ACTIVITIES		
9. Receivables from banks	–284,770	211,794
10. Receivables from customers	203,053	422,912
11. Securities	1,637,664	–789,234
12. Other assets	–1,454,581	–142,350
13. Liabilities to banks	–2,595,396	3,194,053
14. Liabilities to customers	–612,249	–660,317
15. Securitised liabilities	3,210,110	–3,144,318
16. Other liabilities	–639,576	531,369
17. Interest and dividends received	2,015,147	1,935,789
18. Interest paid	–1,756,374	–1,821,382
19. Extraordinary income/expenditure	0	0
20. Income tax payments	–878	–641
Cash flow from operating activities	**–357,079**	**–145,414**
21. Proceeds from sales of financial assets	28,701	42,258
22. Proceeds from sales of fixed assets	76	9
23. Disbursements for investments in financial assets	–92,861	–27,912
24. Disbursements for investments in fixed assets	–8,889	–6,380
25. Cash flow from other investment activities (net)	0	0
Cash flow from investment activities	**–72,973**	**7,975**
26. Proceeds from equity contributions	48,576	0
27. Disbursements to company owners and minority shareholders	0	0
28. Cash flow from other capital (net)	0	0
Cash flow from financing activities	**48,576**	**0**
Net change in cash and cash equivalents	**–381,476**	**–137,439**
Effects of exchange rate movements and valuation changes on cash and cash equivalents	0	0
Cash and cash equivalents at start of period	419,923	557,362
Cash and cash equivalents at end of period	**38,447**	**419,923**

L-BANK STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2014

			Statement of changes in equity		
	Subscribed capital EURk	Capital reserve EURk	Retained earnings EURk	Net profit EURk	Equity EURk
Balance as at 31.12.2012	**250,000**	**950,851**	**1,167,000**	**148,295**	**2,516,146**
Allocation to retained earnings			148,000	–148,000	0
2013 net income for the year				100,768	100,768
Balance as at 31.12.2013	**250,000**	**950,851**	**1,315,000**	**101,063**	**2,616,914**
Allocation to capital reserve		48,576			48,576
Allocation to retained earnings			100,000	–100,000	0
2014 net income for the year				49,188	49,188
Balance as at 31.12.2014	**250,000**	**999,427**	**1,415,000**	**50,251**	**2,714,678**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2014

GENERAL PRINCIPLES

L-Bank (Landeskreditbank Baden-Württemberg – Förderbank) was established by a law passed on 11 November 1998, effective as from 1 December 1998. Article 2, para. 1, clause 1 of the above-mentioned law set the share capital of L-Bank at EUR 250 million.

L-Bank has its head office in Karlsruhe, with a branch office in Stuttgart. The Bank has no branch offices outside the Federal Republic of Germany.

The annual financial statements of L-Bank were prepared in accordance with the provisions of the German Commercial Code (HGB) and the applicable accounting directive for banks and financial services institutions (RechKredV).

The balance sheet and statement of income comply with the standard forms in RechKredV. The "Interest expenses" item has been supplemented to include a "whereof" note (Art. 265, para. 5 HGB).

When taken together, the majority shareholdings reported are of secondary importance. Preparation of a consolidated financial statement was thus waived pursuant to Art. 290, para. 5 HGB in conjunction with Art. 296, para. 2 HGB.

The disclosures required pursuant to Art. 26a of the German Banking Act (KWG) and Art. 435 et seq. of CRR (Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 646/2012) are contained in a separate disclosure report, which is updated annually for publication on the L-Bank website shortly thereafter.

PRINCIPLES OF CURRENCY CONVERSION

Currency conversion has been carried out according to the provisions of Art. 256a in conjunction with Art. 340h HGB, as well as IDW RS BFA Opinion 4. Assets and liabilities denominated in foreign currencies, as well as all pending foreign currency cash transactions, are converted at the mean spot rate on 30 December 2014. In the case of forward currency contracts, the forward rate is separated out into cash and interest portions.

For currency conversion purposes the Bank calculates currency exposure by offsetting the claims and obligations from on-balance-sheet and off-balance-sheet transactions in the respective currency against each other. These transactions are classified and valued as separately hedged in each currency. Accordingly, all expenses and income from currency conversion within the meaning of Art. 340h HGB are included in the statement of income. Any valuation surplus is reported in a balancing item under "Other assets".

ACCOUNTING AND VALUATION METHODS

Assets, liabilities and pending transactions are valued according to the general provisions of Art. 252 et seq. HGB, taking into account the specific provisions applying to financial institutions (Art. 340a et seq. HGB). The accounting and valuation methods are unchanged from the previous year.

FINANCIAL ASSET AND LIABILITIES

Receivables from financial institutions and customers are always stated at their nominal value, whereas liabilities are stated at repayment value. Differences (premiums and discounts) with respect to receivables and liabilities are stated under accrued or deferred items and written back on a pro rata basis. Administrative charges are collected immediately. Low-interest and zero-interest receivables are discounted. Zero bonds issued and similar liabilities are stated at the offer price plus any prorated interest accrued at the balance-sheet date.

The Bank treats loans linked to development programmes for which it subsidises the interest portion as low-interest lending transactions. Such development programme loans are stated at their net present value. Provisions have been made for interest subsidies on irrevocable lending commitments related to development programmes. Earnings from interest subsidies carried by the Bank are stated under net interest income.

All identifiable individual lending risks as well as country risks have been adequately provided for by making specific loan loss allowances or provisions. General bad-debt provisions have been set up for latent lending risks. Individual and general loan loss allowances are offset against assets or stated under provisions.

Securities in the liquidity reserve are stated at either cost of acquisition or the lower stock exchange/market price at the balance-sheet date, in accordance with the strict "lower of cost or market" principle. Where possible, stock market quotations have been used to determine market values. Where no active markets are available, model values have been used, based in turn on market data (yield curves, spread curves) and other available information (e.g. probabilities of default).

Securities treated as fixed assets are stated at their depreciated historical costs, whereby differences between the book value and the repayment amount are treated as income in proportion to their term. Depreciation on securities in the financial investment portfolio is applied in the event of a loss of value that is likely to be permanent. Where there is no further likelihood of an enduring loss of value, the original value has been reinstated as appropriate. A general provision has been set up for latent risks.

Holdings and shares in affiliated companies are stated at acquisition cost or, in the event of an enduring loss of value, at the lower fair value as at the balance-sheet date, analogous to the rules governing fixed assets. Where there is no further likelihood of an enduring loss of value, the original value has been restated as appropriate.

FIXED AND INTANGIBLE ASSETS

Intangible assets and tangible fixed assets are valued at acquisition or production cost, less scheduled depreciation. Where necessary, i.e. where it is anticipated that a loss in value may be permanent, extraordinary write-downs are made. Minor-value assets are combined in an annual summary item and depreciated over five years.

PROVISIONS

Provisions for pensions and similar obligations are determined according to actuarial principles using Dr. Heubeck's mortality tables (RT 2005 G). The projected unit credit (PUC) method is used for valuation purposes. The rate of interest applied is 4.53% (2013: 4.90%). Future salary and pension adjustments are included in the calculation, based on a projected average increase of 2% p.a.

The remaining provisions are stated at the required repayment amount, and take into consideration all identifiable risks from doubtful liabilities and impending losses from suspended 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 corresponding to their remaining term.

Expense provisions within the meaning of Art. 249, para. 1, clause 3 HGB (old version) are maintained either until they are used for the purpose for which they were set up (i.e. the relevant event occurs) or until they are written back because the original reason for their existence ceases to apply.

Interest accruing on provisions (including provisions for pensions and similar obligations) totalling EUR 19.2 million (2013: EUR 12.8 million) is stated under net interest income.

LOSS-FREE VALUATION OF THE NON-TRADING PORTFOLIO (BANK BOOK)

Reviews of the non-trading portfolio (bank book) within the meaning of IDW RS BFA Opinion 3 with the aim of ensuring loss-free valuation are based on a net present value approach. Calculations are based on book values (as in the balance sheet), discounted cash flows and risk costs, plus future administrative expenses incurred by the unwinding of positions.

The process of valuation continued to show that there was no need to make provisions.

TREATMENT OF HEDGING TRANSACTIONS

In order to hedge balance-sheet risks, the Bank uses derivative hedging transactions and guarantees. The Bank enters into derivative transactions in order to hedge aggregate interest-rate risk exposure and/or individual transactions. Any contributions to earnings by derivatives are stated under net interest income.

Where necessary, hedged transactions and hedging instruments have been grouped together to create valuation units (macro hedges) within the meaning of Art. 254 HGB. The parameters used for the valuations underlying these macro hedges match perfectly (perfect hedges). In this case, the accounting treatment is based on the so-called “freezing method”, in which offsetting changes in value (i.e. equal and opposite changes in the fair values attributable to hedged transactions and hedging instruments as a result of the hedged risk) are not taken into account in the financial statements.

The hedged transactions in macro hedges within the meaning of Art. 254 HGB are presented in the table below. Where applicable, the stated book values have been converted into EUR at the mean spot rate on 30 December 2014.

HEDGED TRANSACTION IN MACRO HEDGE

	Book value (EURk)	of which interest-rate risk	of which currency risk	of which price risk
Assets	531,610	70,500	–	461,110
Debts	579,211	301,376	277,835	–
Total	1,110,821	371,876	277,835	461,110

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2014

BREAKDOWN OF SELECTED ITEMS UNDER ASSETS AND LIABILITIES BY REMAINING TERM OR NOTICE PERIOD

	31.12.2014 EURk	31.12.2013 EURk
RECEIVABLES FROM BANKS		
due on demand	350,595	13,067
up to three months	1,477,620	1,438,336
more than three months and up to one year	3,767,708	3,747,685
more than one year to five years	6,851,025	8,088,028
more than five years	8,323,365	7,196,893
RECEIVABLES FROM CUSTOMERS		
up to three months	757,455	810,608
more than three months and up to one year	1,969,461	1,368,957
more than one year to five years	5,730,626	6,143,739
more than five years	15,017,780	15,450,211
BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES		
maturing in the following year	2,473,222	4,248,624
LIABILITIES TO BANKS		
due on demand	6,364	4,978
up to three months	1,457,428	5,534,604
more than three months and up to one year	1,041,062	1,929,110
more than one year to five years	6,190,497	5,710,349
more than five years	12,417,243	10,528,949
LIABILITIES TO CUSTOMERS		
due on demand	120,655	118,519
up to three months	846,836	1,302,177
more than three months and up to one year	212,234	302,518
more than one year to five years	317,583	393,570
more than five years	5,598,441	5,591,214
SECURITISED LIABILITIES		
maturing in the following year	14,534,981	16,530,537

EXPLANATIONS OF INDIVIDUAL BALANCE-SHEET ITEMS

	31.12.2014 EURk	31.12.2013 EURk
RECEIVABLES FROM BANKS		
This item comprises:		
– receivables from companies in which an equity interest is held	7,261,818	6,402,580
RECEIVABLES FROM CUSTOMERS		
This item comprises:		
– receivables from affiliated companies	83,126	65,095
– receivables from companies in which an equity interest is held	110,795	109,295
– subordinated claims	30,642	46,080
BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES		
This item comprises:		
– receivables from companies in which an equity interest is held	1,669,238	2,078,184
The securities in this item eligible for listing break down as follows:		
– listed	21,969,005	23,502,161
– not listed	605,900	678,872

Securities with a book value (excluding prorated interest accrued) of EUR 21,628,127,000 are assigned to investment assets. Of these, securities with a book value of EUR 1,504,648,000 have a market value of EUR 1,474,474,000. No depreciation has been applied to these items, as short-term market fluctuations are not taken into account due to the intention to hold these assets on a long-term basis. The remaining securities in fixed assets have a market value reserve of EUR 2,421,102,000.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2014

EXPLANATIONS OF INDIVIDUAL BALANCE-SHEET ITEMS

	31.12.2014 EURk	31.12.2013 EURk
SHAREHOLDINGS		
The shareholdings in this item eligible for listing break down as follows:		
– listed	68,866	68,920
FIDUCIARY ASSETS		
This item comprises:		
– receivables from banks	53,834	60,983
– receivables from customers	8,763	11,784
– other assets	71	72
TANGIBLE FIXED ASSETS		
This item comprises:		
– plots and buildings used for the Bank's own activities	89,227	101,498
– plant and office equipment	7,540	8,222
OTHER ASSETS		
of which subordinated	7,523	7,524
ACCRUED AND DEFERRED ITEMS – ASSETS		
– Difference between disbursement amount or acquisition cost and lower nominal value of receivables	462,366	525,718
– Difference between issue price and higher repayable amount of liabilities	61,002	62,227
LIABILITIES TO BANKS		
This item comprises:		
– liabilities to companies in which an equity interest is held	337,539	443,362
LIABILITIES TO CUSTOMERS		
This item comprises:		
– liabilities to companies in which an equity interest is held	426,168	441,100

EXPLANATIONS OF INDIVIDUAL BALANCE-SHEET ITEMS

	31.12.2014 EURk	31.12.2013 EURk
FIDUCIARY LIABILITIES		
Fiduciary liabilities comprise		
– liabilities to banks	3,514	5,384
– liabilities to customers	59,083	67,384
– other liabilities	71	72
ACCRUED AND DEFERRED ITEMS – LIABILITIES		
– Difference between disbursement amount or acquisition cost and higher nominal value of receivables	4,755	8,858
– Difference between issue price and lower repayable amount of liabilities	3,517	2,855
SUBORDINATED LIABILITIES AND PROFIT-SHARING RIGHTS		
– Interest expenses on subordinated liabilities	18,619	24,767
– Interest expenses on profit-sharing rights	26,003	26,003

The following subordinated liabilities exceed 10% of the total value of all subordinated liabilities.

Currency	Amount in EURk	Interest rate %	Maturity date
EUR	75,103	0.00	01.09.2036
EUR	40,000	2.27	14.11.2023
JPY	39,466	1.45	28.10.2015
JPY	68,771	2.14	24.08.2018

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

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

Under state law, L-Bank is not capable of insolvency.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2014

INDIVIDUAL AMOUNTS THAT ARE MATERIAL IN ASSESSING THE ANNUAL FINANCIAL STATEMENTS

	31.12.2014 EURk	31.12.2013 EURk
OTHER ASSETS		
– Balancing item from currency conversion	1,333,286	—
– Receivables from swaps	416,693	322,179
– Works of art	14,653	14,631
– Participation certificates	7,523	7,524
PREPAYMENTS AND ACCRUED INCOME		
– Single payments made in advance for swaps	261,526	159,520
OTHER LIABILITIES		
– Balancing item from currency conversion	—	493,723
– Single (bullet) repayments on swaps	342,743	265,904
DEFERRED INCOME		
– Single payments received in advance for swaps	1,025,986	1,020,702
PROVISIONS		
Among other provisions:		
– provisions for interest-subsidised loans	71,462	76,118
CONTINGENT LIABILITIES AND OTHER COMMITMENTS		
Liabilities from sureties and guarantee contracts include:		
– loan guarantees to financial institutions	544,569	873,635
– credit default swaps	3,959,046	4,092,148

The overwhelming proportion of contingent liabilities comprise credit risks from borrowers with a first-class credit rating. A total of 96.3% of the total portfolio of contingent liabilities has an investment grade rating.

	31.12.2014 EURk	31.12.2013 EURk
COMMISSION EARNINGS		
– Income from other services	37,658	35,387
OTHER OPERATING INCOME		
– Income from services for third parties	625	5,873
– Rental income	4,589	4,863

INDIVIDUAL AMOUNTS THAT ARE MATERIAL IN ASSESSING THE ANNUAL FINANCIAL STATEMENTS	31.12.2014 EURk	31.12.2013 EURk
GENERAL ADMINISTRATIVE EXPENSES		
Other administrative expenses include auditor's fees (excl. sales tax):		
– for auditing services	375	365
– for other certification services	0	12
– for tax consulting services	0	1
OTHER OPERATING EXPENSES		
– Expenses for subsidies awarded in the course of processing development programmes for the State of Baden-Württemberg	19,814	23,031
TOTAL VALUE OF ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES		
– Assets	3,957,378	3,606,447
– Debts	25,271,078	18,052,777
The exchange rate risk from foreign exchange balance-sheet items is essentially covered by off-balance-sheet hedging transactions.		
Currency conversion produced other operating income in the sum of	71	—
During the previous year, currency conversion resulted in other operating expenses in the sum of	—	332

PROVISION OF COLLATERAL

For refinancing purposes, securities in the amount of EUR 11,312 million (2013: EUR 12,758 million) were deposited with Deutsche Bundesbank. As at 31 December 2014, no securities had been credited in the course of open-market transactions (2013: EUR 3,800 million). No securities (2013: nominal value of EUR 5 million) were deposited for participation in EUREX (electronic futures exchange).

As collateral for OTC transactions, the Bank paid out cash sureties totalling EUR 2,618 million (2013: EUR 2,884 million), reported under receivables from banks, and accepted cash sureties in the amount of EUR 278 million (2013: EUR 3 million), reported under liabilities to banks.

TRANSACTIONS WITH CLOSELY ASSOCIATED COMPANIES AND PERSONS

As at 31 December 2014, transactions concluded with closely associated companies and related parties on the basis of conditions that do not conform with market conditions had a reported value of EUR 17.2 million (2013: EUR 18 million). These transactions consisted of shareholder loans.

OTHER FINANCIAL COMMITMENTS

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

As at the balance-sheet date, there are no transactions within the meaning of Art. 285, sections 3 and 3a HGB that are significant to the assessment of the Bank's financial situation.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2014

DERIVATIVE TRANSACTIONS

As at the balance-sheet date, L-Bank had concluded the derivative transactions (forward transactions within the meaning of Art. 36 of RechKredV) listed below. With the exception of credit derivatives, they are used as hedges against interest-rate and currency risks. For the purposes of reporting derivative transactions, no netting of the positive and negative market values of contracts with the same counterparty was undertaken. As a general rule, insolvency-proof netting arrangements are in place. Furthermore, L-Bank has entered into collateral agreements with the Bank's main business partners with the aim of reducing any existing mutual risk of default by providing collateral in the form of cash.

Fully hedged derivative structures embedded in underlying transactions are not included in the tables.
The derivative transactions break down as follows:

DERIVATIVE TRANSACTIONS – SUMMARY OF AMOUNTS in EUR millions	Nominal values 31.12.2014	Nominal values 31.12.2013	Market values positive 31.12.2014	Market values negative 31.12.2014	Market values positive 31.12.2013	Market values negative 31.12.2013
INTEREST-RATE RISKS						
Interest-rate swaps	73,372	79,982	3,341	–6,205	2,200	–4,051
Interest-rate risks – total	**73,372**	**79,982**	**3,341**	**–6,205**	**2,200**	**–4,051**
CURRENCY RISKS						
– Forward currency contracts/ swaps	9,230	6,547	334	–6	3	–172
– Currency swaps, cross-currency interest-rate swaps	17,963	13,512	1,387	–1,293	240	–1,250
Currency risks – total	**27,193**	**20,059**	**1,721**	**–1,299**	**243**	**–1,422**
CREDIT DERIVATIVES (CDS)						
Protection seller	3,959	4,092	2	–2	–	–10
Credit derivatives – total	**3,959**	**4,092**	**2**	**–2**	**–**	**–10**

On balance, no significant profit or loss on foreign exchange transactions or interest-rate valuations is due from interest-rate/currency swaps and the corresponding hedged items, especially on bonds or debentures issued in foreign currencies. Market values of interest-rate/currency swaps totalling EUR 1,333 million are due to changes in spot exchange rates. A balancing item from the currency conversion was set up in this amount on the assets side and stated under "Other assets".

Interest-rate swaps in the non-trading portfolio are used primarily to control total interest-rate exposure, and show a net negative market value of EUR 2,865 million as at year-end 2014. These interest-rate swaps are not valued in the balance sheet, because both assets and liabilities contain interest-induced hidden reserves that are significantly higher than the negative market values of the interest-rate swaps.

Credit default swaps (CDS) for which L-Bank is selling protection are included under contingent liabilities at a nominal amount of EUR 3,959 million.

DERIVATIVE TRANSACTIONS – BY COUNTERPARTY

in EUR millions	Nominal values 31.12.2014	Nominal values 31.12.2013	Market values positive 31.12.2014	Market values negative 31.12.2014	Market values positive 31.12.2013	Market values negative 31.12.2013
– Banks in the OECD	90,805	89,834	4,513	–6,130	2,198	–4,476
– Public-sector agencies in the OECD	66	114	0	–3	2	–8
– Other counterparties (including stock-exchange transactions)	13,653	14,185	551	–1,373	243	–999
Total	**104,524**	**104,133**	**5,064**	**–7,506**	**2,443**	**–5,483**

DERIVATIVE TRANSACTIONS – BY TERM

Nominal values in EUR millions	Interest-rate risks 31.12.2014	Interest-rate risks 31.12.2013	Currency risks 31.12.2014	Currency risks 31.12.2013	Credit derivatives 31.12.2014	Credit derivatives 31.12.2013
Remaining terms						
– up to 3 months	1,825	5,472	6,667	4,302	–	–
– up to 1 year	8,333	9,566	5,676	5,327	351	311
– up to 5 years	29,944	34,103	10,120	6,242	3,608	3,781
– more than 5 years	33,270	30,841	4,730	4,188	–	–
Total	**73,372**	**79,982**	**27,193**	**20,059**	**3,959**	**4,092**

There are no trading activities.

VALUING DERIVATIVE FINANCIAL INSTRUMENTS

The market valuation of derivatives is based on market data as at 31 December 2014, including yield curves, exchange rates, CDS spread curves and CFC, swaption and FX volatilities obtained by the Bank from external providers. The parameters required for our interest-rate structure models are, in part, obtained through calibration using historical time series (mean reversion parameters in Hull-White models, as well as correlation parameters).

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

INFORMATION ON TAX LIABILITIES

In accordance with the applicable German tax statutes (Art. 5, para. 1 section 2 KStG and Art. 3, section 2 GewStG), L-Bank is exempt from corporate income and trade tax.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2014

HOLDINGS PURSUANT TO ART. 285, SECTION 11 HGB/ART. 340A (4), SECTION 2 HGB

No.	Name/registered office	Direct shareholding in %	Equity* in EURk	Earnings* in EURk
1	Austria Beteiligungsgesellschaft mbH, Stuttgart	33.34	35,566	108
2	Baden-Württemberg International – Gesellschaft für internationale wirtschaftliche und wissenschaftliche Zusammenarbeit mbH, Stuttgart	24.00	3,518	–3,704
3	BrandMaker GmbH, Karlsruhe	35.65	–7,599	–5,853
4	CONTTEK Holding GmbH, Pforzheim	44.75	8,588	92
5	DBAG Expansion Capital Fund GmbH & Co. KG, Frankfurt am Main	22.68	7,292	–876
6	Digital Commerce Network GmbH, Karlsruhe	42.33	–632	–288
7	EB Automotive Group GmbH, Wallerstein	30.97	***	***
8	GUTEX Holzfaserplattenwerk H. Henselmann GmbH & Co. KG, Waldshut-Tiengen	36.50	24,966	4,923
9	H. Henselmann Verwaltungsgesellschaft mbH, Waldshut-Tiengen	36.57	415	8
10	iQuest Holding GmbH, Frankfurt am Main	27.83	766	495
11	MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH, Stuttgart	26.80	52,010	5,241
12	Micropelt GmbH, Freiburg	20.10	***	***
13	PT German Centre Indonesia II, Tangerang, Indonesia	98.42	489**	–220**
14	Rhitex-Bauplatten Gesellschaft mit beschränkter Haftung, Waldshut-Tiengen	36.55	96	5
15	SeeTec AG, Bruchsal	47.71	29	–1,978
16	Selbca Holding GmbH, Berlin	36.55	7,670	704
17	Staufen.AG Beratung Akademie Beteiligung, Köngen	25.10	5,197	–406
18	StEP Stuttgarter Engineering Park GmbH, Stuttgart	100.00	5,833	–1,028

HOLDINGS PURSUANT TO ART. 285, SECTION 11 HGB/ART. 340A (4), SECTION 2 HGB

No.	Name/registered office	Direct shareholding in %	Equity* in EURk	Earnings* in EURk
19	Strohheker Holding GmbH, Pforzheim	49.50	1,643	7
20	SYMPORE GmbH, Tübingen	34.98	***	***
21	Technologiepark Karlsruhe GmbH, Karlsruhe	96.00	10,604	1,249
22	Technologieparks Tübingen-Reutlingen GmbH, Tübingen	100.00	9,371	748
23	Wessel-Werk Beteiligungsverwaltung GmbH, Karlsruhe	35.00	***	***

* As at the last fiscal year available in each case.
** Conversion rate: 1 EUR = 15,099.7 IDR.
*** No annual financial statements were prepared due to insolvency.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2014

STATEMENT OF CHANGES IN FIXED ASSETS

Fixed assets Balance-sheet items	Acquisition costs 01.01.2014 EURk	Additions EURk	Retire-ments EURk	Transfers EURk	Write-ups, cumulative EURk	Depreciation, cumulative EURk	Book value 31.12.2014 EURk	Depreciation for the year 2014 EURk
Bonds, debentures and other fixed-interest securities	23,867,360	Net change pursuant to Art. 34 (3) clause 2 RechKredV: –2,426,767					21,628,127	–
Shareholdings	752,107						572,798	–1,173
Holdings in affiliated companies	29,534						21,309	–772
Intangible assets	28,496	2,340	–98	–	–	–20,553	10,184	–1,362
Fixed assets	219,289	6,549	–1,104	–	–	–116,619	108,116	–15,945
Other assets	14,654	22	–1	–	–	–22	14,653	–

REMUNERATION PAID TO MEMBERS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

Remuneration paid to members of the Board of Management Figures in EURk	Fixed remuneration	Performance-related remuneration	Other non-cash benefits	Payments from third parties in relation to Board of Management activities	Total
Christian Brand Chairman	237	119	11	44	411
Dr. Axel Nawrath Chairman	353	0	11	8	372
Prof. Dr. Manfred Schmitz-Kaiser Vice-Chairman	533	0	20	5	558
Dr. Karl Epple	410	0	25	10	444
Dr. Ulrich Theileis	482	0	19	3	504
Total	2,015	119	86	68	2,289

Performance-related remuneration of EUR 698,000 was paid out in 2014 for fiscal year 2013. In 2014, the members of the Board of Management received benefits totalling EUR 31,000 according to their entitlements under civil-service law.
A commitment has been made to the members of the Board of Management undertaking to pay a pension upon termination of their Board of Management contract.

REMUNERATION PAID TO MEMBERS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

Remuneration paid to members of the Supervisory Board Figures in EURk	Membership of Supervisory Board	Membership of committees	Attendance fees	Total
Dr. Nils Schmid* Chairman	9.0	3.9	1.1	14.0
Alexander Bonde* Vice-Chairman	7.5	3.9	0.5	11.9
Reinhold Gall* Vice-Chairman	7.5	3.9	0.9	12.3
Katrin Altpeter*	6.0		0.2	6.2
Leni Breymaier	6.0		0.6	6.6
Dr. Maximilian Dietzsch-Doertenbach	6.0	3.9	1.1	11.0
Roger Kehle	6.0		0.5	6.5
Gabriele Kellermann	6.0	2.4	1.1	9.5
Dr. Peter Kulitz	6.0		0.8	6.8
Klaus-Peter Murawski*	6.0		0.6	6.6
Dr. Dieter Salomon	6.0		0.3	6.3
Claus Schmiedel	6.0		0.3	6.3
Edith Sitzmann	6.0		0.5	6.5
Franz Untersteller*	6.0	2.4	0.6	9.0
Joachim Wohlfeil	6.0		0.5	6.5
Clemens Meister	6.0		0.8	6.8
Tatjana Aster	6.0		0.8	6.8
Thomas Dörflinger	6.0		0.8	6.8
Total	114.0	20.4	11.4	145.8

* Subject to a duty of surrender to the State of Baden-Württemberg.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2014

REMUNERATION PAID TO MEMBERS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD	31.12.2014 EURk	31.12.2013 EURk
– Payments to former members of the Board of Management or their surviving dependants	1,130	1,211
– Advisory Board remuneration (including travel costs)	155	149
– Pension provisions for former members of the Board of Management and their surviving dependants	17,249	12,707

LOANS TO EXECUTIVE BODIES (INCLUDING CONTINGENCIES AND COMMITMENTS)	31.12.2014 EURk	31.12.2013 EURk
– Board of Management	417	800

All loans earn interest at standard market rates.

AVERAGE NUMBER OF EMPLOYEES IN 2014	Male	Female	Total
Employees*	479	673	1,152
of whom: full-time employees	455	402	857
part-time employees	24	271	295

* Excluding vocational trainees and interns.

DIRECTORSHIPS HELD BY BOARD OF MANAGEMENT MEMBERS AND EMPLOYEES OF L-BANK PURSUANT TO ART. 340A, PARA. 4, SECTION 1 HGB

PROF. DR. MANFRED SCHMITZ-KAISER, VICE-CHAIRMAN OF THE BOARD OF MANAGEMENT

BioPro Baden-Württemberg GmbH, Stuttgart	Member of the Supervisory Board
BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	Member of the Supervisory Board
MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH, Stuttgart	Member of the Supervisory Board
Tourismus-Marketing GmbH Baden-Württemberg, Stuttgart	Vice-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
Business-Park Göppingen GmbH, Göppingen	Vice-Chairman of the Supervisory Board
Sächsische Aufbaubank – Förderbank, Dresden	Deputy Member of the Administrative Board

DR. ULRICH THEILEIS, MEMBER OF THE BOARD OF MANAGEMENT

Vorarlberger Landes- und Hypothekenbank AG, Bregenz	Member of the Supervisory Board

EXECUTIVE BODIES OF L-BANK

BOARD OF MANAGEMENT:

Christian Brand
Chairman until 30.06.2014

Dr. Axel Nawrath
Chairman since 01.07.2014

Prof. Dr. Manfred Schmitz-Kaiser
Vice-Chairman

Dr. Karl Epple

Dr. Ulrich Theileis

SUPERVISORY BOARD MEMBERS IN 2014

Regular members:

Dr. Nils Schmid MdL
Minister of Finance and Economic Affairs
– Chairman –

Alexander Bonde
Minister of Rural Affairs and Consumer Protection
- Vice-Chairman -

Reinhold Gall MdL
Minister of the Interior
– Vice-Chairman –

Katrin Altpeter MdL
Minister of Labour and Social Affairs, Family, Women and Senior Citizens

Leni Breymaier
Regional Manager, VER.DI Baden-Württemberg

Dr. Maximilian Dietzsch-Doertenbach
Managing Director, Doertenbach & Co. GmbH

Roger Kehle
President, Gemeindetag Baden-Württemberg e.V.

Gabriele Kellermann
Member of the Board, BBBank eG

Dr. Peter Kulitz
President, Ulm Chamber of Industry and Commerce
Managing Partner, ESTA Apparatebau GmbH & Co. KG

Klaus-Peter Murawski
State Secretary, Ministry of State

Dr. Dieter Salomon
Vice-President, Städtetag Baden-Württemberg e.V.

Claus Schmiedel MdL
Chairman, SPD parliamentary group

Edith Sitzmann MdL
Chairman, Alliance 90/The Greens parliamentary group

Franz Untersteller MdL
Minister of the Environment, Climate and Energy

Joachim Wohlfeil
President, Karlsruhe Chamber of Trades and Crafts

Consulting members:

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

Tatjana Aster
Chair, Staff Council of L-Bank, Karlsruhe

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

Alternate members:

Helmut Althammer
Managing Partner,
Althammer GmbH & Co. KG

Catharina Clay
Regional Manager,
IG BCE Baden-Württemberg

Dr. Roman Glaser
President, Baden-Württembergischer Genossenschaftsverband e.V.

Wilhelm Freiherr von Haller
Co-head of Private and Commercial Banking, Deutsche Bank AG

Peter Hofelich MdL

Jürgen Lämmle
Permanent Secretary, Minister of Labour and Social Affairs,
Family, Women and Senior Citizens

Andrea Lindlohr MdL
Vice-Chairman, Alliance 90/
The Greens parliamentary group

Helmfried Meinel
Permanent Secretary, Ministry of the Environment, Climate and Energy

Rainer Reichhold
President, Chamber of Trades and Crafts, Stuttgart region

Wolfgang Reimer
Permanent Secretary, Ministry of Rural Affairs and Consumer Protection

Ingo Rust MdL
State Secretary, Ministry of Finance and Economic Affairs

Dr. Florian Stegmann
Undersecretary,
Head of Dept. I, Ministry of State

Joachim Walter
President, Baden-Württemberg Association of District Councils

Dr. Herbert O. Zinell
Permanent Secretary, Ministry of the Interior

Other alternate members:

Matthias Bross
Senior Civil Servant
Head of Budgetary and Tax Policy, Real Estate and Investments, Ministry of State

Joachim Hauck
Assistant Secretary
Head of the Department of Agriculture, Ministry of Rural Affairs and Consumer Protection

Volker Jochimsen
Assistant Secretary
Head of Constitutional, Municipal, Savings Bank and Legal Affairs, Ministry of the Interior

Johann-Christoph Kleinschmidt
Undersecretary
Head of the Central Office, Ministry of Labour and Social Affairs, Family, Women and Senior Citizens

Walter Leibold
Assistant Secretary
Head of Financial Policy and Investments, Ministry of Finance and Economic Affairs

Jutta Lück
Assistant Secretary
Head of Administration, Ministry of the Environment, Climate and Energy

PROPOSAL BY THE BOARD OF MANAGEMENT FOR THE DISTRIBUTION OF NET INCOME

The Board of Management hereby proposes to the Supervisory Board that out of the net income for fiscal year 2014 totalling EUR 50,250,540.41, an amount of EUR 50,000,000.00 should be allocated to other retained earnings and the remaining amount of EUR 250,540.41 carried forward to the current fiscal year.

Karlsruhe, 24 February 2015

L-Bank

Dr. Axel Nawrath Prof. Dr. Manfred Schmitz-Kaiser Dr. Karl Epple Dr. Ulrich Theileis

DECLARATION OF THE BOARD OF MANAGEMENT REGARDING THE FINANCIAL STATEMENTS OF LANDESKREDITBANK BADEN-WÜRTTEMBERG – FÖRDERBANK AS AT 31 DECEMBER 2014

To the best of our knowledge, and in accordance with the applicable accounting and reporting principles, we confirm that the annual financial statements give a true and fair view of the Bank's assets, liabilities, financial position and profit or loss, and that the Management Report includes a true and fair review of the development and performance of the business and the position of the Bank, together with a description of the principal opportunities and risks associated with the Bank's expected development.

Karlsruhe, 24 February 2015

Dr. Axel Nawrath Prof. Dr. Manfred Schmitz-Kaiser Dr. Karl Epple Dr. Ulrich Theileis

AUDITOR'S REPORT

We have audited the financial statements – comprising the balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the accounts – as well as the accounting methods and Management Report of Landeskreditbank Baden-Württemberg – Förderbank, Karlsruhe, for the fiscal year from 1 January to 31 December 2014. The accounting methods and the preparation of financial statements and a Management Report in accordance with German commercial law are the responsibility of the corporation's management. Our responsibility is to express an opinion on the financial statements, including the accounting methods and Management Report, on the basis of our audit.

We conducted our audit of the financial statements in accordance with Art. 317 HGB (German Commercial Code) and generally accepted German standards for the audit of financial statements published by the IDW (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements, errors and irregularities materially affecting the presentation of the assets, liabilities, financial position and results of operations both in the financial statements, as per generally accepted accounting principles, and in the Management Report are detected with reasonable assurance. In determining the audit procedures, knowledge of the business activities and the economic and legal environment of the corporation, as well as the extent of possible accounting errors, are taken into account. Within the scope of the audit, the effectiveness of the accounting-related internal control systems and the evidence supporting the details in the books of account, financial statements and Management Report are examined predominantly on the basis of sampling. The audit includes an assessment of the accounting principles used, and material estimates made, by the corporation's management, as well as an appraisal of the overall presentation of the financial statements and the Management Report. We believe that our audit provides a sufficiently reliable basis for our opinion.

Our audit did not give rise to any reservations.

In our opinion, based on the findings of our audit, the financial statements comply with the statutory legal requirements and give a true view of the corporation's assets, financial position and results of operations in accordance with generally accepted accounting principles. The Management Report is consistent with the financial statements and, as a whole, provides a suitable view of the corporation's position, and accurately portrays the opportunities and risks of future development.

Stuttgart, 24 February 2015

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Frey
Auditor

Müller
Auditor

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