

ANNUAL REPORT 2013

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GREETINGS FROM THE CHAIRMAN OF THE BOARD



Dear Business Associates,

L-Bank recorded excellent results in both core areas of business during the period under review. With respect to our housing finance portfolio, we appear to be experiencing a turnaround after years of very subdued demand for our products. The federal state's redesigned housing assistance programme and energy-efficiency programmes have been a complete success. The fact that the volume of loans issued in 2013 grew by 51% speaks for itself. Finance for SMEs, which has been extremely popular for some years now, continued to expand in 2013.

As far as business development is concerned, in the future it will be more important than ever to support companies as they compete globally and work to build on their technological edge. Given the dynamic nature of new developments sweeping through certain sectors of the economy, we are justified in asking whether traditional funding instruments are still what businesses require, and whether they meet emerging investment needs. For example, at present the EU is once again attempting to stimulate an industrial renaissance, with the aim of raising industry's share of Europe's GDP to 20% by 2020. Germany, where industry accounts for around 25% of GDP, and Baden-Württemberg in particular – where the equivalent figure is approximately 34% and export activity is particularly strong – are both exceptionally well positioned in this respect. And yet industrial manufacturing, more than most other sectors, has been subjected to major changes over the last few years, forcing companies

in the federal state to work hard to maintain their position. The key challenge lies in managing industrial production by enabling plants, machines and products to communicate with each other over the Internet. Under popular headings such as Industry 4.0, New Industrial Revolution, Smart Factories and the Internet of Things, there is much discussion of, and research into, the future potential and prospects of these interconnected technologies – certainly they could play a key role in optimising production processes. At product level, the hope is that processes will shift further away from mass production towards products that are highly customised yet still affordable. L-Bank's technology parks and broad range of financial instruments mean that the Bank is the ideal partner for the pioneering companies embracing these changes. After all, even visionaries need reliable funding in order to transform their visions into reality.

And in fact, ensuring that banks continue to fulfil their roles as reliable financial partners is the aim – in a much more broadly defined sense – of banking regulation. As one of Germany's major development banks, L-Bank has been classed as one of the 24 systemically important institutions in the country. However, as a development bank, we have a very specific business model. In many areas, we are fundamentally different from commercial or full-service banks – in terms of our legal form, ownership structure, remit, liability mechanism and supervision, for example. It is important that this development bank model should not be restricted as a consequence of direct supervision by the ECB, as this would inevitably impact on funding. L-Bank is committed, together with the two other institutions affected and with the whole-hearted support of the Federal Association of German Public Banks, to a form of banking regulation that does full justice to the special characteristics of development banks. As far as L-Bank is concerned, the main priority is to ensure that the Bank can continue to fulfil its remit to the same standard and with the same broad scope as it has in the past – for the benefit of the federal state and the people who live and work there.



Christian Brand

Chairman of the Board of Management of L-Bank

MANAGEMENT REPORT – REPORT OF THE BOARD OF MANAGEMENT OF L-BANK FOR FISCAL YEAR 2013

BACKGROUND

L-Bank is the development bank of the German federal state of Baden-Württemberg. 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 has its head office in Karlsruhe, with a branch office in Stuttgart. The Bank is wholly owned by the State of Baden-Württemberg. As a public-law institution, L-Bank is subject to the supervision of the federal state government. In its capacity as a credit institution within the meaning of the German Banking Act (KWG), L-Bank is also supervised by Germany's Federal Financial Supervisory Authority (BaFin). Additionally, as announced by the European Central Bank (ECB) on 23 October 2013, L-Bank is one of the credit institutions that is expected to come under the direct supervision of the ECB in the near future.

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. Consequently, key

areas of L-Bank's business operations are heavily influenced by external factors and can therefore only be managed to a limited extent.

ECONOMIC REPORT

BASIC PARAMETERS

In the difficult international conditions that have prevailed in recent years, the German economy has proved to be very robust, showing persistent growth even at the height of the sovereign debt crisis between 2010 and 2012. According to the Federal Statistical Office, Germany's gross domestic product (GDP) increased by 0.4% in 2013 (as at January 2014). The labour market also remained stable in the year under review. Germany's unemployment rate had already fallen to its lowest level for 20 years in 2012, and at 6.9% in 2013, showed negligible year-on-year change (Federal Employment Agency, as at January 2014).

With an anticipated growth rate of 0.5%, Baden-Württemberg slightly outperformed Germany as a whole (Statistical Office of Baden-Württemberg, as at December 2013). This is due, in particular, to the fact that domestic demand for industrial products is gradually picking up speed again, with the automotive industry apparently emerging from its slump. Baden-Württemberg's unemployment figures were also better than those recorded for Germany as a whole, at just 4.1% (Statistical Office of Baden-Württemberg, as at January 2014).

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

BUSINESS DEVELOPMENT

As in the previous fiscal year, the main focus of L-Bank's development activities during the year under review was on measures to improve energy-efficiency in residential buildings and among SMEs. New business figures rose significantly, especially in relation to housing assistance. Furthermore, in the business development sector, L-Bank surpassed the already high levels of new business achieved in 2012. Overall, the Bank achieved its targets for the year.

Business development

L-Bank contributes to the continuing economic growth of, and thus the creation and safeguarding of jobs throughout, the State of Baden-Württemberg by providing support to business start-ups, existing small and medium-sized enterprises (SMEs), and agricultural businesses. This support takes the form of low-interest loans and grants, and also sees the Bank assume certain specific kinds of risk. The volume of new business in the business development sector in 2013 came to EUR 3,211.5 million, once again exceeding the previous year's level (EUR 3,057.6 million). The Bank focused on the implementation of energy-saving schemes and initiatives for SMEs.

With respect to new business start-ups, the Bank's "Start-up Finance" programme grew in particular, supporting new start-ups and fledgling companies as they establish themselves and start to consider expansion or acquisitions. Despite an overall decline in the number of new business start-ups in Baden-Württemberg and across Germany as a whole, the volume of funding increased from EUR 341.6 million to EUR 437.7 million.

New business figures for SME finance likewise increased from the previous year, up to EUR 2,398.0 million (2012: EUR 2,273.5 million). A key factor in this growth was the "Energy-Efficiency for SMEs" programme, which saw new business levels more than double compared to 2012. Interest-subsidised loans totalling EUR 730.0 million (2012: EUR 323.6 million) were issued to SMEs during 2013, with the aim of improving the energy-efficiency of these companies' premises and equipment. This increased lending volume was primarily due to the attractive conditions on offer. Furthermore, the programme was only launched on 1 April 2012; consequently the year under review was the first full 12-month period for which the volume of approvals could be properly assessed. This strong growth in the energy-efficiency programme more than made up for the 32.2% decline in approvals under the Bank's "Investment Finance" programme, which fell to EUR 215.2 million (2012: EUR 317.4 million) due to substitution effects in favour of the energy-efficiency programme. Meanwhile, the "Growth Finance" programme also performed very positively. L-Bank used this programme to provide SMEs with loans worth a total of EUR 925.9 million (2012: EUR 879.1 million) for such projects as expansion and the upgrading of operating plant and equipment. With interest rates on the capital market remaining low, companies showed a greater willingness to invest in such projects during the period under review. By contrast, considerably less use was made of the "Liquidity Facility" programme during the reporting period. The total funding provided under this programme was a mere EUR 117.2 million (2012: EUR 241.5 million), reflecting the fact that companies currently have less need of short-term liquidity, as well as measures introduced on 1 October 2012 restricting eligibility for the programme.

As far as agricultural programmes are concerned, the volume of new business, at EUR 148.8 million, was down on 2012 (EUR 182.3 million). This decline is mainly attributable to waning demand for the "New Energy – Energy from the Countryside"

programme, which supports energy production from renewable energy sources. The volume of approvals for the latter dropped to EUR 29.3 million (2012: EUR 59.0 million), a decline that can be explained by a degree of saturation in the photovoltaic and biogas sectors, not to mention uncertainty surrounding future regulation.

Housing development

L-Bank uses low-interest loans to help private individuals and companies in Baden-Württemberg build, buy and upgrade residential property for rental or owner occupation. The volume of approved applications rose by a significant 51.1% in 2013 to EUR 2,229.9 million (2012: EUR 1,476.1 million), due in no small part to the energy-efficiency funding programmes introduced in April 2012.

In terms of financial assistance for home ownership, the Bank approved new business totalling EUR 1,634.9 million (2012: EUR 1,232.2 million); a very positive development. This strong increase is partly attributable to the rise in funding approved under the federal state's housing assistance programme, with loans totalling EUR 273.4 million (2012: EUR 166.1 million) being issued. The abolition of the lending condition that acquired property be refurbished, as well as other adjustments to funding conditions compared to earlier years, had a major impact. At the same time, a significant increase in the funding approved under the Bank's energy-efficiency programmes contributed to the rise in home ownership assistance. Loans totalling EUR 575.6 million (2012: EUR 318.3 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 385.6 million (2012: EUR 293.3 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. This sharp rise is primarily due to the favourable financing conditions. Funding under the L-Bank's "Living with Children" programme, which helps families with children to build or buy their own homes, remained more or less on a par with the previous year, at EUR 279.3 million (2012: EUR 284.7 million).

The volume of funding for schemes relating to rental accommodation rose in 2013 to EUR 576.1 million (2012: EUR 237.9 million). The different programmes provide funding in support of the construction and modernisation of rental accommodation in Baden-Württemberg. Contrary to expectations, the volume of funding approved under the federal state's housing assistance programme dipped to EUR 6.6 million (2012: EUR 15.7 million). Demand actually increased due to significantly more attractive conditions compared with the previous year. However, the delay in approval of the state aid programme by the EU, which was not finalised until September 2013, meant that application processing was also held up. L-Bank's preferential finance programme for new builds, funded exclusively from the Bank's own resources, continued to be highly sought after, with the finance volume rising to EUR 78.4 million (2012: EUR 34.3 million). Other L-Bank funding programmes, which also reflected higher demand for energy-efficiency projects and conversion projects to make properties suitable for the elderly, totalled EUR 491.1 million (2012: EUR 187.9 million). This significant increase is due in part to a rise in the supplementary loans granted in combination with new build finance, as well as a one-off, large-scale project involving finance for a real-estate portfolio.

Following the preliminary phase in 2012, finance for apartment owners' associations has also proved increasingly successful. During the year under review, joint loans totalling EUR 18.8 million (2012: EUR 5.9 million) were taken up for the purposes of making apartment buildings for multiple families more energy-efficient or more accessible.

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 types of finance. 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 other infrastructure projects. In light of the general decline in public-sector demand, only EUR 968.3 million (2012: EUR 2,404.6 million) of funding was issued during the year under review.

As a service provider to the State of Baden-Württemberg, L-Bank is responsible for distributing and managing many different types of financial assistance. In 2013, the Bank processed 8,848 approved applications, amounting to EUR 1,046.8 million of funding (2012: EUR 908.5 million), of which the largest proportion (about 50%) related to finance for hospitals. All of the funds came from the budgets of the State of Baden-Württemberg, the German federal government and the EU. During the year under review, L-Bank paid out federal family allowances (EUR 749.4 million, 2012: EUR 688.1 million), state educational allowances (EUR 26.1 million, 2012: EUR 33.2 million) and – for the first time – childcare allowances (EUR 67.8 million) on behalf of the federal and state governments.

L-Bank's investment portfolio mainly includes strategic and credit-equivalent shareholdings in Baden-Württemberg companies, as well as shares in subsidiaries involved in the regional development of Baden-Württemberg. As at the balance-sheet date, the total book value of the portfolio was EUR 512.8 million (2012: EUR 524.7 million).

The book value of the strategic investments held by L-Bank on behalf of the State of Baden-

Württemberg totalled EUR 430.1 million (2012: EUR 457.1 million) at the year-end. The change compared to the previous year is essentially due to the sale of one investment.

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. Demand for L-EA Mittelstandsfonds products remained as high as ever. However, the favourable interest-rate environment means that companies have more financing options available to them, with the result that the investment volume, including subordinated loans, decreased to EUR 19.9 million (2012: EUR 56.7 million). As at the balance-sheet date, the portfolio comprised 22 commitments representing a total investment volume of EUR 159.0 million (2012: EUR 158.4 million). The book value of the shareholdings in the L-EA Mittelstandsfonds and additional credit-equivalent shareholdings totalled EUR 57.1 million (2012: EUR 42.6 million).

L-Bank operates technology and business parks in Karlsruhe, Stuttgart, Tübingen and Reutlingen through subsidiary companies. These parks support new start-ups from the higher-education sector, SMEs and companies that have just relocated to these towns and cities, by providing them with cost-effective premises. Alongside the technology and business parks, L-Bank also maintains a range of infrastructure projects, among them the office premises of PT German Centre Indonesia based in Jakarta, Indonesia. This company was sold during the year under review. For the purposes of continuing the German Centre concept, L-Bank set up a new company – PT German Centre Indonesia II – with a remit to provide SMEs with office premises tailored to their needs, thus supporting them as they gain a foothold in, and establish themselves on, the Indonesian market. As at 31 December 2013, the book value of companies involved in regional development was EUR 25.6 million (2012: EUR 25.0 million).

As part of the Bank's approach to asset/liability management, L-Bank continues to pursue a conservative investment strategy, rigorously focusing on borrowers with good and very good credit ratings. Securities with AAA and AA ratings account for almost 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 reported as interest expenses (as required under commercial law) and other development expenditure as a service to the State of Baden-Württemberg, hence as an appropriation of profits.

SUMMARY OF INCOME FROM AN OPERATIONAL PERSPECTIVE in EUR millions				
	01.01.2013 to 31.12.2013	01.01.2012 to 31.12.2012	Change	Change in %
Net interest income	414.0	437.8	-23.8	-5.4
Net commission income	41.2	39.1	2.1	5.4
Net result from other income/expenses	12.7	7.8	4.9	62.8
Administrative expenses	148.7	143.5	5.2	3.6
Operating result before risk provisions/ valuations	319.2	341.2	-22.0	-6.4
Income from asset revaluation	-25.4	8.5	-33.9	> -100.0
Addition to fund for general banking risks	50.0	46.0	4.0	8.7
Net income before taxes	243.8	303.7	-59.9	-19.7
Taxes on income	0.6	0.8	-0.2	-25.0
Distributable income	243.2	302.9	-59.7	-19.7
Expenses for interest subsidies and other subsidies	127.1	140.2	-13.1	-9.3
Contribution to road construction programme	15.3	15.3	0.0	0.0
Net income	100.8	147.4	-46.6	-31.6

As expected, net interest income was down during the year under review, reflecting the persistently low level of interest rates, falling by EUR 23.8 million or 5.4% to EUR 414.0 million. Nevertheless, it remains L-Bank's largest source of income.

Net commission income, at EUR 41.2 million (2012: EUR 39.1 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 child-care allowance) and the granting of financial aid (hospital funding, etc.). The increase of EUR 2.1 million in net commission income is mainly attributable to reduced commission expenses.

Administrative expenses, which include depreciation on tangible assets as well as personnel and general expenses, rose by 3.6% over the previous year to EUR 148.7 million (2012: EUR 143.5 million). The main reasons for this rise were increases in contractually agreed wages and the recruitment of extra staff, as well as expenses relating to the planned assumption of the supervisory function by the ECB.

Operating income before risk provisions/valuations was down by EUR 22.0 million overall, at EUR 319.2 million. Valuation expenses, at EUR 25.4 million, were up on the previous year, as expected (valuation income of EUR 8.5 million), due to higher allocations to risk provisioning. Net valuation income, as in the previous year, also includes the formation of reserves. EUR 50.0 million was allocated to the fund for general banking risks (2012: EUR 46.0 million). This meant that L-Bank's distributable income amounted to EUR 243.2 million (2012: EUR 302.9 million).

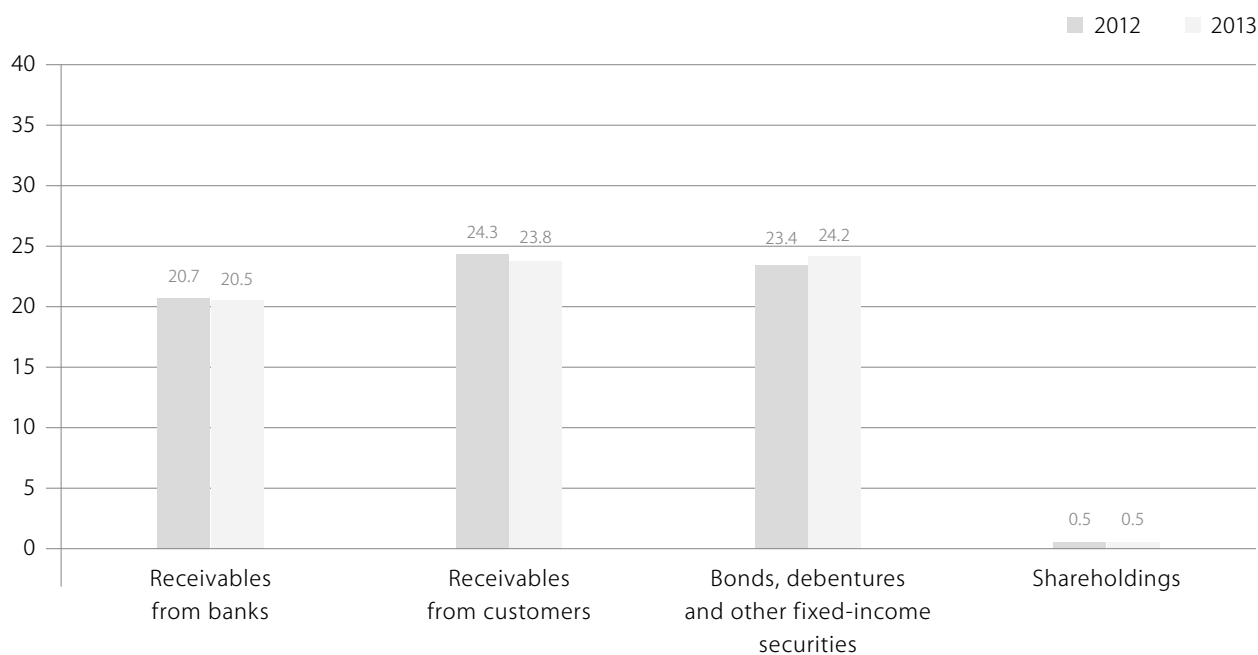
Out of the Bank's profit for the year, the State of Baden-Württemberg received a total of EUR 142.4 million (2012: EUR 155.5 million). Of this, EUR 127.1 million (2012: EUR 140.2 million) was spent on interest subsidies and grants. The Bank's contribution to Baden-Württemberg's road construction programme remained unchanged at EUR 15.3 million.

Net income totalled EUR 100.8 million (2012: EUR 147.4 million). Taking into account the profit carried forward from 2012, net profit amounted to EUR 101.1 million. The board is planning to allocate EUR 100.0 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 1.1 million.

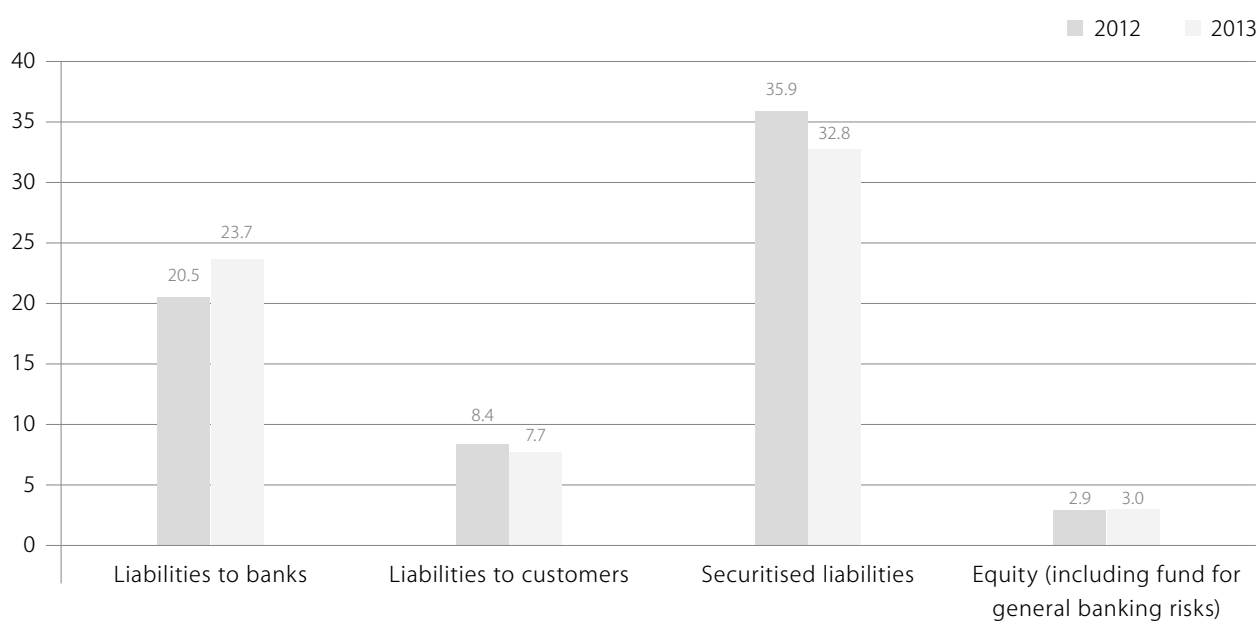
Assets and liabilities

In line with expectations, L-Bank's total assets remained more or less unchanged, totalling EUR 70,682.1 million (2012: EUR 70,629.8 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 securitised liabilities to liabilities to banks. While refinancing at banks increased by EUR 3,194.1 million or 15.6% to EUR 23,708.0 million, securitised liabilities were down by EUR 3,144.3 million or 8.8% to EUR 32,773.2 million.

SELECTED ITEMS INCLUDED UNDER ASSETS in EUR billions



SELECTED ITEMS INCLUDED UNDER LIABILITIES in EUR billions



The business volume, which also encompasses contingent liabilities and irrevocable loan commitments, was slightly down due to a decline in guarantee obligations as at the balance-sheet date, falling by 0.3% to EUR 79,391.8 million (2012: EUR 79,647.2 million).

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.

During the year under review, L-Bank was once again able to make selective 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 central instrument here is the Bank's Debt Issuance Programme, with a funding limit of EUR 30,000.0 million, of which EUR 18,728.1 million was utilised as at 31 December 2013 (2012: EUR 20,524.2 million). L-Bank issued one five-year EUR 1,000.0 million benchmark bond and one three-year USD 1,250.0 million benchmark bond in the year under review. In addition, the Bank issued private placements in various currencies, denominated primarily in US dollars, British pounds sterling and Japanese yen. L-Bank also issued a bond denominated in the Chinese renminbi for the first time, linked to the HIBOR reference rate set in Hong Kong. In 2013, the total volume of medium and long-term refinancing through borrowings on the capital markets came to EUR 7,475.5 million (2012: EUR 9,405.3 million).

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 8,572.8 million (2012: EUR 9,179.7 million).

For certain development programmes, L-Bank also made use of refinancing products available from other development institutions such as 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 German Solvency Regulation (SolvV). The following table provides a breakdown of the Bank's equity as at 31 December 2013, prior to approval of the annual financial statements by L-Bank's Supervisory Board.

EQUITY INSTRUMENTS in EUR millions	
Core Tier I capital after deductions	2,804.9
Supplementary capital after deductions	823.1
Total modified available capital pursuant to Art. 10, para.1d KWG and eligible Tier 3 capital pursuant to Art. 10, para. 2c KWG	3,628.0

SUMMARY OF THE BANK'S BUSINESS DEVELOPMENT AND POSITION

Overall, taking into account developments in the volume of new business, L-Bank's 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, including temporary workers and interns, totalled 1,252 (2012: 1,235). Additional staff were hired by the various development business units, in particular, in order to meet the rise in demand for development programmes and manage additional services on behalf of the State of Baden-Württemberg.

The staff turnover rate at the Bank, at 1.7%, was significantly lower than in 2012 (4.8%). The average age of Bank employees, at 45.8 (2012: 45.4), was largely unchanged. At 17.0 years, the average length of service rose slightly compared to the previous year (16.7 years).

The total proportion of female employees in the workforce was 58.3% (2012: 57.0%), meaning that the ratio of women to men remained consistently high. 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. L-Bank employed 77 women managers during the year under review, which equates to a ratio of 34.2% (2012: 34.4%). In terms of senior management reporting directly to the Board, the ratio of female staff was almost as high, at 33.3% (2012: 34.8%).

As at 31 December 2013, L-Bank had 38 trainees in the workforce (2012: 40), the majority of whom were completing degree courses at the Baden-Württemberg Cooperative State University in Karlsruhe and Stuttgart. The students generally achieve good or very good results upon completion of their studies, with the result that all of the trainees who graduated during the year under review were hired.

In order to help staff to find an appropriate balance between work and family life, L-Bank offers flexible working hours and takes employees'

individual working time preferences into consideration. In 2013, 25.3% of the Bank's staff worked part-time (2012: 25.8%). In addition, L-Bank provides assistance in the form of childcare provision, and also offers advisory and agency services to employees in need of childcare or support for elderly relatives.

The Bank's remuneration systems are designed in such a way as not to encourage staff to assume disproportionately high levels of risk, in compliance with the German Remuneration Ordinance for Institutions (InstitutsVergV). L-Bank has complied with its reporting obligations regarding transparency of remuneration by drawing up a detailed Remuneration Report. This is available on the Bank's website in accordance with the disclosure rules set out in Art. 26a KWG.

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 approach 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.

Based on an in-depth analysis of the Bank's activities to date, L-Bank developed a sustainability management system during the year under review, for use in measuring and thus managing the Bank's sustainable development. In order to clearly define the Bank's understanding of sustainability, the Board of Management and the Staff Council jointly formulated and issued the L-Bank Sustainability Code. The Board has also adopted sustainability guidelines with the aim of giving a proper structure to the Bank's sustainability activities and setting strategic targets.

L-Bank is committed to achieving the target set out in the Baden-Württemberg Climate Protection Act that all of the Bank's business operations should be climate-neutral by 2040.

A newly structured reporting system covering the non-financial impacts of L-Bank's business activities has a key role to play in this regard. The Bank worked to establish the key report content during the previous year under review, and aims to publish the report for the first time in 2014. In recognition of the particular significance of ecological issues, work also began in the year under review on the implementation of an environmental management system at L-Bank that is certified to international standards. This system commits the Bank to reviewing the environmental impact of all business processes on a regular and systematic basis, identifying weak points and devising appropriate corrective actions in the interests of continuous improvement.

SUPPLEMENTARY REPORT

No other incidents or events of particular significance occurred after the fiscal year-end on 31 December 2013.

OUTLOOK

With economic growth in the eurozone picking up again, the German Council of Economic Experts expects Germany's GDP to grow by 1.6% in 2014 (as at November 2013). The stable situation on the labour market is also expected to continue. L-Bank shares the Council of Economic Experts' view that employment levels will rise slightly.

As far as Baden-Württemberg is concerned, the Regional Statistical Office is predicting economic growth of around 1.75% in 2014 (as at December 2013). This forecast is based on the more favourable international economic climate and positive condi-

tions for domestic demand. On this basis, L-Bank expects to see continuing improvement in Baden-Württemberg's labour market, with the number of people in employment in the federal state rising by around 1.0%.

As the economic environment in Germany and Europe stabilises, L-Bank is forecasting a slight drop in operating income before risk provisions/valuations in 2014. This is essentially due to the assumption that interest rates will remain more or less unchanged in 2014, causing net interest income to decline on a similar scale to the previous year. There will be a clear deterioration in the net result from other income/expenses in the absence of, in particular, income from the provision of services for third parties. At the same time, L-Bank is expecting general expenses to increase significantly. This is partially as a result of implementing necessary IT projects, including projects associated with migration, with the SWIFT international payment transactions system, and with EU policies for e-Cohesion (electronic exchange of information between beneficiaries and EU programme bodies). Building work on the Bank's premises is also set to push up costs. Otherwise, L-Bank is expecting net valuation income to grow significantly, even taking into account the planned formation of reserves.

There is unlikely to be any significant change in total assets in 2014 compared to the year under review.

In terms of refinancing, the Bank expects to be able to continue to raise funds on the capital markets without any problems thanks to the Bank's very good credit rating. The Bank is well placed on the national and international money and capital markets, with good diversification. Consequently, there will be little change compared to 2013.

Once again, supporting the business development of SMEs in Baden-Württemberg will be a key aspect of L-Bank's activities in 2014. The plan is

to continue to provide financial support through existing programmes, with a particular focus on energy-efficiency measures. In this way, L-Bank will continue to play a part in bringing about the green-energy revolution in Baden-Württemberg. Given the very strong development of these programmes in recent years, L-Bank expects to see the volume of new business in this sector dip slightly over the coming year.

The volume of new business in the housing development sector is expected to remain high in 2014, buoyed by the positive developments in 2013, especially in the federal state's housing assistance programme and programmes for financing energy-efficiency measures. The home ownership assistance structures established within the state housing assistance programme during the year under review have proven their worth and are therefore to be retained. This also applies to the new rental accommodation measures. Because some of the funding applications submitted in 2013 were only approved in 2014 as a consequence of legal uncertainties relating to state aid, the volume of new approvals will be significantly higher than in 2013. With respect to finance for apartment owners' associations, the Bank is planning to offer products with longer terms alongside the ten-year version that is currently provided. This means that new business commitments in this segment are likely to at least match 2013 levels.

Overall, L-Bank is forecasting the same high level of new business in 2014. Compared to the year under review, L-Bank is not expecting any significant impairments of the Bank's income, assets or financial position in 2014. According to a letter sent by the ECB on 23 October 2013, L-Bank is likely to come under the direct supervision of the ECB in the next reporting period due to the Bank's volume of total assets. In connection with this development, L-Bank is expecting high volumes of information requests and audit measures on the part of the supervisory authorities.

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 the Bank to:

- assess the Bank's overall risk exposure at any time,
- immediately identify, value, communicate and control material individual risks and
- 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,
- full documentation in writing of the Bank's corporate structure and all business processes involving risks,
- creating and continuously updating risk management and risk control processes and
- ongoing process-dependent as well as process-independent monitoring of all the Bank's processes.

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. 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 individual 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 targets for Tier I capital and the cost-income ratio, 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 shareholdings 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 credit 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. 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 its view of interest rate developments to generate predictable levels of income with acceptable levels of risk. The underlying view of interest rate developments is 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 liquidity 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 the 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".

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 German Solvency Regulation (SolvV) is taken into account. For reasons of prudence, the Bank uses a higher overall ratio of 8.4% to calculate the amount of capital required for regulatory compliance. 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 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. Anticipated losses are already covered by the Bank's compliance with regulatory capital adequacy requirements: any remaining economic risk coverage capital is used to offset unanticipated losses.

Value-at-risk 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 value-at-risk limits represents the aggregate loss ceiling as defined by the Bank, which, in view of the requirement to secure the Bank's long-term survival, may not exceed 80.0% of the Bank's risk coverage capital. These limits are monitored on an ongoing basis, which also helps to safeguard the Bank's risk-bearing capacity.

The following table illustrates the development of the respective 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

REGULATORY CAPITAL ADEQUACY REQUIREMENTS				
Regulatory capital ratios	31.03.2013	30.06.2013	30.09.2013	31.12.2013
Risk exposure in EUR millions	18,052.5	18,160.0	17,778.8	17,892.5
Tier I capital in EUR millions	2,607.6	2,809.4	2,808.0	2,804.9
Tier I capital requirement in EUR millions	775.6	814.4	792.0	754.0
Disposable Tier I capital in EUR millions	1,832.0	1,995.0	2,016.0	2,050.9
Equity in EUR millions	3,347.9	3,574.5	3,563.6	3,628.0
Tier I capital ratio in %	14.4	15.5	15.8	15.7
Total capital ratio in %	18.5	19.7	20.0	20.3

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.

As at the balance-sheet date, with disposable Tier I capital amounting to EUR 2,050.9 million, a profit (before additions to reserves pursuant to Art. 340g HGB) for the preceding year of EUR 151.1 million, and eligible reserves totalling around EUR 109.9 million, the Bank's P&L-based risk coverage capability amounted to EUR 2,311.9 million. This risk coverage capability is counter-balanced by the aggregate loss ceiling of EUR 1,000.0 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 31.12.2013 in EUR millions	
	Limit
Aggregate loss ceiling	1,000.0
Counterparty default risks	600.0
Market price risks	235.0
Liquidity risks	65.0
Operational risks	7.0
Real property risks	20.0
Modelling risks	60.0
Immaterial business transactions	7.0
Buffer	6.0
Proportion of risk coverage capital taken up by aggregate loss ceiling in %	43.3

Thus the aggregate loss ceiling accounted for 43.3% of the Bank's economic risk coverage capability as at the balance-sheet date. Over the past fiscal year, this proportion has varied between 42.4% and 45.4%.

Liquidation approach

In a further calculation, the value of the Bank as a 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 4,872.0 million, taking hidden liabilities into account. This is offset by imputed personnel and general expenses totalling EUR 241.6 million, plus imputed risk provisioning costs of EUR 312.1 million and negative market values of EUR 10.5 million, resulting in a value-based risk coverage capability of EUR 4,307.7 million. As at the balance-sheet date, 97.7% of this was taken up by value at risk totalling EUR 4,007.6 million and liquidation costs of EUR 200.0 million. Utilisation of the value-based aggregate loss ceiling ranged between 46.2% and 51.3% during the first half of the past fiscal year,

and between 90.0% and 97.7% over the second half of the year. This increase can be attributed to adjustments made to the model on 30 June 2013, which – among other things – increased the confidence level for calculating risks from 99% to 99.98%.

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. L-Bank is assuming that 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 regardless of 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

Value-at-risk 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. To minimise the risk of model-driven misjudgements of the Bank's risk exposure, 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.

In 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 currently 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. With an eye to Baden-Württemberg's economic structure, 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 European 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, or related to the borrower's credit standing or particular circumstances, or political in nature.

The active management of counterparty default risk begins with the voting 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 and
- a review of the need to implement a new product process.

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 to the following table.

CREDIT RATING POLICIES	
Business segments	Risk categories
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 (asset-backed securities)	1 and 2
Interest rate derivatives without collateral	1 to 3
Interest rate derivatives with collateral	1 to 5
Credit derivatives	1 to 5
Countries (currency transfer risk)	1 to 12 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 following table shows the composition of the loan portfolio by product type:

LOAN PORTFOLIO AS AT 31.12.2013 in EUR millions						
	Private clients	Companies and self-employed persons	Companies in the financial sector	Public sector	L-Bank total	Allocation in %
Loans	6,373.7	9,259.9	14,109.8	1,264.4	31,007.8	42.8
Borrowers' notes	0.0	155.0	4,204.5	6,240.5	10,600.0	14.6
Securities (bearer bonds)	0.0	742.7	9,581.1	12,187.1	22,510.8	31.1
Securities (Asset-backed securities)	0.0	0.0	186.1	0.0	186.1	0.3
Securities (credit-linked notes)	0.0	0.0	602.2	0.0	602.2	0.8
Total securities	0.0	742.7	10,369.4	12,187.1	23,299.2	32.2
CDS	0.0	10.0	160.0	3,922.1	4,092.1	5.7
Sureties	0.0	523.8	873.6	18.3	1,415.8	2.0
Financial derivatives	0.0	11.6	727.0	0.4	739.0	1.0
Time deposits	0.0	0.0	24.5	0.0	24.5	0.0
Shareholdings	0.0	180.8	302.0	30.1	512.8	0.7
Current accounts, cash	0.0	2.4	529.8	183.3	715.6	1.0
Total	6,373.7	10,886.2	31,300.6	23,846.3	72,406.8	100.0

Quantitative assessment of value-at-risk calculations

Risks on unanticipated losses are restricted by applying the value-at-risk 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% or 99.98%. These estimates also take into consideration correlations with the borrowers' respective home countries.

Since 30 June 2013, risk assessment has also taken 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 associated with currency transactions 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 2013:

VALUE AT RISK FOR COUNTERPARTY DEFAULT RISKS IN 2013 in EUR millions										
	01.01.2013		31.03.2013		30.06.2013		30.09.2013		31.12.2013	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	645.6	940.0	593.8	940.0	427.3	1,000.0	327.0	1,000.0	334.9
Share of counterparty default risks in %	63.8	63.8	63.8	65.7	63.8	61.9	60.0	78.5	60.0	74.4
Counterparty default risks	600.0	411.7	600.0	390.2	600.0	264.7	600.0	256.6	600.0	249.0
Private clients	10.0	5.4	10.0	4.9	50.0	31.2	50.0	29.3	50.0	45.0
Companies in the financial sector	225.0	183.5	225.0	160.4	185.0	56.3	185.0	51.0	185.0	52.1
Other companies	275.0	178.2	275.0	182.4	275.0	157.4	275.0	157.1	275.0	133.0
Public sector	90.0	44.6	90.0	42.4	90.0	19.7	90.0	19.2	90.0	18.8

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 Solvency

Regulation (SolvV). Any valuation adjustments that are not deducted from book values when calculating the required capital remain available to L-Bank as risk coverage capital under the going-concern approach (e.g. 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 Solvency Regulation and taking netting and collateral agreements into account.

VALUE ADJUSTMENT RATIOS AS AT 31.12.2013 in EUR millions

	Private clients		Corporate clients		Companies in the financial sector		Public sector		Total		Ratio in %
	Adjustm.	Portfolio	Adjustm.	Portfolio	Adjustm.	Portfolio	Adjustm.	Portfolio	Adjustm.	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
31.03.2013	92.1	6,649.9	490.5	10,849.4	31.6	31,424.9	0.0	23,504.5	614.2	72,428.7	0.8
30.06.2013	90.9	6,649.9	450.0	10,849.4	31.6	31,425.2	0.0	23,504.5	572.5	72,429.0	0.8
30.09.2013	84.7	6,463.6	456.2	10,748.8	31.6	31,203.3	0.0	23,424.7	572.5	71,840.4	0.8
31.12.2013	82.2	6,373.7	442.8	10,886.2	31.6	31,300.6	0.0	23,846.3	556.6	72,406.8	0.8

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.

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. 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.

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	100	100
External		AA+		A		BBB			BB-	B	CCC+	CC	Default	Default
	AAA	AA	A+	A-	BBB+	BBB-	BB+	BB	B+	B-	CCC	C		
		AA-									CCC-			
	Investment grade						Non-investment grade							

The following table shows the risk portfolios for each of the Bank's business units.

RISK STRUCTURE OF THE LOAN PORTFOLIO AS AT 31.12.2013 in EUR millions						
	Private clients	Companies in the financial sector	Other companies and self-employed persons	Public sector	L-Bank total	Allocation in %
Risk category 1	2,404.8	10,153.2	4,548.3	19,306.5	36,412.9	50.3
Risk category 2	13.5	3,703.6	472.2	3,883.8	8,073.2	11.1
Risk category 3	0.0	4,980.9	792.4	31.7	5,805.0	8.0
Risk category 4	3,337.0	10,660.3	1,896.3	0.0	15,893.6	22.0
Risk category 5	100.5	850.8	936.2	451.6	2,339.2	3.2
Risk category 6	436.8	418.6	590.1	86.3	1,531.7	2.1
Risk category 7	0.1	172.7	519.1	86.4	778.3	1.1
Risk category 8	0.2	294.0	236.0	0.0	530.2	0.7
Risk category 9	0.0	64.6	306.3	0.0	370.9	0.5
Risk category 10	0.0	0.0	189.0	0.0	189.0	0.3
Risk category 11	24.0	0.0	26.8	0.0	50.8	0.1
Risk category 12	27.5	0.0	145.1	0.0	172.6	0.2
Risk category 13	0.0	0.0	123.0	0.0	123.0	0.2
Risk category 14	29.2	1.9	105.3	0.0	136.4	0.2
Total	6,373.7	31,300.6	10,886.2	23,846.3	72,406.8	100.0

The total exposure shown above, amounting to EUR 72,406.8 million, includes securities and CDS totalling EUR 27,391.3 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. Due to anticipated permanent impairments, L-Bank has written down securities in the amount of EUR 1.6 million. The general value adjustment of EUR 30.0 million on the un-

collateralised securities portfolio of the PIIGS states was retained. 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 31.12.2013** in EUR millions

Risk category	Portfolio	Hidden liabilities	Spread risks
1	19,306.0	123.1	1,005.1
2	3,376.2	15.7	69.2
3	479.0	0.5	8.8
4	1,809.7	5.3	35.5
5	1,412.1	6.2	38.4
6	504.0	1.0	3.8
7	355.3	2.6	4.2
8	99.3	2.3	1.5
9	49.6	12.1	7.4
10 to 14	0.0	0.0	0.0
Total	27,391.3	168.8	1,173.9

Monitoring of problem loans

L-Bank defines problem loans as loans where there are strong indications that in order to avert or minimise losses, actions may be necessary that go beyond the normal scope of loan administration 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 low credit ratings (risk category 9 or worse). L-Bank distinguishes between problem loans to companies that are being restructured (risk categories 9 to 13) and problem loans to companies at the workout stage (risk category 14).

As at 31 December 2013, the Bank's portfolio of problem loans amounted to EUR 1,123.4 million. This was distributed across the Bank's business units as shown below.

PROBLEM LOAN PORTFOLIO AS AT 31.12.2013 in EUR millions

	Risk portfolio Total	Problem loan portfolio		Restructuring	Workout	Workout ratio in %	Value adjustments
		Total	in %				
Private clients	6,373.7	246.8	3.9	190.7	56.1	0.9	82.2
Companies in the financial sector	31,300.6	66.5	0.2	64.6	1.9	0.0	31.6
Other companies and self-employed persons	10,886.1	810.1	7.4	706.9	103.2	0.9	442.8
Public sector	23,846.3	0.0	0.0	0.0	0.0	0.0	0.0
Total	72,406.8	1,123.4	1.6	962.2	161.2	0.2	556.6

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 onsite inspections. Due to the general conditions in the housing development market, a proportion of around 43.3% is secured independently of real-estate loans. Instead, collateral takes 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. 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 58.6% 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 31.12.2013

Rank	Portfolio in EUR millions	Proportion of total portfolio in %
1	499.1	4.9
2	2,806.2	27.4
3	1,112.0	10.9
4	1,576.2	15.4
5	1,391.8	13.6
6	932.2	9.1
7	763.0	7.5
8	1,150.2	11.2
Total	10,230.7	100.0

Guarantees are subject to another collateral-related concentration risk. Of the guarantees received (without public guarantee or maintenance obligation) worth around EUR 9,144.1 million, the State of Baden-Württemberg accounts for some EUR 7,627.3 million. Due to the credit standing of the State of Baden-Württemberg, L-Bank regards this risk as negligible. Another EUR 947.3 million is associated with sureties/guarantees provided by other local authorities in Germany. A total of EUR 569.5 million is based on sureties/guarantees provided by private individuals, companies, banks, public-sector bodies in Germany that are not 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 29,844.4 million). The Bank's obligation to issue development loans through borrowers' banks meant that L-Bank's exposure to these banks amounted to EUR 13,094.2 million as at 31 December 2013. These lendings to banks are secured by

claims on end-clients. Another EUR 1,484.3 million is attributable to the fact that L-Bank has underwritten the commercial banks' exposure to end-client risk. This means that around 48.9% of the Bank's total lending commitment relates to business development. EUR 15,265.9 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. From this amount of EUR 15,265.9 million, EUR 10,943.1 million is secured by the public guarantee/maintenance

obligation, and EUR 1,130.4 million against Pfandbriefe. Of the remaining EUR 3,192.4 million, roughly 91.0% is assigned to risk categories 1 to 4. Approximately 8.5% is allocated to risk categories 5 to 8. Just 0.5% is allocated to risk categories 9 and 10.

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 87.6% of the risk portfolio is assignable to Germany, of which 63.0% relates to the federal state of Baden-Württemberg and the Free State of Saxony.

REGIONAL STRUCTURE OF THE LOAN PORTFOLIO AS AT 31.12.2013 in EUR millions

	Private clients	Companies in the financial sector	Other companies and self-employed persons	Public sector	L-Bank total	Allocation in %
Germany total	6,373.2	26,223.4	10,591.1	20,241.2	63,428.9	87.6
Belgium	0.0	10.0	0.3	202.6	212.8	0.3
Finland	0.0	0.0	0.0	301.4	301.4	0.4
France	0.3	572.8	27.5	422.4	1,023.0	1.4
Greece	0.0	0.0	0.0	0.0	0.0	0.0
Ireland	0.0	542.0	0.0	0.0	542.0	0.7
Italy	0.0	174.6	0.0	451.6	626.2	0.9
Luxembourg	0.0	67.5	10.0	0.0	77.5	0.1
Netherlands	0.0	707.9	48.9	463.9	1,220.7	1.7
Austria	0.0	578.2	65.2	744.4	1,387.8	1.9
Portugal	0.0	0.0	19.7	86.4	106.1	0.1
Spain	0.0	519.1	0.0	86.3	605.4	0.8
Denmark	0.0	131.4	0.0	251.4	382.8	0.5
Great Britain*	0.0	611.8	6.6	172.6	790.9	1.1
Switzerland	0.2	208.2	60.7	40.8	309.8	0.4
Rest of Europe	0.0	28.3	0.0	381.4	409.6	0.6
Europe total	0.5	4,151.6	238.8	3,605.1	7,995.9	11.0
USA	0.0	259.4	54.8	0.0	314.2	0.4
Other countries	0.0	666.3	1.5	0.0	667.8	0.9
Overseas total	0.5	5,077.2	295.1	3,605.1	8,977.9	12.4
Total	6,373.7	31,300.6	10,886.2	23,846.3	72,406.8	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 PIIGS nations stood at approximately EUR 1,879.6 million as at 31 December 2013. Of this, some EUR 488.4 million (26.0%) is secured against public-sector Pfandbriefe, Pfandbriefe or covered bonds. Roughly EUR 624.3 million (33.2%) is payable by national governments. Around 29.9% or EUR 561.2 million is associated with uncollateralised securitised loans. Unsecured claims against banks amount to around EUR 125.0 million (6.6%) 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.

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 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 and is managed primarily by means of interest rate swaps and cross-currency interest rate swaps. As at 31 December 2013, the portfolio of interest

rate swaps (including swaptions) had a nominal value of EUR 79,982.1 million. Cross-currency interest rate swaps had a nominal value of EUR 13,512.1 million. Economic hedging relationships are reported in the balance sheet in the form of valuation units as defined in Art. 254 HGB, adhering to Art. 256 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 value-at-risk 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 confidence level of 99% or 99.98% and a holding period of 250 days have also been used since 30 June 2013 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 have been shown on a period-specific basis since 30 June 2013. The following table shows the parameters that are being used for the current calculations:

PARAMETER SETTINGS USED IN HISTORICAL SIMULATIONS

	Holding period	Historical observation period	Confidence level	Application
Absolute interest rate changes	10 and 25 trading days	250 trading days	99.00 %	Daily limit monitoring
Relative interest rate changes	10 and 25 trading days	250 trading days	99.00%	Daily limit monitoring
Absolute interest rate changes, mirrored	10 and 25 trading days	250 trading days	99.00%	Daily limit monitoring
Relative interest rate changes, mirrored	10 and 25 trading days	250 trading days	99.00%	Daily limit monitoring
Weighted interest rate changes	10 and 25 trading days	250 trading days	99.00%	Daily limit monitoring
Absolute interest rate changes	250 trading days	2,500 trading days	99.00%	RBC, going-concern, period-specific
Relative interest rate changes	250 trading days	2,500 trading days	99.00%	RBC, going-concern, period-specific
Absolute interest rate changes, mirrored	250 trading days	2,500 trading days	99.00%	RBC, going-concern, period-specific
Relative interest rate changes, mirrored	250 trading days	2,500 trading days	99.00%	RBC, going-concern, period-specific
Absolute interest rate changes	250 trading days	5,000 trading days	99.98%	RBC, gone-concern
Relative interest rate changes	250 trading days	5,000 trading days	99.98%	RBC, gone-concern
Absolute interest rate changes, mirrored	250 trading days	5,000 trading days	99.98%	RBC, gone-concern
Relative interest rate changes, mirrored	250 trading days	5,000 trading days	99.98%	RBC, gone-concern

The following table provides an overview of the proportion of the aggregate loss ceiling taken up by market price risks in the course of 2013:

VALUE AT RISK FOR MARKET PRICE EXPOSURE IN 2013 in EUR millions										
	01.01.2013		31.03.2013		30.06.2013		30.09.2013		31.12.2013	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	645.6	940.0	593.8	940.0	427.3	1,000.0	327.0	1,000.0	334.9
Share of market price exposure in %	18.6	20.4	18.6	20.6	18.6	21.4	23.5	3.6	23.5	8.0
Market price risks	175.0	131.6	175.0	122.1	175.0	91.6	235.0	11.7	235.0	26.8

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, and 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. 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 31.12.2013	Maximum 16.01./ 31.01.2013	Minimum 02.05.2013	2013 average
Loss of net present value in EUR millions	424.4	558.0	380.8	446.7
Percentage of liable equity capital pursuant to Art. 10 KWG	11.7	16.4	10.6	12.7

Managing market price risks

The value-at-risk (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 value-at-risk 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 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 value at risk.

VALUE AT RISK FOR REFINANCING RISK IN 2013 in EUR millions

	01.01.2013		31.03.2013		30.06.2013		30.09.2013		31.12.2013	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	645.6	940.0	593.8	940.0	427.3	1,000.0	327.0	1,000.0	334.9
Share of liquidity risk in %	6.9	5.2	6.9	3.1	6.9	5.2	6.5	3.0	6.5	3.0
Liquidity risks	65.0	33.3	65.0	18.4	65.0	22.2	65.0	9.9	65.0	10.0

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 2.5. The mean liquidity ratio over the year was 3.0.

LIQUIDITY RATIO IN 2013 PURSUANT TO THE LIQUIDITY REGULATION	
Month	Liquidity ratio
January	3.8
February	3.3
March	2.4
April	4.3
May	3.1
June	3.4
July	2.7
August	3.3
September	2.7
October	2.7
November	2.3
December	2.5
Average ratio	3.0

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 eight 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 one to seven) 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 eight to 30, the Bank assumes that the maximum amount of the maximum monthly permissible liquidity threshold (less the liquidity requirement for days one to seven), 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 three to ten. When producing this liquidity forecast, the Bank assumes that contractual maturities will apply. For future interest rate adjustments relating to housing development, 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.

LIQUIDITY BUFFER SUBJECTED TO STRESS SCENARIOS AS AT 31.12.2013 in EUR millions				
	Liquidity forecast	Stress scenario		
		In-house causes	Market causes	In-house and market causes combined
Day 1 to Day 7				
Liquidity buffer	11,372.2	11,372.2	10,924.3	10,924.3
Liquidity requirement	984.7	1,131.9	999.2	1,146.5
Disposable liquidity buffer	10,387.5	10,240.3	9,925.1	9,777.9
Day 8 to Day 30				
Liquidity buffer	14,770.6	14,623.3	14,008.1	13,860.9
Liquidity requirement	9,515.3	9,515.3	9,515.3	9,515.3
Disposable liquidity buffer	5,255.3	5,108.0	4,492.8	4,345.5

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 limited 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.

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.

VALUE AT RISK FOR OPERATIONAL RISK IN 2013 in EUR millions

	01.01.2013		31.03.2013		30.06.2013		30.09.2013		31.12.2013	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	645.6	940.0	593.8	940.0	427.3	1,000.0	327.0	1,000.0	334.9
Share of operational risk in %	0.7	1.0	0.7	0.7	0.7	0.9	0.7	1.2	0.7	1.2
Operational risks	7.0	6.5	7.0	4.4	7.0	3.8	7.0	3.8	7.0	3.9

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, rigorous selection criteria for new recruits, plus an IT permissions management system that excludes conflicts of interest between incompatible activities). 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 the Minimum Requirements for Risk Management (MaRisk) and in accordance with the Public Corporate Governance Code of the State of Baden-Württemberg, the Bank set up a compliance department during the year under review and appointed a compliance officer. 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 officer'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 sub ledgers 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 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, a report summarising the results of internal audits, the annual compliance report, and a report on the structure of L-Bank's remuneration systems.

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, carried out the statutory annual audit for fiscal year 2013, issuing an unqualified auditor's opinion. The auditor took part in discussions of the 2013 annual financial statements by the Supervisory Board, Audit Committee and Risk 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 9 April 2014, the Supervisory Board examined and approved the Bank's annual financial statements for fiscal year 2013 and took note of the Management Report.

The Supervisory Board approved the Board of Management's proposal to allocate EUR 100,000,000.00 of the net income for fiscal year 2013 (totalling EUR 101,062,363.55) to other retained earnings and to carry forward the remaining amount of EUR 1,062,363.55.

Stuttgart, 9 April 2014

A handwritten signature in black ink that reads "Nils Schmid". The signature is written in a cursive, slightly stylized font.

Chairman of the Supervisory Board
Dr. Nils Schmid MdL

Minister of Finance and Economic Affairs
for the State of Baden-Württemberg

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LANDESKREDITBANK BADEN-WÜRTTEMBERG – FÖRDERBANK

BALANCE SHEET AS AT 31.12.2013

ASSETS	31.12.2013 EUR	31.12.2013 EUR	31.12.2013 EUR	31.12.2012 EUR
1. CASH RESERVE				
a) cash in hand		40,120.74		32,473.64
b) current balances with central banks thereof: with Deutsche Bundesbank EUR 419,883,165.22 (EUR 557,329,510.73)		419,883,165.22		557,329,510.73
			419,923,285.96	557,361,984.37
2. RECEIVABLES FROM BANKS				
a) due on demand		13,066,818.98		11,243,703.88
b) other claims		20,470,942,680.36		20,683,113,709.96
			20,484,009,499.34	20,694,357,413.84
3. RECEIVABLES FROM CUSTOMERS			23,773,515,357.49	24,288,356,256.53
thereof: secured through real-estate liens EUR 6,560,782,947.36 (EUR 7,051,035,020.94) municipal loans EUR 8,901,133,978.56 (EUR 9,341,857,878.07)				
4. BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES				
a) bonds and debentures				
aa) from public issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 5,159,524,868.02 (EUR 4,721,842,330.74)	5,338,258,284.24			4,975,945,874.31
ab) from other issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 15,890,505,688.54 (EUR 15,213,763,625.08)	18,374,475,407.31			17,967,424,061.93
		23,712,733,691.55		22,943,369,936.24
b) own notes nominal value EUR 466,129,000.00 (EUR 447,755,000.00)		468,299,364.55		449,705,827.94
			24,181,033,056.10	23,393,075,764.18
5. SHAREHOLDINGS			488,766,696.51	501,386,150.89
thereof: in financial institutions EUR 301,986,360.47 (EUR 301,986,360.47)				
Carried forward			69,347,247,895.40	69,434,537,569.81

ASSETS	31.12.2013 EUR	31.12.2012 EUR
Carried forward	69,347,247,895.40	69,434,537,569.81
6. HOLDINGS IN AFFILIATED COMPANIES	23,990,154.28	23,309,201.51
7. FIDUCIARY ASSETS thereof: fiduciary loans EUR 72,767,215.66 (EUR 83,058,729.42)	72,839,569.44	83,845,914.32
8. INTANGIBLE ASSETS a) purchased licences, industrial property rights and similar rights and assets, and licences to such rights and assets	9,232,811.93	8,176,235.31
9. TANGIBLE FIXED ASSETS	117,511,985.45	122,019,002.32
10. OTHER ASSETS	355,858,932.24	358,051,014.08
11. ACCRUED ITEMS	755,417,825.94	599,869,479.61
TOTAL ASSETS	70,682,099,174.68	70,629,808,416.96

LANDESKREDITBANK BADEN-WÜRTTEMBERG – FÖRDERBANK

BALANCE SHEET AS AT 31.12.2013

LIABILITIES	31.12.2013 EUR	31.12.2013 EUR	31.12.2013 EUR	31.12.2012 EUR
1. LIABILITIES TO BANKS				
a) due on demand		4,977,902.69		90,887,916.84
b) with agreed term or notice period		23,703,011,843.89		20,423,049,080.39
			23,707,989,746.58	20,513,936,997.23
2. LIABILITIES TO CUSTOMERS				
a) other liabilities				
aa) due on demand	118,518,484.22			109,233,579.68
ab) with agreed term or notice period	7,589,479,460.40			8,259,081,566.82
		7,707,997,944.62	7,707,997,944.62	8,368,315,146.50
3. SECURITISED LIABILITIES				
a) notes issued			32,773,245,874.41	35,917,564,141.53
4. FIDUCIARY LIABILITIES thereof: fiduciary loans EUR 72,767,215.66 (EUR 83,058,729.42)			72,839,569.44	83,845,914.32
5. OTHER LIABILITIES			769,640,312.74	225,073,483.20
6. DEFERRED ITEMS			1,032,473,668.50	1,011,265,194.94
7. PROVISIONS				
a) provisions for pensions and similar obligations		180,428,130.00		168,306,797.00
b) tax provisions		0.00		180,000.00
c) other provisions		170,964,844.57		184,862,954.62
			351,392,974.57	353,349,751.62
8. SUBORDINATED LIABILITIES			709,680,130.58	750,386,958.11
Carried forward			67,125,260,221.44	67,223,737,587.45

LIABILITIES	31.12.2013 EUR	31.12.2013 EUR	31.12.2012 EUR
Carried forward		67,125,260,221.44	67,223,737,587.45
9. PROFIT-SHARING RIGHTS OUTSTANDING		539,925,800.00	539,925,800.00
10. FUND FOR GENERAL BANKING RISKS		400,000,000.00	350,000,000.00
11. EQUITY			
a) subscribed capital	250,000,000.00		250,000,000.00
b) capital reserve	950,850,789.69		950,850,789.69
c) retained earnings			
ca) other retained earnings	1,315,000,000.00		1,167,000,000.00
d) net income	101,062,363.55		148,294,239.82
		2,616,913,153.24	2,516,145,029.51
TOTAL LIABILITIES		70,682,099,174.68	70,629,808,416.96
1. CONTINGENT LIABILITIES			
a) liabilities from sureties and guarantee contracts		6,068,612,914.98	6,671,334,850.98
2. OTHER COMMITMENTS			
a) irrevocable lending commitments		2,641,108,486.04	2,346,015,605.75

LANDESKREDITBANK BADEN-WÜRTTEMBERG – FÖRDERBANK
STATEMENT OF INCOME FOR THE FISCAL YEAR 1 JANUARY TO 31 DECEMBER 2013

	2013 EUR	2013 EUR	2013 EUR	2012 EUR
1. INTEREST EARNINGS FROM				
a) lending and money market transactions	1,380,641,049.80			1,575,316,821.51
b) fixed-interest and book-entry securities	626,383,379.47			637,102,068.50
		2,007,024,429.27		2,212,418,890.01
2. INTEREST EXPENSES		1,716,814,537.83		1,916,986,833.68
thereof: from interest subsidies on loans EUR 119,410,478.29 (EUR 136,352,729.95)				
			290,209,891.44	295,432,056.33
3. CURRENT INCOME FROM				
a) shareholdings			4,408,408.39	6,031,035.64
4. COMMISSION EARNINGS			45,656,024.62	45,243,425.81
5. COMMISSION EXPENSES			4,442,170.53	6,180,046.18
6. OTHER OPERATING INCOME			15,923,752.83	17,317,768.20
7. GENERAL ADMINISTRATIVE EXPENSES				
a) personnel expenses				
aa) wages and salaries	72,279,422.65			69,014,609.31
ab) social security contributions and expenses for pensions and other benefits thereof: for pension provision EUR 5,680,699.78 (EUR 6,183,388.81)	17,042,401.26			16,901,478.45
		89,321,823.91		85,916,087.76
b) other administrative expenses		49,616,782.53		45,378,262.66
			138,938,606.44	131,294,350.42
8. WRITE-DOWNS AND VALUATION ADJUSTMENTS ON INTANGIBLE ASSETS AND TANGIBLE ASSETS			9,827,796.53	12,161,188.56
9. OTHER OPERATING EXPENSES			26,012,749.94	28,507,122.36
Carried forward			176,976,753.84	185,881,578.46

	2013 EUR	2012 EUR
Carried forward	176,976,753.84	185,881,578.46
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 50,000,000.00 (EUR 46,000,000.00)	81,003,841.06	52,774,710.25
11. INCOME FROM REVALUATION OF SHAREHOLDINGS, SHARES IN AFFILIATED COMPANIES AND SECURITIES TREATED AS FIXED ASSETS	5,620,884.08	15,267,116.35
12. INCOME FROM NORMAL BUSINESS ACTIVITIES	101,593,796.86	148,373,984.56
13. TAXES ON INCOME AND EARNINGS	641,055.99	836,629.43
14. OTHER TAXES NOT STATED UNDER ITEM 9	184,617.14	183,844.26
15. NET INCOME	100,768,123.73	147,353,510.87
16. PROFIT CARRIED FORWARD FROM THE PREVIOUS YEAR	294,239.82	940,728.95
	101,062,363.55	148,294,239.82
17. NET PROFIT	101,062,363.55	148,294,239.82

L-BANK CASH FLOW STATEMENT AS AT 31.12.2013

	01.01–31.12.2013 EURk	01.01–31.12.2012 EURk
Net profit/loss for the period	100,768	147,354
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	85,161	73,418
2. Depreciation, value adjustments and write-ups on fixed assets	9,828	12,161
3. Depreciation, value adjustments and write-ups on financial assets (excluding securities)	704	-4,471
4. Changes in provisions (excluding loan loss provisioning)	37,335	36,019
5. Other non-cash expenses/income	0	0
6. Profit/loss on the sale of fixed assets	-7	-29
7. Profit/loss on the sale of financial assets	-3,111	-17,867
8. Other adjustments (net)	-113,767	-539,725
Subtotal	116,911	-293,140
CHANGES TO ASSETS AND LIABILITIES FROM OPERATING ACTIVITIES		
9. Receivables from banks	211,794	414,622
10. Receivables from customers	422,912	-1,583,274
11. Securities	-789,234	-2,053,558
12. Other assets	-142,350	531,161
13. Liabilities to banks	3,194,053	2,716,029
14. Liabilities to customers	-660,317	4,905
15. Securitised liabilities	-3,144,318	-837,630
16. Other liabilities	531,369	591,635
17. Interest and dividends received	1,935,789	2,435,833
18. Interest paid	-1,821,382	-1,895,270
19. Extraordinary income/expenditure	0	0
20. Income tax payments	-641	-837
Cash flow from operating activities	-145,414	30,476
21. Proceeds from sales of financial assets	42,258	36,101
22. Proceeds from sales of fixed assets	9	117
23. Disbursements for investments in financial assets	-27,912	-31,878
24. Disbursements for investments in fixed assets	-6,380	-5,678
25. Cash flow from other investment activities (net)	0	0
Cash flow from investment activities	7,975	-1,338
26. Proceeds from equity contributions	0	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	0	0
Net change in cash and cash equivalents	-137,439	29,138
Effects of exchange rate movements and valuation changes on cash and cash equivalents	0	0
Cash and cash equivalents at start of period	557,362	528,224
Cash and cash equivalents at end of period	419,923	557,362

L-BANK STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2013

	Subscribed capital EURk	Capital reserve EURk	Statement of changes in equity		Equity EURk
			Retained earnings EURk	Net profit EURk	
Balance as at 31.12.2011	250,000	950,851	526,000	641,941	2,368,792
Allocation to retained earnings			641,000	-641,000	0
2012 net income for the year				147,354	147,354
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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2013

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 established the share capital of L-Bank at EUR 250 million.

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

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.

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 2013. In the case of forward currency contracts, the forward rate is divided 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.

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. 340e et seq. HGB).

FINANCIAL ASSETS 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 only applied in the event of permanent loss of value. 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 a permanent loss of value, the original value has been reinstated 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). As a general rule, the projected unit credit (PUC) method is used for valuation purposes. The rate of interest applied is currently 4.90% (2012: 5.06%). 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 pending transactions. Provisions with a remaining term of more than one year are discounted at the average market interest rate over the last seven fiscal years 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 12.8 million (2012: EUR 9.9 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 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 2013.

HEDGED TRANSACTION IN MACRO HEDGE				
	Book value (EURk)	thereof interest rate risk	thereof currency risk	thereof price risk
Assets	623,745	150,690	–	473,055
Debts	738,268	581,048	157,220	–
Total	1,362,013	731,738	157,220	473,055

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2013

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

	31.12.2013 EURk	31.12.2012 EURk
RECEIVABLES FROM BANKS		
due on demand	13,067	11,244
up to three months	1,438,336	2,559,132
more than three months and up to one year	3,747,685	3,045,246
more than one year to five years	8,088,028	8,789,148
more than five years	7,196,893	6,289,587
RECEIVABLES FROM CUSTOMERS		
up to three months	810,608	995,145
more than three months and up to one year	1,368,957	1,371,565
more than one year to five years	6,143,739	4,878,200
more than five years	15,450,211	17,043,446
BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES		
maturing in the following year	4,248,624	1,755,510
LIABILITIES TO BANKS		
due on demand	4,978	90,888
up to three months	5,534,604	1,702,087
more than three months and up to one year	1,929,110	1,188,181
more than one year to five years	5,710,349	8,371,822
more than five years	10,528,949	9,160,959
LIABILITIES TO CUSTOMERS		
due on demand	118,519	109,234
up to three months	1,302,177	1,679,350
more than three months and up to one year	302,518	296,390
more than one year to five years	393,570	613,609
more than five years	5,591,214	5,669,732
SECURITISED LIABILITIES		
maturing in the following year	16,530,537	16,915,948

EXPLANATIONS OF INDIVIDUAL BALANCE-SHEET ITEMS

	31.12.2013 EURk	31.12.2012 EURk
RECEIVABLES FROM BANKS		
This item comprises:		
– receivables from companies in which an equity interest is held	6,402,580	5,859,215
RECEIVABLES FROM CUSTOMERS		
This item comprises:		
– receivables from affiliated companies	65,095	52,948
– receivables from companies in which an equity interest is held	109,295	150,035
– subordinated claims	46,080	53,983
BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES		
This item comprises:		
– receivables from companies in which an equity interest is held	2,078,184	2,078,184
The securities in this item eligible for listing break down as follows:		
– listed	23,502,161	22,510,929
– not listed	678,872	882,147

Securities with a book value (excluding prorated interest accrued) of EUR 23,247,810,000 are assigned to investment assets. Of these, securities with a book value of EUR 5,668,508,000 have a market value of EUR 5,510,281,000. 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 961,096,000.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2013

EXPLANATIONS OF INDIVIDUAL BALANCE-SHEET ITEMS

	31.12.2013 EURk	31.12.2012 EURk
SHAREHOLDINGS		
The shareholdings in this item eligible for listing break down as follows:		
– listed	68,920	68,895
FIDUCIARY ASSETS		
This item comprises:		
– receivables from banks	60,983	67,902
– receivables from customers	11,784	15,157
– other assets	72	787
TANGIBLE FIXED ASSETS		
This item comprises:		
– plots and buildings used for the Bank's own activities	101,498	106,412
– plant and office equipment	8,222	7,138
OTHER ASSETS		
thereof subordinated	7,524	7,524
ACCRUED AND DEFERRED ITEMS ASSETS		
– Difference between disbursement amount or acquisition cost and lower nominal value of receivables	525,718	497,539
– Difference between issue price and higher repayable amount of liabilities	62,227	72,117
LIABILITIES TO BANKS		
This item comprises:		
– liabilities to companies in which an equity interest is held	443,362	327,923
LIABILITIES TO CUSTOMERS		
This item comprises:		
– liabilities to affiliated companies	–	40
– liabilities to companies in which an equity interest is held	441,100	427,857

EXPLANATIONS OF INDIVIDUAL BALANCE-SHEET ITEMS

	31.12.2013 EURk	31.12.2012 EURk
FIDUCIARY LIABILITIES		
Fiduciary liabilities comprise		
- liabilities to banks	5,384	7,927
- liabilities to customers	67,455	75,919
ACCRUED AND DEFERRED ITEMS LIABILITIES		
- Difference between disbursement amount or acquisition cost and higher nominal value of receivables	8,858	13,463
- Difference between issue price and lower repayable amount of liabilities	2,855	5,117
SUBORDINATED LIABILITIES AND PROFIT-SHARING RIGHTS		
- Interest expenses incurred for subordinated liabilities	24,767	28,333
- Interest expenses incurred for profit-sharing rights	26,003	26,004

A sole subordinated liability denominated in EUR in the amount of EUR 71.5 million exceeds 10% of the total value of all subordinated liabilities. The interest rate is 0%; the term ends in 2036.

Subordinated liabilities are intended for use as supplementary capital and comply with the requirements of the German Banking Act (KWG). 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 2013

INDIVIDUAL AMOUNTS THAT ARE MATERIAL IN ASSESSING THE ANNUAL FINANCIAL STATEMENTS

	31.12.2013 EURk	31.12.2012 EURk
OTHER ASSETS		
- Receivables from swaps	322,179	213,009
- Works of art	14,631	14,468
- Participation certificates	7,524	7,524
- Balancing item from currency conversion	-	104,304
PREPAYMENTS AND ACCRUED INCOME		
- Single payments made in advance for swaps	159,520	22,388
OTHER LIABILITIES		
- Balancing item from currency conversion	493,723	-
- Single (bullet) repayments on swaps	265,904	173,754
- Purchase price payments received in advance	-	41,560
DEFERRED INCOME		
- Single payments received in advance on swaps	1,020,702	992,622
PROVISIONS		
Among other provisions:		
- provisions for interest-subsidised loans	76,118	74,941
CONTINGENT LIABILITIES AND OTHER COMMITMENTS		
Liabilities from sureties and guarantee contracts include:		
- loan guarantees to financial institutions	873,635	1,093,843
- credit default swaps	4,092,148	4,474,674
<p>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 have an Investment Grade rating.</p>		
COMMISSION EARNINGS		
- Income from other services	35,387	32,634
- Income from surety fees	10,269	12,609
COMMISSION EXPENSES		
- Consulting fees paid	3,058	3,849
- Surety fees paid	1,080	2,026
OTHER OPERATING INCOME		
- Income from services for third parties	5,873	5,079
- Rental income	4,863	5,082
- Write-back of provisions	2,540	3,922

INDIVIDUAL AMOUNTS THAT ARE MATERIAL IN ASSESSING THE ANNUAL FINANCIAL STATEMENTS

	31.12.2013 EURk	31.12.2012 EURk
GENERAL ADMINISTRATIVE EXPENSES		
Other administrative expenses include auditor's fees (excl. sales tax):		
- for auditing services	365	365
- for other certification services	12	23
- for tax consulting services	1	11
WRITE-DOWNS AND VALUE ADJUSTMENTS ON INTANGIBLE AND TANGIBLE ASSETS		
- Portion relating to unscheduled write-downs	-	2,633
OTHER OPERATING EXPENSES		
- Expenses for subsidies awarded in the course of processing development programmes for the State of Baden-Württemberg	19,157	19,157
WRITE-DOWNS AND VALUE ADJUSTMENTS ON SHAREHOLDINGS, SHARES IN AFFILIATED COMPANIES AND SECURITIES TREATED AS FIXED ASSETS		
- Unscheduled write-downs	707	10,511
- Losses on price movements	-	4,454
TOTAL VALUE OF ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES		
- Assets	3,606,447	2,201,591
- Debts	18,052,777	19,188,191
The exchange rate risk from foreign exchange balance-sheet items is essentially covered by off-balance-sheet hedging transactions. Currency-conversion produced miscellaneous operating income in the sum of	332	45

PROVISION OF COLLATERAL

For refinancing purposes, securities in the amount of EUR 12,758 million (2012: EUR 12,355 million) were deposited with Deutsche Bundesbank. As at 31 December 2013, securities in the amount of EUR 3,800 million had been credited in the course of open-market transactions (2012: EUR 2,000 million). Securities in the amount of EUR 6,732,000 with a nominal value of EUR 5 million (2012: EUR 0) were deposited for participation in EUREX (electronic futures exchange). As collateral for OTC transactions, the Bank paid out cash sureties totalling EUR 2,884 million (2012: EUR 3,084 million), reported under receivables from banks, and accepted cash sureties in the amount of EUR 3 million (2012: EUR 75 million), reported under liabilities to banks.

TRANSACTIONS WITH CLOSELY ASSOCIATED COMPANIES AND PERSONS

As at 31 December 2013, 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 18 million (2012: EUR 17 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 2013

DERIVATIVE TRANSACTIONS

As at the balance-sheet date, L-Bank had concluded the derivative transactions (forward transactions within the meaning of Art. 36 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	Nominal values 31.12.2013	Nominal values 31.12.2012	Market values positive 31.12.2013	Market values negative 31.12.2013	Market values positive 31.12.2012	Market values negative 31.12.2012
in EUR millions						
INTEREST RATE RISKS						
Interest rate swaps	79,982	78,620	2,200	–4,051	3,156	–6,217
Interest rate risks – total	79,982	78,620	2,200	–4,051	3,156	–6,217
CURRENCY RISKS						
– Forward currency contracts/ swaps	6,547	8,280	3	–172	1	–189
– Currency swaps, cross-currency interest rate swaps	13,512	12,220	240	–1,250	665	–615
Currency risks – total	20,059	20,500	243	–1,422	666	–804
CREDIT DERIVATIVES (CDS)						
Protection seller	4,092	4,475	–	–10	1	–37
Credit derivatives – total	4,092	4,475	–	–10	1	–37

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. Negative market values of interest rate/currency swaps totalling EUR –494 million are due to changes in spot exchange rates. A balancing item from the currency conversion was set up in this amount on the liabilities side and stated under “Other liabilities”.

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 1,852 million as at year-end 2013. 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 4,092 million.

DERIVATIVE TRANSACTIONS – BY COUNTERPARTY						
in EUR millions	Nominal values 31.12.2013	Nominal values 31.12.2012	Market values positive 31.12.2013	Market values negative 31.12.2013	Market values positive 31.12.2012	Market values negative 31.12.2012
– Banks in the OECD	89,834	90,513	2,198	–4,476	3,423	–6,124
– Public-sector agencies in the OECD	114	115	2	–8	5	–9
– Other counterparties (incl. stock-exchange transactions)	14,185	12,967	243	–999	395	–925
Total	104,133	103,595	2,443	–5,483	3,823	–7,058

DERIVATIVE TRANSACTIONS – BY TERM						
Nominal values in EUR millions	Interest rate risks 31.12.2013	Interest rate risks 31.12.2012	Currency risks 31.12.2013	Currency risks 31.12.2012	Credit derivatives 31.12.2013	Credit derivatives 31.12.2012
Remaining terms						
– up to 3 months	5,472	3,068	4,302	7,909	–	70
– up to 1 year	9,566	6,359	5,327	3,074	311	205
– up to 5 years	34,103	39,703	6,242	6,801	3,781	3,216
– more than 5 years	30,841	29,490	4,188	2,716	–	984
Total	79,982	78,620	20,059	20,500	4,092	4,475

There are no trading activities.

VALUING DERIVATIVE FINANCIAL INSTRUMENTS

The market valuation of derivatives is based on market data as at 31 December 2013, including yield curves, exchange rates, CD 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 2013

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	35,459	108
2 Baden-Württemberg International – Gesellschaft für internationale wirtschaftliche und wissenschaftliche Zusammenarbeit mbH, Stuttgart	24.00	3,404	-3,898
3 BEONTRA AG, Karlsruhe	31.50	286	-71
4 CONTTEK Holding GmbH, Pforzheim	44.75	8,496	2,891
5 DBAG Expansion Capital Fund GmbH & Co. KG, Frankfurt/Main	22.68	1,879	-240
6 Digital Commerce Network GmbH, Karlsruhe	42.33	-345	-465
7 Dorner GmbH, Gaildorf	40.00	***	***
8 EB Automotive Group GmbH, Wallerstein	30.97	***	***
9 GUTEX GmbH & Co. KG, Waldshut-Tiengen	36.50	24,966	6,561
10 H. Henselmann Verwaltungs GmbH, Waldshut-Tiengen	36.57	408	10
11 iQuest Holding GmbH, Frankfurt/Main	27.83	**	**
12 KOKI Technik Holding GmbH, Constance	36.55	6,966	-2,893
13 MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH, Stuttgart	26.80	46,769	4,173
14 Mellifera Dritte Beteiligungsgesellschaft mbH, Weinheim	26.00	20,922	11,501
15 Micropelt GmbH, Freiburg	20.10	-3,635	-3,903
16 PT German Centre Indonesia II, Tangerang, Indonesia	98.42	**	**
17 Rhitex-Bauplatten GmbH, Waldshut-Tiengen	36.55	91	4
18 SeeTec AG, Philippsburg	49.44	-301	-941
19 StEP Stuttgarter Engineering Park GmbH, Stuttgart	100.00	6,861	-376

**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
20 Strohheker Holding GmbH, Pforzheim	49.50	1,636	-364
21 SYMPORE GmbH, Tübingen	34.98	***	***
22 Technologiepark Karlsruhe GmbH, Karlsruhe	96.00	9,355	1,014
23 Technologieparks Tübingen-Reutlingen GmbH, Tübingen	100.00	8,623	158
24 ulrich GmbH & Co. KG, Ulm	21.29	7,910	4,021
25 ulrich Verwaltungs GmbH, Ulm	21.32	64	5
26 Wessel-Werk Beteiligungsverwaltung GmbH, Karlsruhe	35.00	***	***

* As at the last fiscal year available in each case.

** The company is newly established, so no annual financial statements are available.

*** No annual financial statements were prepared due to insolvency.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2013

STATEMENT OF CHANGES IN FIXED ASSETS								
Fixed assets Balance-sheet items	Acquisition costs 01.01.2013 EURk	Additions EURk	Retire-ments EURk	Transfers EURk	Write-ups, cumulative EURk	Depreciation, cumulative EURk	Book value 31.12.2013 EURk	Depreciation for the year 2013 EURk
Debentures and other fixed-interest securities	22,951,848						23,247,810	–
Shareholdings	764,044				Net change pursuant to Art. 34 (3) clause 2 RechKredV: 11,382		488,767	–707
Holdings in affiliated companies	33,293						23,990	–
Intangible assets	26,091	2,404	–	–	–	–19,262	9,233	–1,348
Fixed assets	217,318	3,975	–2,003	–	–	–101,778	117,512	–8,480
Other assets	14,490	168	–5	–	–	–22	14,631	–

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

Remuneration paid to members of the Board of Management	Basic remuneration	Performance- related remuneration	Other non-cash benefits	Payments from third parties in relation to Board of Management activities	Total
Figures in EURk					
Christian Brand Chairman	469	237	21	86	813
Prof. Dr. Manfred Schmitz-Kaiser Vice-Chairman	346	181	24	2	553
Dr. Karl Epple	291	104	16	10	421
Dr. Ulrich Theileis	46	0	3	0	49
Total	1,152	522	64	98	1,836

Provisions totalling EUR 699,000 have been made for variable remuneration due to be paid out in 2014. In 2013, the members of the Board of Management received benefits totalling EUR 15,000 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	Period of membership	Membership of Supervisory Board*	Membership of committees*	Attendance fees	Total
Figures in EURk					
Dr. Nils Schmid** – Chairman –	01.01–31.12.	9.0	3.9	0.6	13.5
Alexander Bonde** – Vice-Chairman –	01.01–31.12.	7.5	3.9	0.2	11.6
Reinhold Gall** – Vice-Chairman –	01.01–31.12.	7.5	3.9	0.6	12.0
Katrin Altpeter**	01.01–31.12.	6.0	0.0	0.2	6.2
Franz Untersteller**	01.01–31.12.	6.0	3.8	0.5	10.2
Klaus-Peter Murawski**	01.01–31.12.	6.0	0.0	0.2	6.2
Claus Schmiedel	01.01–31.12.	6.0	0.0	0.5	6.5
Edith Sitzmann	01.01–31.12.	6.0	0.0	0.2	6.2
Martin Lamm	01.01–30.11.	5.5	0.0	0.6	6.1
Joachim Wohlfeil	01.12–31.12.	0.5	0.0	0.0	0.5
Wirtsch.-Ing. Bernd Bechtold	01.01–30.11.	5.5	3.6	0.8	9.8
Dr. Peter Kulitz	01.12–31.12.	0.5	0.0	0.0	0.5
Roger Kehle	01.01–31.12.	6.0	0.0	0.5	6.5
Leni Breymaier	01.01–31.12.	6.0	0.0	0.2	6.2
Dr. Dieter Salomon	01.01–31.12.	6.0	0.0	0.0	6.0
Gerhard Burkhardt	01.01–30.11.	5.5	0.0	0.3	5.8
Gabriele Kellermann	01.12–31.12.	0.5	0.2	0.0	0.7
Dr. Maximilian Dietzsch-Doertenbach	01.01–31.12.	6.0	3.9	0.9	10.8
Clemens Meister	01.01–31.12.	6.0	0.0	0.5	6.5
Tatjana Aster	01.01–31.12.	6.0	0.0	0.6	6.6
Thomas Dörflinger	01.01–31.12.	6.0	0.0	0.3	6.3
Total		114.0	23.2	7.2	144.4

* As at the balance-sheet date of 31 December 2013, some of the pro rata remuneration for December 2013 had not yet been paid out.

** 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 2013

REMUNERATION PAID TO MEMBERS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD	31.12.2013 EURk	31.12.2012 EURk
- Payments to former members of the Board of Management or their surviving dependants	1,211	1,049
- Advisory Board remuneration (incl. travel costs)	149	132
- Pension provisions for former members of the Board of Management and their surviving dependants	12,707	13,760

LOANS TO EXECUTIVE BODIES (INCLUDING CONTINGENCIES AND COMMITMENTS)	31.12.2013 EURk	31.12.2012 EURk
- Board of Management	800	287
- Supervisory Board	-	36

All loans earn interest at standard market rates.

AVERAGE NUMBER OF EMPLOYEES IN 2013	Male	Female	Total
Employees *	478	668	1,146
of whom: full-time employees	452	395	847
of whom: part-time employees	26	273	299

* Excluding vocational trainees and interns.

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

CHRISTIAN BRAND, CHAIRMAN OF THE BOARD OF MANAGEMENT

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

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

BioPro Baden-Württemberg GmbH, 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
Business-Park Göppingen GmbH, Göppingen	Vice-Chairman of the Supervisory Board
Sächsische Aufbaubank – Förderbank, Dresden	Deputy Member of the Administrative Board

EXECUTIVE BODIES OF L-BANK

BOARD OF MANAGEMENT	SUPERVISORY BOARD MEMBERS IN 2013		
	Regular members	Consulting members	
Christian Brand – Chairman –	Representatives of the state government		Other members
Prof. Dr. Manfred Schmitz-Kaiser – Vice-Chairman –	Dr. Nils Schmid MdL Minister of Finance and Economic Affairs – Chairman –	Franz Untersteller MdL Minister of the Environment, Climate and Energy	Joachim Wohlfeil President of the Karlsruhe Chamber of Trades and Crafts since 01.12.2013
Dr. Karl Epple	Alexander Bonde Minister of Rural Affairs and Consumer Protection – Vice-Chairman –	Klaus-Peter Murawski State Secretary, Ministry of State	Martin Lamm Managing Director, Martin Lamm Bauunternehmung GmbH until 30.11.2013
Dr. Ulrich Theileis since 08.11.2013	Reinhold Gall MdL Minister of the Interior – Vice-Chairman –	Claus Schmiedel MdL Chairman of the SPD parliamentary group	Dr. Peter Kulitz President of Ulm Chamber of Industry and Commerce Managing Partner, ESTA Apparatebau GmbH & Co. KG since 01.12.2013
	Katrin Altpeter MdL Minister of Labour and Social Affairs, Family, Women and Senior Citizens	Edith Sitzmann MdL Chairman of the Alliance 90/The Greens parliamentary group	Wirtsch.-Ing. Bernd Bechtold Managing Director, b.i.g. Bechtold Ingenieurgesellschaft mbH until 30.11.2013
			Roger Kehle President, Gemeindetag Baden-Württemberg e.V.
			Leni Breymaier Regional Manager, VER.DI Baden-Württemberg
			Dr. Dieter Salomon Vice-President, Städtetag Baden-Württemberg e.V.
			Gabriele Kellermann Member of the Board, BBBank eG since 01.12.2013
			Gerhard Burkhardt Chairman of the Board of Management, Verband baden-württembergischer Wohnungsunternehmen e.V. until 30.11.2013
			Dr. Maximilian Dietzsch-Doertenbach Managing Director, Doertenbach & Co. GmbH
			Clemens Meister Chairman of the Central Staff Council of L-Bank, Karlsruhe
			Tatjana Aster Chair of the Staff Council of L-Bank, Karlsruhe
			Thomas Dörflinger Chairman of the Staff Council of L-Bank, Stuttgart

Alternate members

State government deputies

Ingo Rust MdL State Secretary, Ministry of Finance and Economic Affairs
Wolfgang Reimer Permanent Secretary, Ministry of Rural Affairs and Consumer Protection
Dr. Herbert O. Zinell Permanent Secretary, Ministry of the Interior
Jürgen Lämmle Permanent Secretary, Minister of Labour and Social Affairs, Family, Women and Senior Citizens
Helmfried Meinel Permanent Secretary, Ministry of the Environment, Climate and Energy

Dr. Florian Stegmann Undersecretary, Head of Dept. I, Ministry of State since 01.04.2013
Michael Kleiner Assistant Secretary, Head of Dept. I, Ministry of State until 31.03.2013
Peter Hofelich MdL
Andrea Lindlohr MdL Vice-Chairman of the Alliance 90/ The Greens parliamentary group

Deputies

Rainer Reichhold President, Chamber of Trades and Crafts, Stuttgart region, since 01.12.2013
Joachim Wohlfeil President, Chamber of Trades and Crafts, Karlsruhe, until 30.11.2013
Helmut Althammer President, Chamber of Industry and Commerce, Ostwürttemberg Since 01.12.2013
Dr.-Ing. Hansjörg Rieger Managing Partner, RUD Ketten Rieger & Dietz GmbH & Co. KG until 30.11.2013
Dr. Roman Glaser President, Baden-Württembergischer Genossenschaftsverband e.V. since 01.12.2013
Gerhard Roßwog President (retired), Baden-Württembergischer Genossenschaftsverband e.V. until 30.11.2013
Catharina Clay Regional Manager, IG BCE Baden-Württemberg since 01.12.2013
Joachim Walter President, Baden-Württemberg Association of District Councils since 01.12.2013
Helmut M. Jahn President (retired), Baden-Württemberg Association of District Councils until 30.11.2013
Andreas Schmitz Speaker for the Board of Management, HSBC Trinkaus & Burkhardt AG until 30.11.2013
Wilhelm Freiherr von Haller Co-Head of Private and Commercial Banking, Deutsche Bank AG

Other state government deputies

Walter Leibold Assistant Secretary Head of Financial Policy and Investments, Ministry of Finance and Economic Affairs
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
Jutta Lück Assistant Secretary Head of Administration, Ministry of the Environment, Climate and Energy
Matthias Bross Senior Civil Servant Head of Budgetary and Tax Policy, Real Estate and Investments, Ministry of State since 01.12.2013
Dr. Georg Walch Undersecretary Head of Budgetary and Tax Policy, Tax Assessment, Real Estate and Investments, Ministry of State until 30.11.2013

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 2013 totalling EUR 101,062,363.55, an amount of EUR 100,000,000.00 should be allocated to other retained earnings and the remaining amount of EUR 1,062,363.55 carried forward to the current fiscal year.

Karlsruhe, 25 February 2014

L-Bank

Christian Brand

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 2013

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, 25 February 2014

Christian Brand

Prof. Dr. Manfred Schmitz-Kaiser

Dr. Karl Epple

Dr. Ulrich Theileis

AUDITOR' S REPORT

We have certified the financial statements and Management Report as follows:

We have audited the financial statements – comprising the balance sheet, income statement, notes, cash flow statement and statement of changes in equity – 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 2013. The accounting and the preparation of financial statements and 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 German generally accepted standards for the audit of financial statements promulgated 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 expectations relating to possible misstatements, 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 institution's assets, financial position and results of operations in accordance with the 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, 25 February 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Müller-Tronnier
Auditor

Frey
Auditor

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