ANNUAL REPORT 2015

L-BANK
Staatsbank für Baden-Württemberg

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GREETINGS FROM THE CHAIRMAN OF THE BOARD

Dear Business Partners,

Demand for development finance is as high now as it has ever been in the history of L-Bank, although you could be forgiven for assuming otherwise. After all, the fact that interest rates remain so low makes it difficult to gain any borrowing cost advantage from development loans. Nevertheless, L-Bank's credit commitments were at an all-time high last year. Some EUR 2.2 billion was made available for housing development, with a further EUR 3.5 billion dedicated to supporting the economy, and to financing new business start-ups in particular.

With its good economic location, attractive opportunities in internationally renowned companies and a high level of job security, Baden-Württemberg would not necessarily appear at first sight to be the most likely place for start-ups. Which is all the more reason for us to be delighted that L-Bank's start-up development programmes are being used so intensively. The volume of funding in this area also soared in 2015, up by 24.7% to a new record level.

Yet 2015 was also a year in which we needed to pause for a moment and take stock. Is our development programme for entrepreneurs as good as it could possibly be? We invest a great deal in new start-ups. Since 2011, L-Bank has invested around EUR 2.4 billion in supporting new businesses, more than any other development bank and more than any other state in Germany. But is the money getting to the right places? We commissioned a study on this very issue, to take a closer look at our support for new start-ups and its benefits for the wider economy.

The results were encouraging. Entrepreneurs in Baden-Württemberg are setting up new businesses not out of necessity but because they have a message, an idea, a product, a mission. Setting up their own business, to them, is a way of expressing themselves. It is exciting to note that more than 62% of all those who set up their own company want to take responsibility for their own affairs and be their own boss. Around 35% of new start-ups have discovered a gap in the market or have innovative ideas that they want to realise.

Moreover, the impact of our start-up development programme on the economy is considerable. As a result of our programmes, an average of 3,400 new jobs will be created over the coming eight years, an additional EUR 165 million in annual income will be generated, and GDP in Baden-Württemberg is set to rise by at least EUR 2.3 billion over and above the amount of investment finance provided. These programmes are the equivalent to stem-cell therapy for the SME sector, stimulating new ideas as they foster the courage to grasp new opportunities.

At L-Bank, we strive to ensure that, despite increasing levels of regulatory and associated cost burdens, and despite changes in the marketplace, we can continue to lend fresh impetus to our federal state and the people in it, both now and in the future. I would like to thank our employees who are boldly following this path with us and without whose dedication we would be unable to perform as well as we do.

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

CORPORATE GOVERNANCE REPORT 2015

L-Bank, in its capacity as the development bank for the State of Baden-Württemberg, has a statutory remit to support the federal state in the performance of its public duties and, in doing so, to implement and manage various development initiatives. A sound and responsible approach to corporate governance has always been a self-evident component of the Bank's approach to these non-commercial activities. In mid-2013, L-Bank enshrined the Public Corporate Governance Code of the federal state of Baden-Württemberg in the Bank's in-house rule book by resolutions of both the Board of Management and the Supervisory Board, and since then has observed the terms of the Code. This Corporate Governance Report covers fiscal year 2015; the following declaration applies in full as at the reporting date, 31 December 2015.

DECLARATION OF COMPLIANCE

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

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

With regard to the recommendation in point 106, sentence 4 PCGK BW, that the placing of any additional assignments with the auditor by the Board of Management should be subject to the Supervisory Board's approval, the Supervisory Board approved, in the form of a policy decision and on a blanket basis, the placing of additional assignments with the auditor where the level of remuneration is not material. On the basis of this blanket approval, L-Bank placed an additional assignment with the auditor for the first time in 2015.

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

As at 31 December 2015, no women were represented on the two-strong Board of Management. As at the reporting date, five of the 18 members of the Supervisory Board (27.8%) and 77 of the 228 employees in managerial positions (33.8%) were women.

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

REMUNERATION PAID TO MEMBERS OF THE BOARD OF MANAGEMENT FOR 2015 in EURk

Name	Fixed remuneration	Other non-cash benefits	Payments from third parties in relation to Board of Management activities	Total
Dr. Axel Nawrath Chairman	682	23	8	712
Dr. Ulrich Theileis Vice-Chairman	488	19	6	513
Prof. Dr. Manfred Schmitz-Kaiser[1]	220	–	3	223
Dr. Karl Epple[2]	226	9	5	240
Total	1,615	51	21	1,688

1 Prof. Dr. Manfred Schmitz-Kaiser resigned from the Board of Management with effect from 31 May 2015.
2 Dr. Karl Epple resigned from the Board of Management with effect from 30 June 2015.

In 2015, the members of the Board of Management received benefits totalling EUR 14,000 according to their entitlements under civil service law.

An occupational pension scheme is in place for the members of the Board of Management based on the rules applicable to L-Bank employees.

REMUNERATION PAID TO MEMBERS OF THE SUPERVISORY BOARD FOR 2015 in EURk				
Name	Membership of Supervisory Board	Membership of committees	Attendance fees	Total
Dr. Nils Schmid[1] Chairman	9.0	3.9	0.9	13.8
Alexander Bonde[1] Vice-Chairman	7.5	3.9	0.6	12.0
Reinhold Gall[1] Vice-Chairman	7.5	3.9	1.1	12.5
Katrin Altpeter[1]	6.0	–	0.2	6.2
Leni Breymaier	6.0	–	0.3	6.3
Dr. Maximilian Dietzsch-Doertenbach	6.0	3.9	1.4	11.3
Roger Kehle	6.0	–	0.6	6.6
Gabriele Kellermann	6.0	2.4	0.9	9.3
Dr. Peter Kulitz	6.0	–	0.5	6.5
Klaus-Peter Murawski[1]	6.0	–	0.2	6.2
Dr. Dieter Salomon	6.0	–	0.2	6.2
Claus Schmiedel	6.0	–	0.3	6.3
Edith Sitzmann	6.0	–	0.3	6.3
Franz Untersteller[1]	6.0	2.4	0.3	8.7
Joachim Wohlfeil	6.0	–	0.3	6.3
Clemens Meister	6.0	–	0.6	6.6
Tatjana Aster	6.0	–	0.6	6.6
Thomas Dörflinger	6.0	–	0.6	6.6
Total	114.0	20.4	9.6	144.0

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

The Board of Management

The Supervisory Board

MANAGEMENT REPORT – REPORT OF THE BOARD OF MANAGEMENT OF L-BANK FOR FISCAL YEAR 2015

BACKGROUND

Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) is the development bank of the German federal state of Baden-Württemberg. The Bank has its head office in Karlsruhe, with a branch office in Stuttgart. L-Bank is wholly owned by the State of Baden-Württemberg and, as a public-law institution, is subject to the supervision of the federal state government. In the context of the Single Supervisory Mechanism (SSM) introduced within the European Union, L-Bank is also one of the credit institutions that comes under the direct supervision of the European Central Bank (ECB).

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

ECONOMIC REPORT

BASIC PARAMETERS

The robust upturn in the German economy first seen in 2013 continued in 2015. The influence of geopolitical risks and a more sombre mood in the global economy meant that growth rates at the start of the year were down on the final three months of 2014, but picked up markedly in the second and third quarters. Indeed, the German economy was unaffected by any fallout from the public debt crisis in Greece, which flared up again in the middle of the year. Similarly, the weakening state of economies in emerging markets, and China in particular, had little impact. Exports were boosted by high levels of demand from the eurozone and the USA, as well as by low interest rates, favourable oil prices and the low euro exchange rate. Over the same period, domestic consumption became a more important contributor to gross domestic product (GDP). According to the Federal Statistical Office, Germany's GDP for the year as a whole grew by 1.7% in real terms compared with the previous year (as at January 2016). The German labour market experienced an increase in employment levels over the course of 2015, buoyed by the healthy state of the economy generally. Germany's unemployment rate for the year, as calculated by the Federal Employment Agency, averaged 6.4%, a reduction of 0.3% compared with the previous year.

During the first six months of 2015, economic performance in Baden-Württemberg tracked the national trend. With year-on-year growth of 3.1%, Baden-Württemberg recorded the highest level of growth of any federal state. The mood in south-western Germany cooled somewhat towards the middle of the year, however, in response to the economic downturn in the emerging markets. Nevertheless, the Baden-Württemberg economy expanded by just under 2% over the year as a whole (Statistical Office of Baden-Württemberg, as at December 2015), once again outperforming the German economy as a whole. A key driver of this performance during the first half of 2015 was manufacturing in general, and the automotive segment in particular. Despite the impact of growing uncertainty on global trade, Baden-Württemberg's export figures for goods reached a new all-time high. Exports to the USA and eurozone in particular grew dramatically. Compared with the other German federal states, Baden-Württemberg recorded above-average increases in employment levels, with more people in work than ever before. According to the Statistical Office of Baden-Württemberg, the average unemployment figure for the year was 3.8%, with a year-end rate of 3.7% (as at January 2016).

BUSINESS PERFORMANCE

L-Bank's business operations in 2015 were affected by persistently low market interest rates. At the same time, high demand for development finance reflected growing levels of investment activity on the part of small and medium-sized enterprises (SMEs) in Baden-Württemberg.

During the year under review, development activities were focused on SMEs, new business start-ups, and housing development initiatives. New business figures grew significantly, particularly with respect to SME finance and finance for business start-ups. Housing development also showed strong growth. Meanwhile, the infrastructure development segment performed very positively. Overall, L-Bank achieved its goal of maintaining a consistently high level of new business across all lines of business.

Enterprise development

With a view to supporting the sustainable growth of Baden-Württemberg's economy and safeguarding jobs over the long term, L-Bank works with commercial banks to support new business start-ups, established SMEs, and agricultural businesses. To do so, L-Bank issues low-interest loans and grants, and also assumes certain specific kinds of risk. Ongoing economic growth and high demand for development finance helped push the volume of new business recorded in the enterprise development sector during the reporting year to a new record high. Companies' increasing willingness to invest was evident from the clear upturn in demand for the various development programmes. The volume of new business grew by 19.7% year on year to reach EUR 3,547.4 million (2014: EUR 2,962.7 million), exceeding the previous all-time high recorded in 2013 by 10.5%.

The total finance provided to business start-ups increased by 24.7% to EUR 609.1 million (2014: EUR 488.4 million). This rise in new business is mainly attributable to the "Start-up Finance" programme. An extension of the funding period from three to five years saw demand for this programme soar, exceeding expectations in the process. Start-ups and fledgling businesses were supported with loans totalling EUR 557.6 million (2014: EUR 439.9 million).

The volume of new SME finance business also grew by EUR 284.2 million to EUR 2,458.8 million (2014: EUR 2,174.6 million). New business under the "Growth Finance" and "Investment Finance" programmes alone grew by 9.4% to a total of EUR 1,166.6 million (2014: EUR 1,066.6 million). The "Growth Finance" programme, which involves granting long-term loans on preferential terms to SMEs for typical investment projects, remained the biggest programme in terms of funding volume, with commitments totalling EUR 693.3 million. This was, however, lower than in 2014 (EUR 838.8 million). This fall was more than offset by a significant increase in loans awarded under the "Investment Finance" programme for funding business investment in rural areas. By making the lending terms significantly more attractive, L-Bank was able to more than double the volume of new business to EUR 473.3 million (2014: EUR 227.8 million). The "Resource Efficiency Finance" funding programmes were extended during the year under review to encompass two new elements: material efficiency and environmental technology. L-Bank systematically finances measures that aim to conserve natural resources. The total volume of commitments under the "Resource Efficiency Finance" programmes came to EUR 496.1 million (2014: EUR 641.4 million). Contrary to expectations and despite the introduction of repayment bonuses, new business was down on the previous year, primarily due to persistently low interest rates. L-Bank was able to offer its "Liquidity Facility" programme on more favourable terms, pushing up new business to EUR 94.9 million (2014: EUR 79.7 million). Alongside these changes to its programmes, L-Bank also launched a new programme for financing innovation, offering small and medium-sized companies low-interest loans with repayment bonuses to fund innovative research and development projects.

As far as agricultural programmes are concerned, the volume of new business, at EUR 171.5 million, grew by 18.9% compared with the previous year (2014: EUR 144.2 million). As observed in the wider economy, an increasing willingness to invest on the part of farmers and agricultural businesses had a marked impact. The "Agriculture – Growth" programme supports agricultural investment projects that aim to cut production costs or improve production and working conditions. Total finance provided under this programme during the reporting year came to EUR 85.5 million (2014: EUR 73.3 million). Meanwhile, the "New Energy – Energy from the Countryside" programme, which supports energy production from renewable energy sources, saw new business rise slightly to EUR 67.8 million compared with 2014 (EUR 65.6 million).

Housing development

L-Bank uses low-interest loans to help private individuals and companies in Baden-Württemberg build and acquire residential property for rental or owner occupation. By financing modernisation and renovation projects, the Bank also helps to implement energy-efficiency programmes and conversion projects that improve physical access to properties. As expected, L-Bank recorded a rise in the volume of new business to a total of EUR 2,168.0 million in 2015, a year-on-year increase of 9.2% (2014: EUR 1,985.9 million). The growth in demand for funding during the year under review is largely attributable to L-Bank's own development programmes, as well as the "Living with Children" programme. At the same time, price developments on the residential property markets meant that borrowers' average financing requirement increased, in turn driving up demand for top-up loans.

In terms of financial assistance for home ownership, the Bank approved new business totalling EUR 1,486.3 million, down slightly on the previous year (EUR 1,515.4 million). New funding approved under the federal state's housing assistance programme dropped to EUR 261.7 million (2014: EUR 264.7 million). At EUR 757.6 million (2014: EUR 858.0 million), funding approved under the related energy efficiency programmes continued to make up the biggest share by volume. Loans totalling EUR 529.4 million (2014: EUR 532.3 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 228.2 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 (2014: EUR 325.6 million). The waning level of demand for this programme is mainly due to low market interest rates. There also appears to be a growing willingness among consumers to fund renovation work themselves, particularly on a smaller scale. L-Bank's "Living with Children" programme supports families with children, enabling them to build or buy their own homes. There is a high level of awareness of this programme and the application process is comparatively straightforward. The volume of commitments rose by 11.0% to EUR 333.0 million (2014: EUR 300.0 million). Demand for the "Living for the Future" programme grew markedly, reaching EUR 36.7 million (2014: EUR 20.0 million), buoyed by the conditions on offer, which were improved mid-year, and the streamlined application process.

Under the various funding programmes for rental accommodation projects, L-Bank supports the construction and renovation of rental housing in Baden-Württemberg. Commitments totalled EUR 629.3 million during the year under review, significantly higher than in 2014 (EUR 452.1 million). With regard to the Bank's own development programmes, commitments rose considerably from EUR 265.2 million to EUR 456.1 million in total. The volume of funding under the state's housing assistance programme did not develop as expected, with new business falling to EUR 112.7 million (2014: EUR 132.6 million). While a clear increase in demand for new builds was recorded, at EUR 90.8 million (2014: EUR 76.2 million), this was not enough to offset the sharp decline in the volume of funding for modernisation projects. The decrease to EUR 16.2 million (2014: EUR 56.4 million) is essentially attributable to the fact that many investors decided to finance their projects without development funding, using their own liquid assets as a consequence of state support rules placing limitations on returns.

Finance for apartment owners' associations developed very positively, with a new business volume of EUR 23.9 million (2014: EUR 18.4 million). This highlights the extent to which the joint taking-up of loans for energy-efficiency improvements or to improve physical access to apartment buildings has become established on the market.

There was also a very good level of demand for the new "Housing for Refugees" development programme, launched in 2015. In the programme's first year, EUR 28.5 million in state subsidies was provided for long-term refugee accommodation.

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 forms of finance. The Bank is involved, for example, in syndicated finance for public-private partnerships, and also funds licensing and rental models. By way of example, L-Bank supports the construction of community wind farms in this segment. L-Bank also provides its owner with support for infrastructure projects. In response to rising demand in the public sector, EUR 3,652.4 million of new funding was provided during the year under review (2014: EUR 2,637.4 million).

As a service provider to the State of Baden-Württemberg, L-Bank is responsible for granting and administering many different types of financial assistance. In addition to funds from the State of Baden-Württemberg, the German federal government and the European Union, L-Bank also distributes grants from Baden-Württemberg Stiftung gGmbH. During the year under review, the Bank processed a total of 7,989 new approvals with a volume of EUR 1,224.3 million (2014: EUR 809.6 million). The introduction of new programmes and increases under established programmes pushed the volume of funding well above the previous year's level. As before, the most significant programmes involved finance for hospitals (EUR 400.3 million; 2014: EUR 317.3 million), as well as projects relating to water, waste water, flood protection, contaminated sites and hydropower (EUR 132.7 million; 2014: EUR 102.0 million). Finance totalling EUR 115.2 million (2014: EUR 62.0 million) was issued for technology and enterprise development. L-Bank also paid out federal family allowances and childcare allowances on behalf of both federal and state governments. At EUR 856.5 million, approved funding for family allowances was slightly higher than in 2014 (EUR 840.3 million). Meanwhile, childcare allowance payments decreased to EUR 116.0 million (2014: EUR 197.7 million). This fall can be attributed to a ruling of the Federal Constitutional Court according to which the childcare allowance was deemed to be incompatible with Germany's constitution. No further childcare allowance payments were approved from 21 July 2015 onwards.

L-Bank's investment portfolio includes primarily 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, L-Bank's investment portfolio had a book value of EUR 231.0 million (2014: EUR 594.1 million).
The book value of the strategic investments held by L-Bank on behalf of the State of Baden-Württemberg totalled EUR 117.8 million at the year-end (2014: EUR 488.9 million). The change compared with the previous year is mainly due to the sale of two financial investments.
Through L-EA Mittelstandsfonds, L-Bank either assumes the role of co-investor in well-established SMEs based in Baden-Württemberg or supports such companies by providing them with tailor-made mezzanine financing instruments. L-Bank has earmarked EUR 100.0 million of the funding for supporting companies in the IT and software sector that have already launched their products on the market but require financial support to grow further (Venture Capital sub-portfolio). Currently, L-Bank is only engaging in new investments in the Venture Capital sub-portfolio, which explains the fall in the investment volume – including subordinated loans – to EUR 19.1 million (2014: EUR 30.7 million). As at the balance-sheet date, the L-EA Mittelstandsfonds portfolio comprised 21 commitments, representing a total investment volume of EUR 184.0 million (2014: EUR 170.5 million). The Venture Capital subportfolio, with seven commitments, accounted for EUR 41.6 million (2014: five commitments, EUR 27.4 million). The book value of the shareholdings in the L-EA Mittelstandsfonds and additional credit-equivalent shareholdings totalled EUR 92.3 million (2014: EUR 82.2 million).
L-Bank operates technology and business parks in Karlsruhe, Stuttgart, Tübingen and Reutlingen through subsidiary companies. Based near higher education and research institutions, the aim of these parks is to facilitate technology transfers from academia to industry by providing companies with the necessary buildings and infrastructure. These parks differ from other commercial premises by the way they are managed and the additional services on offer, which include conference and training facilities as well as nursery and primary school provision. In addition to these parks, L-Bank also operates a number of national infrastructure projects, as well as the German Centre in Indonesia. As at 31 December 2015, the book value of the regional development companies was EUR 21.0 million (2014: EUR 23.0 million).
With effect from 30 November 2015, L-Bank sold a sub-portfolio of loans to housing companies in Saxony with a total nominal value of EUR 878.3 million to Sächsische Aufbaubank – Förderbank, Dresden.

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

MANAGEMENT REPORT

Income situation

The summary of operational income below is intended to provide a clear breakdown of L-Bank's results. The summary treats interest subsidies as interest expenses (as required under commercial law) and other development expenditure as services to the State of Baden-Württemberg, hence as an appropriation of profits. Net interest income fell by EUR 10.1 million or 2.7% during the year under review, reflecting the persistently low level of interest rates. However, following a special dividend payment by an associate company, the decrease was considerably smaller than anticipated. Net interest income remains L-Bank's largest source of income.

Once again, net commission income, at EUR 42.4 million (2014: EUR 42.4 million), mainly comprised payments from the State of Baden-Württemberg for services provided by L-Bank. These included, in particular, the distribution of family benefits (family allowance, education allowance and childcare allowance payments) and the granting of financial aid (EU structural funds and others).

Administrative expenses, which include depreciation on tangible assets as well as personnel and general expenses, rose as expected by 3.4% over the previous year to EUR 171.2 million (2014: EUR 165.6 million). The main factors responsible for this rise included the Bank's first contribution to the European Single Resolution Fund, IT costs, increases in contractually agreed wages, and higher expenses relating to occupational pension arrangements.

The balance of other operating income and expenses showed positive growth (2015: EUR 4.7 million; 2014: EUR –4.9 million), primarily as a result of income from a venture capital finance deal. Operating income before risk provisions/valuations fell only slightly, totalling EUR 241.3 million (2014: EUR 247.4 million).

At EUR 42.6 million, net valuation income was, as expected, down on the previous year's figure of EUR 61.0 million, albeit still positive. This change can be mainly attributed to reversals of risk provisions relating to development business in Saxony. L-Bank's operating result totalled EUR 283.9 million (2014: EUR 308.4 million). The Bank's distributable income totalled EUR 279.2 million (2014: EUR 307.5 million).

In the context of L-Bank's development activities, EUR 114.5 million (2014: EUR 114.2 million) was spent on interest subsidies and grants. The Bank's contribution to Baden-Württemberg's road construction programme was unchanged at EUR 14.1 million. EUR 100.0 million (2014: EUR 130.0 million) was allocated to the fund for general banking risks.

Net income totalled EUR 50.6 million (2014: EUR 49.2 million). Taking into account the profit carried forward from 2014, net profit amounted to EUR 50.9 million. The Board is planning to allocate EUR 50.0 million of this income to other retained earnings in order to increase the Bank's Tier I capital ratio, and to carry forward the remaining EUR 0.9 million.

BREAKDOWN OF OPERATING INCOME in EUR millions

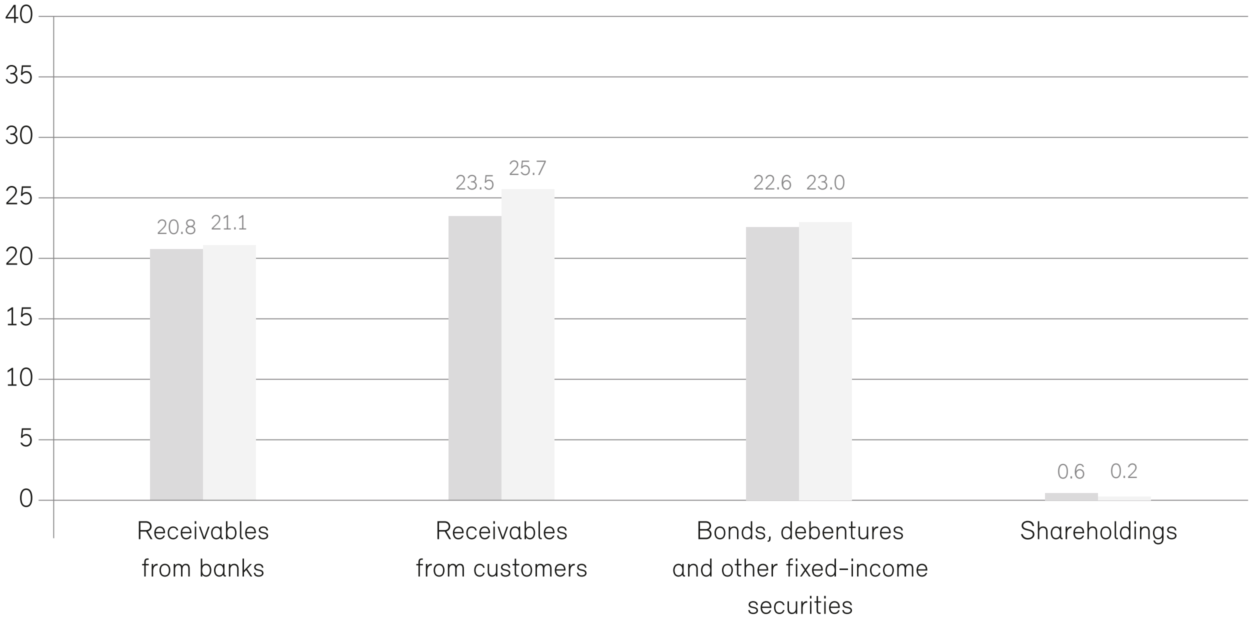
	01.01.2015 to 31.12.2015	01.01.2014 to 31.12.2014	Change	Change in %
Net interest income	365.4	375.5	–10.1	–2.7
Net commission income	42.4	42.4	0.0	0.0
Net result from other income/expenses	4.7	–4.9	9.6	< –100.0
Administrative expenses	171.2	165.6	5.6	3.4
Operating result before risk provisions/ valuations	**241.3**	**247.4**	**–6.1**	**–2.5**
Income from asset revaluation	42.6	61.0	–18.4	–30.2
Operating result	**283.9**	**308.4**	**–24.5**	**–7.9**
Taxes on income	4.7	0.9	3.8	>100.0
Distributable income	**279.2**	**307.5**	**–28.3**	**–9.2**
Expenses for interest subsidies and other subsidies	114.5	114.2	0.3	0.3
Contribution to road construction programme	14.1	14.1	0.0	0.0
Addition to fund for general banking risks	100.0	130.0	–30.0	–23.1
Net income	**50.6**	**49.2**	**1.4**	**2.8**

Assets and liabilities

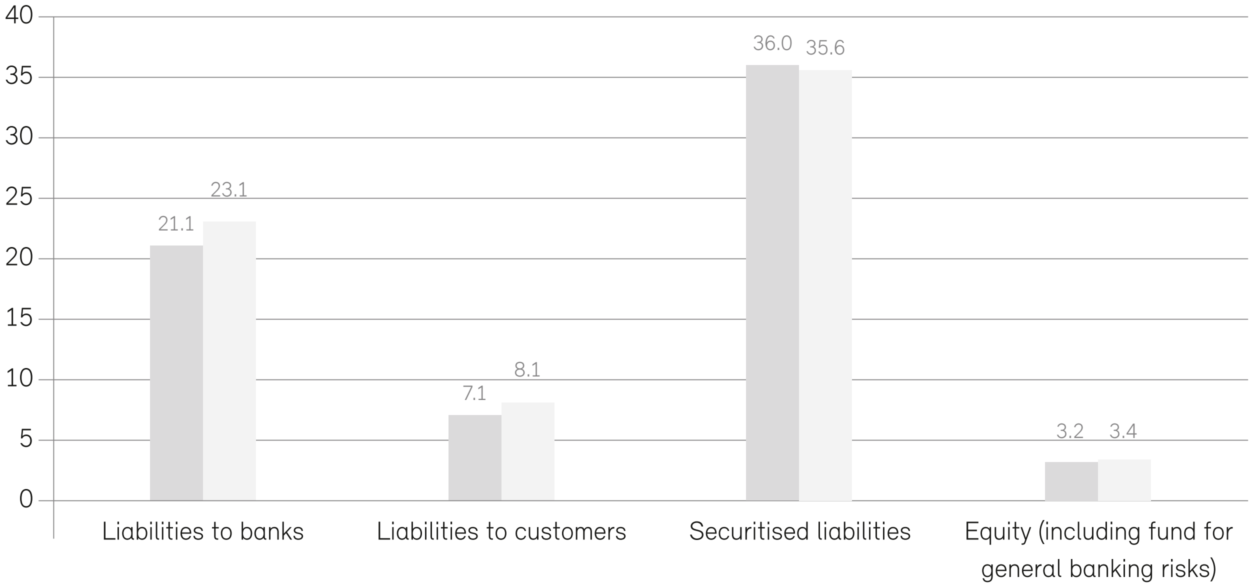
In line with expectations, L-Bank's total assets remained more or less unchanged, totalling EUR 73,294.9 million at the balance-sheet date (2014: EUR 70,190.1 million). The slight increase was mainly due to higher receivables from customers. On the liabilities side, liabilities to banks and customers were generally higher.

The business volume, which also encompasses contingent liabilities and irrevocable loan commitments, was up by 4.3% to EUR 81,320.5 million at the balance-sheet date (2014: EUR 77,995.2 million).

SELECTED ITEMS UNDER ASSETS in EUR billions



SELECTED ITEMS UNDER LIABILITIES in EUR billions



Financial situation

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

During the year under review, L-Bank was once again able to make diversified use of the refinancing alternatives on offer to meet its objectives in terms of funding volumes, maturity profiles and structure. In strategic terms, refinancing activity continued to focus on maturities ranging from two to five years. The principal instrument used here is the Bank's Debt Issuance Programme, with a funding limit of EUR 30,000.0 million, of which EUR 21,890.6 million was utilised as at 31 December 2015 (2014: EUR 21,341.9 million). In the year under review, L-Bank issued one five-year EUR 1,500.0 million benchmark bond and two benchmark bonds in US dollars, both with a volume of USD 1,000.0 million and a two-year term. In addition, the Bank issued private placements in various currencies, denominated primarily in euros, US dollars and British pounds sterling. Also during the year under review, L-Bank carried out two refinancings for a total of AUD 350.0 million with terms of three and ten years respectively, and issued a four-year bond in the amount of NZD 250.0 million (New Zealand dollars). The total volume of medium and long-term refinancing through borrowings on the capital markets fell, as expected, to EUR 5,158.6 million (2014: EUR 8,776.9 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 9,187.9 million (2014: EUR 9,446.3 million).

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

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

Capital adequacy is calculated in accordance with the requirements of the Capital Requirements Regulation (CRR). The following table provides a breakdown of the Bank's equity as at 31 December 2015, prior to approval of the annual financial statements by L-Bank's Supervisory Board.

EQUITY INSTRUMENTS in EUR millions	
Common Equity Tier I capital after deductions	3,231.6
Additional Tier I capital after deductions	0.0
Supplementary capital after deductions	515.4
Total equity instruments	3,747.0

SUMMARY OF THE BANK'S BUSINESS DEVELOPMENT AND POSITION

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

PERSONNEL

As at the balance-sheet date, the number of staff employed by L-Bank totalled 1,236 (2014: 1,250). The reduction in the number of employees, the first for many years, is mainly due to staff reaching retirement age. L-Bank's staff turnover rate rose slightly to 3.82% (2014: 2.47%). Personnel changes mainly related to internal restructuring, the setting-up of central staff units and the introduction of stricter regulatory rules. With effect from 1 April 2015, a new Credit Office was set up within the Credit Analysis unit. This centralises responsibility for the lending rules applicable throughout the Bank. In Legal, a central Loan Agreement Management unit has also been established. The new Corporate Finance and Market Management unit combines the activities of various development finance disciplines with the aim of devising a development business strategy that responds to market conditions and is geared towards future needs.

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. 33.8% of the Bank's managers are women (2014: 33.6%). In terms of senior management reporting directly to the Board, the ratio of female staff was 32.1% (2014: 32.0%). Overall, L-Bank employs more women than men, with female employees accounting for 58.2% of all staff as at the balance-sheet date (2014: 58.5%).

In order to help staff find an appropriate balance between work and family life, L-Bank offers flexible working hours and parent-and-child offices. Employees' individual working time preferences are also taken into consideration when agreeing part-time conditions. As at the balance-sheet date, 24.8% of the Bank's staff worked part-time, unchanged from the previous year. As a general rule, job vacancies at the Bank are always advertised as open to candidates interested in working part-time.

Demographic change and the associated ageing of the population are also posing challenges for L-Bank. Some 530 employees (2014: 538) have been with L-Bank for 20 years or longer, and the average age of L-Bank employees is unchanged at 46.2 years. Consequently, measures to support and develop the next generation of employees are particularly important.

SUSTAINABILITY REPORT

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

In order to encourage companies in Baden-Württemberg to enshrine the concept of sustainability in their business methods, the Sustainability business initiative launched by the federal state has developed the WIN Charter. As one of the Charter's first signatories, L-Bank has assumed a pioneering role in this regard and is also involved in promoting the WIN Charter. L-Bank produces a WIN Charter sustainability report to provide more information on the WIN Charter's sustainability targets and progress made to date. This report also sets new targets for the coming reporting period, thereby initiating a continuous improvement process. By taking part in projects for optimising corporate mobility management, L-Bank also ensures that the principles of its Sustainability Code and in-house sustainability guidelines are being applied in practice.

SUPPLEMENTARY REPORT

No other incidents or events of particular significance occurred after the fiscal year-end on 31 December 2015.

OUTLOOK

The basic parameters affecting the German economy remain favourable. Oil prices and interest rates remain low, and the value of the euro also remains low, creating conditions that are conducive to the growth of Germany's economy. The economic upturn is stable, supported by both the domestic economy and export business. Looking at 2016 as a whole, the moderate economic upswing is expected to continue. Meanwhile, various export factors will have differing effects on the health of the German economy. The anticipated economic recovery of the eurozone and the predicted strengthening of the US economy will help German exports over the course of 2016. Nevertheless, it should be noted that this will not be enough to offset the ongoing slowdown affecting global markets and emerging markets in particular. Meanwhile, as domestic demand picks up, imports will increase. In 2016, the domestic economy will help to support the growth of the German economy as a whole to an even greater extent than in 2015. The strong labour market, ongoing increases in real wages and pensions, and persistently low interest rates, are combining to stimulate private consumption. Domestic demand will also be boosted by efforts to integrate refugees and by growing levels of public spending to pay for new infrastructure projects, benefiting the services sector in particular. Overall, L-Bank expects a stable increase in real gross domestic product ranging from 1.5% to 1.7%. This growth is expected to create new jobs. Despite this, however, jobless figures are set to increase as asylum seekers gradually enter the labour market. L-Bank agrees with the joint diagnosis published by German economic research institutes in autumn 2015, predicting that the unemployment rate for 2016 would rise slightly to 6.5%.

The greatest risks to growth are posed by the geopolitical risks associated with terrorism, the ongoing uncertainty in Europe created by the conflict between Ukraine and Russia, the economic situation in Greece, and the elections in Poland and Spain. Additionally, the uncertainty surrounding the severity of a potential economic crisis in China also poses a threat.

In 2015, Baden-Württemberg's economy benefited from its focus on capital goods and the automotive sector, as well as its strong export activities. However, it is likely that this reliance on exports will be a less positive factor in the coming year. Given the state's above-average focus on exports compared with other German federal states, any tangible slowdown in the global economy could have a more severe impact on Baden-Württemberg's economic growth. The Statistical Office of Baden-Württemberg expects real GDP to grow by 1.5% in 2015 (as at December 2015) – a relatively cautious prediction. Based on what is expected to be a healthy construction sector, L-Bank is assuming that real economic growth will show a slightly higher trend, in a range between 1.6% and 1.8%. Exporters in Baden-Württemberg should benefit from an improvement in the US economy to the extent that it offsets any negative impact resulting from the weakening of emerging economies. The robust state of the labour market and prospect of significant increases in personal income can also be expected to make private consumption a mainstay of growth in 2016. L-Bank expects that the number of people in work in Baden-Württemberg will continue to rise, albeit less markedly than in 2015, by a modest 0.7%.

Key aspects of L-Bank's work in 2016 will once again include supporting the development of SMEs and business start-ups, alongside initiatives to create new housing. Essentially, this will be achieved by continuing the Bank's development activities under existing programmes. In light of the economic forecasts, a moderate overall improvement in demand is expected.

Overall, the record levels of start-up and SME finance achieved in 2015 are unlikely to be matched. In fact, we expect to see a significant decline in the volume of funding provided through our programmes. With respect to enterprise development, the Bank will focus on offering straightforward programmes with low subsidies. At the same time, L-Bank will prioritise development efforts relating to Digitisation 4.0 and the energy revolution. The new Innovation Finance and InnovFin70 programmes launched in autumn 2015 are now well-established on the market, such that demand can be expected to increase. In addition, from April 2016 onwards, L-Bank will be offering businesses a new, streamlined programme through their commercial banks in the form of the CPD Finance 4.0 programme, enabling companies to use medium-term loans to finance training initiatives. The restructuring of investment activities is resulting in a focus on the venture capital sector, and especially on IT and the Internet. At the beginning of 2016, L-Bank also invested in an external SME fund. This is designed to help established companies deal with the challenges posed by the increasing digitisation of products and value chains (Industry 4.0). The Bank intends to further expand its regional development activities by adding new locations for technology parks in particular. The sale of properties in the parks remains part of the Bank's overall strategy.

As far as supporting private home ownership is concerned, the relevant programmes are designed to comply with Germany's Energy Saving Ordinance among others. With effect from 1 January 2016, this legislation has significantly tightened up the energy requirements for new builds. In response, L-Bank terminated its support for KfW's "Effizienzhaus" (Efficient House) quality standard 70 for new builds as at 1 February 2016, previously provided under the "Energy Efficiency Finance – Construction" programme. This alone will cause the funding volume to fall by around EUR 200 million. As for financial assistance for home ownership in Baden-Württemberg under the federal state's housing assistance programme, L-Bank does not expect to see any major changes during fiscal year 2016. Indeed, the state's funding programmes for rental accommodation can be expected to increase substantially in 2016, due to the optimised funding conditions (maximum lending thresholds, increase in permitted return on equity, option of a reduced rent and occupancy commitment of ten years). Various large-scale brownfield sites are also ready for redevelopment (in Heidelberg and Mannheim), involving a significant number of new builds. There continues to be enormous demand for affordable housing, not least due to the high number of refugees.

Despite the relatively stable economic environment overall, L-Bank is predicting a significant fall in operating income before risk provisions/valuations in 2016. This prediction is partly based on the expectation that net interest income will fall sharply, given that interest rates are set to remain low during the coming year, and on the absence of any special dividend payouts by associate companies. At the same time, there will be a noticeable increase in general expenses for banking operations, primarily as a result of IT expenditure required to implement new legal regulations and to modernise the Bank's IT systems. Compared with the year under review, the Bank is also anticipating lower net valuation income, mainly because L-Bank cannot expect a repeat of the substantial risk provision reversals made during the year under review.

Total assets in 2016 are likely to be comparable to 2015 levels.

In terms of refinancing, L-Bank expects to be able to continue to raise funds on the capital market without any problems, thanks to its very good rating. The Bank is well placed on the national and international money and capital markets, with good diversification of funding sources.

Overall, L-Bank is forecasting a significant decline in new business over 2016 as a whole compared with the previous year. No significant impairments of the Bank's income, assets or financial position are expected.

OPPORTUNITIES AND RISK REPORT

To manage risks associated with L-Bank's business activities, the Bank has installed a risk management system with the aim of enabling it to:
- → assess the Bank's overall risk exposure at any time,
- → immediately identify, value, communicate and control material individual risks, 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 and related reporting to the Board of Management,
- → creation of a recovery plan setting out possible courses of action to deal with any events that have a substantial negative impact on the Bank's income, assets or financial position,
- → full documentation in writing of the Bank's corporate structure and all business processes involving risks,
- → creation and continuous updating of risk management and risk control processes, and
- → creation of a compliance controlling and a risk controlling function, as well as an internal audit unit.

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. From a supervisory perspective, L-Bank's business operations are regulated and monitored by the European Central Bank in conjunction with the responsible German authorities. Supervision of the Bank focuses on monitoring compliance with the CRR/CRD 4 rules as transposed into German law. Additionally, the German Federal Financial Supervisory Authority (BaFin) assesses L-Bank's internal risk-bearing capacity on the basis of its guidelines of 12 December 2011 entitled "Supervisory assessment of bank-internal capital adequacy concepts". The additional cover stipulated by the European Central Bank through the SREP (Supervisory Review and Evaluation Process) with respect to the minimum capital ratios defined in the CRR also relates to elements of internal risk-bearing capacity. To this extent, the assessment of internal risk-bearing capacity is governed by both European and German regulations. The following statements on internal risk-bearing capacity are based on the above-mentioned BaFin guidelines and assume application of the minimum capital ratio required by the CRR for the purposes of calculating internal risk-coverage capability.

HOW RISK MANAGEMENT IS ORGANISED

The Board of Management is responsible for the Bank's core risk management tasks. It has delegated the implementation of risk management to various risk managers, as well as to the risk controlling function, compliance function, the head of the Internal Audit unit and the Security Office. In terms of the L-Bank hierarchy, these functions appear directly below the Board of Management. To assist them with their remits, they have set up a Stress Testing Committee, a Recovery Planning working group and a Regulatory Compliance Committee. The Chief Risk Officer (CRO) bears overall responsibility for assessing and monitoring all counterparty default, market price, liquidity and operational risks for the Bank as a whole, and reports exclusively to the Board of Management on these risks. The risk controlling function appears directly below the CRO in the hierarchical structure and reports directly to the CRO.

The Board of Management regularly briefs the Supervisory Board on the risk situation, risk management, risk controlling and any other risk-related information, and – where necessary – reports on specific incidents. The Supervisory Board has set up various committees to deal with specific subject areas. At meetings of the Risk Committee, the Board of Management reports on counterparty default, market price, liquidity and operational risks, as well as on legal, reputational and compliance risks. The Risk Committee is also briefed on the Bank's risk strategies and on any matters that, in view of the associated risks, are especially relevant. For its part, the committee advises the Board of Management on questions relating to the Bank's overall willingness to assume risks and to risk strategies. The Risk Committee is also responsible for discussing the audit report with the auditor and for preparing the approval of the annual financial statements and the Board of Management's proposal for the appropriation of profits. The Supervisory Board also has plans to set up a dedicated Audit Committee to handle these audit-related activities.

The remit of the Personnel Committee covers the responsibilities of an appointments and remuneration control committee. The Personnel Committee is also responsible for preparing Supervisory Board resolutions on the remuneration paid to senior management and on the terms of the relevant contractual and other contractual matters. It adopts resolutions setting out the terms and conditions of employment for executive staff and other employees, and also assigns L-Bank's powers of attorney.

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

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

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

The Credit Analysis department assesses the credit standing of individual borrowers and specific portfolios, and proposes appropriate borrower-based lending limits to the Board of Management, as well as lending limits for portfolios and countries. The Credit Analysis department also casts the back-office vote on business decisions involving risk. In order to comprehensively assess risk exposure, 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.

The Compliance unit is also accountable to the Board of Management as a whole and is responsible for corporate compliance, money laundering and fraud prevention, as well as securities compliance.

The Security Office's main areas of responsibility include supporting the Board of Management in all areas of information security policy, coordinating information security and all associated measures, monitoring the effectiveness of security measures, ensuring the continuous improvement and further development of the security process, and regularly reporting on information security.

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

BUSINESS STRATEGY AND RISK STRATEGY

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

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

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. Based on a regularly updated risk inventory, counterparty default risk, market price risk, liquidity risk and operational risk are identified as material types of risk. Using its own loss histories, the Bank has prepared credit correlations, which is why, from 1 January 2015 onwards, no risk coverage capital was required for risks modelled during reviews of the Bank's risk-bearing capacity. L-Bank has also found that the simulated interest rate changes being used to calculate the value at risk of market price risks, based on such factors as a mirroring of historical trends, actually represented stress scenarios; consequently, as from 1 January 2015, they are no longer included in value-at-risk calculations. The quantitative assessment of the Bank's risk-bearing capacity is supplemented by stress analyses, with a particular emphasis on risk tolerances.

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

With respect to market price risks, the Bank pursues a strategy of following projected interest-rate developments to generate predictable levels of income with acceptable levels of risk, primarily within a maturity range of up to 24 months. The underlying projections of interest-rate developments are derived from capital market parameters. Due to the current volatility, these transactions are intensively monitored on a daily basis, with ongoing reviews being conducted at least weekly by senior management. Additionally, both the German and European supervisory authorities assume the existence of market price risks associated with equity investments in longer-term stocks.

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

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

RISK-BEARING CAPACITY

Monitoring risk coverage capability using going-concern and liquidation approaches

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

Going-concern approach

Calculations of the relevant economic risk coverage capability are based on profit and loss projections. Initially, only equity that is not required to satisfy the capital adequacy requirements of the CRR is taken into account. Given that the risks are calculated on the basis of a holding period of one year, the Bank uses equity requirements based on those that will apply 12 months after the valuation date, in accordance with the phase-in scheme. For reasons of prudence, L-Bank increases the required ratio by 0.5 percentage points. The Bank then supplements the resulting disposable equity components with any reserves that, in terms of their loss-compensation function, are comparable in quality to the available equity capital and – when calculating the Bank's risk exposure as defined by regulatory requirements – have not already been treated as risk-reducing factors. In addition, "write-up reserves" that stem from the fall in value of interest-subsidised loans and predate the German Accounting Law Modernisation Act (BilMoG) are also taken into account. To ensure that risk-bearing capacity is maintained beyond the reporting date, reviews are carried out to determine how the Bank's risk coverage capital will develop over the next 12 months, ignoring any income from new business, but including any potential losses (from embedded options in particular) not included in the respective value-at-risk figures.

Value-at-risk (VaR) limits are specified for all material types of risk, based on a uniform confidence level of 99.0%. This does not apply, however, to any business transaction for which a valid VaR cannot be determined, e.g. due to insufficient size. The Bank calculates potential losses for such transactions using simplified methods. When specifying VaR limits, L-Bank takes business and risk strategies into account. However, the possibility that a transaction's VaR may increase due to "technical" processes despite an unchanged risk position (e.g. unchanged equity investment but simulated interest rate increase) cannot be precluded. In order to ensure that risk-bearing capacity is maintained even in the event of such technical processes, the Bank makes a loss buffer available. The sum total of these VaR limits and loss buffers represents the aggregate loss ceiling as defined by the Bank, which, in view of the requirement to secure L-Bank's long-term survival, may not exceed 80.0% of the risk coverage capital. When offsetting potential losses against risk coverage capital in this way, the Bank does not take account of any risk-reducing diversification effects between the different risk types. These comparisons of loss limits with risk coverage capital (review of risk-bearing capacity) are carried out monthly, and the results are reported to the Board of Management.

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

REGULATORY CAPITAL ADEQUACY REQUIREMENTS

Regulatory capital ratios	31.03.2015	30.06.2015	30.09.2015	31.12.2015
Risk exposure in EUR millions	21,777.0	21,760.9	21,629.8	19,726.0
Tier I capital in EUR millions	3,008.4	3,213.9	3,213.9	3,231.6
Tier I capital requirement in EUR millions (6.0%)	1,306.7	1,305.7	1,297.8	1,183.6
Equity in EUR millions	3,528.8	3,719.8	3,694.9	3,747.0
Tier I capital ratio in %	13.81	14.77	14.86	16.38
Total capital ratio in %	16.20	17.09	17.08	19.00

Taking into account the CRR requirements applicable 12 months following the calculation date and the Bank's own markup of 0.5 percentage points on the minimum Tier I capital ratio, the disposable Tier I capital is as follows:

	31.03.2015	30.06.2015	30.09.2015	31.12.2015
Disposable Tier I capital in EUR millions	1,257.7	1,452.8	1,444.0	1,638.6

As at the balance-sheet date, with disposable Tier I capital amounting to EUR 1,638.6 million, a profit for the preceding year of EUR 150.6 million (before additions to contingency reserves pursuant to Art. 340g HGB), and eligible contingency reserves totalling around EUR 127.9 million, the Bank's P&L-based risk coverage capability amounted to EUR 1,917.1 million. This risk coverage capability is counterbalanced by the aggregate loss ceiling of EUR 940.0 million, as set by the Board of Management in line with the Bank's business and risk strategies. As at the balance-sheet date, this limit was distributed as follows:

AGGREGATE LOSS CEILING AND INDIVIDUAL LOSS CEILINGS AS AT 31.12.2015
in EUR millions

	Limit
Aggregate loss ceiling	940.0
Counterparty default risks	400.0
Market price risks	250.0
Liquidity risks	150.0
Operational risks	10.0
Loss buffer for transactions evaluated using simplified method	10.0
Loss buffer	120.0
Proportion of risk coverage capital taken up by aggregate loss ceiling in %	49.0

Thus the aggregate loss ceiling accounted for 49.0% of the Bank's economic risk coverage capability as at the balance-sheet date. Over the past fiscal year, this proportion has varied between 49.0% and 60.5%.

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, 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 and credit default swaps 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 and credit default swaps due to market-wide spread movements.

As at the balance-sheet date, the business portfolio's net present value is calculated as EUR 5,434.9 million. This is offset by present-value administrative expenses totalling EUR 270.0 million, plus imputed risk provisioning costs of EUR 423.8 million and hidden liabilities from CDS of EUR 0.2 million, resulting in a value-based risk coverage capability of EUR 4,740.9 million. As at the balance-sheet date, 84.6% of this was taken up by value at risk totalling EUR 4,012.4 million, based on a confidence level of 99.98% using the liquidation approach. Utilisation of the value-based aggregate loss ceiling in 2015 ranged between 62.5% and 84.6%.

Capital planning

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

Performing stress analyses

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

When performing these analyses, the Stress Testing Committee 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 (previously using inverse stress tests). With effect from 1 October 2015, L-Bank has replaced the inverse stress tests carried out to date with the stress analyses performed for purposes of recovery planning, thereby incorporating recovery planning into the risk management system.

Identifying the quantitative impact of the formulated scenarios is dependent on expert estimates from which quantitative data are derived.

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

Taking into account the changes in measuring procedures and their underlying assumptions agreed for the 2015 risk inventory, the risk quantification methods used to review the Bank's risk-bearing capacity in 2015 remain suitable for internal risk management and will be used again in 2016. Any adjustments required in the course of the year must be approved by the Board of Management.

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 resulting from a counterparty's failure to meet its contractual obligations. These obligations may result from a lending transaction as defined in the German Banking Act (Art. 19 KWG), or from a performance obligation relating to a transaction involving payment on delivery. The reason for non-fulfilment of a contract may be specific, relating to the borrower's credit standing or particular circumstances. The Bank classifies political reasons for non-performance under country risk. Country limits are in place to restrict this type of risk. Country-specific transfer and conversion risks are classified as legal risks and thus under operational risk.

The active management of counterparty default risk begins with the lending process, involving
- the borrower's credit rating (including a review of the borrower's capacity to meet principal repayments),
- adherence to the country risk limit,
- the acceptance of collateral where applicable,
- the calculation of a risk margin based on probability of default, and
- a review of the need for a second vote.

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

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

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.

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

The table shows the composition of the loan portfolio by product type as at 31 December 2015:

LOAN PORTFOLIO AS AT 31.12.2015 in EUR millions	Private clients	Companies and self-employed persons	Companies in the financial sector	Public sector	L-Bank total	Allocation in %
Loans	5,873.0	7,583.8	16,851.7	2,466.4	32,774.8	44.8
Borrowers' notes	0.0	0.0	2,367.0	8,900.0	11,266.9	15.4
Securities (bearer bonds)	0.0	936.3	8,552.0	12,553.3	22,041.6	30.1
Securities (ABS)	0.0	0.0	48.2	60.8	109.0	0.1
Securities (CLN)	0.0	0.0	500.0	0.0	500.0	0.7
Total securities	0.0	936.3	9,100.2	12,614.1	22,650.6	30.9
CDS	0.0	0.0	145.0	3,607.8	3,752.8	5.1
Sureties	0.0	521.0	378.9	16.0	915.8	1.3
Financial derivatives	0.0	0.0	1,370.3	0.0	1,370.3	1.9
Time deposits	0.0	0.0	135.6	0.0	135.6	0.2
Shareholdings	0.0	142.4	2.0	94.5	238.9	0.3
Current accounts, cash	0.0	0.0	43.2	85.7	128.9	0.2
Lending	0.0	0.0	0.0	0.0	0.0	0.0
Total	5,873.0	9,183.5	30,393.8	27,784.3	73,234.6	100.0

QUANTITATIVE ASSESSMENT BASED ON VALUE-AT-RISK CALCULATIONS

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

As a general rule, unanticipated losses are estimated using the Monte Carlo simulation method based on probabilities of default. The probability of default is allocated on the basis of the external or internal rating category assigned to the customer on the basis of the Bank's analyses. As well as the customer's credit rating, the sector in which the customer operates and other risk-related portfolio characteristics are also taken into account. The calculation assumes a holding period of one year and a confidence level of 99% for the going-concern approach or 99.98% for the liquidation approach. If a sufficient default history is available (in the case of private clients and corporate clients in the rental housing sector), the Bank's own borrower correlations are incorporated into the assessment. Otherwise, the regulatory borrower correlations are applied. When calculating the amount of the loss, any security provided such as cash collateral, real-estate liens on residential properties, or loans granted to end-borrowers in accordance with the "borrower's bank" principle is taken into account. For the remaining unsecured portion, a recovery rate of 55% is applied to "Companies in the financial sector" and "Public sector" business lines, while a 30% recovery rate is applied to "Companies and self-employed persons".

The following table provides an overview of the proportion of the aggregate loss ceiling taken up by counterparty default risks in the course of 2015:

VALUE AT RISK FOR COUNTERPARTY DEFAULT RISKS IN 2015 in EUR millions

	01.01.2015		31.03.2015		30.06.2015		30.09.2015		31.12.2015	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	347.4	940.0	257.6	940.0	379.6	940.0	391.7	940.0	374.4
Share of counterparty default risks in %	42.6	68.5	42.6	74.9	42.6	55.6	42.6	54.0	42.6	49.4
Counterparty default risks	400.0	237.8	400.0	193.0	400.0	211.1	400.0	211.4	400.0	185.0
Private clients	60.0	40.5	60.0	0.0	60.0	0.0	60.0	0.0	60.0	0.0
Companies in the financial sector	100.0	64.4	140.0	108.1	140.0	112.1	140.0	119.5	140.0	77.8
Other companies	190.0	132.9	150.0	84.9	150.0	99.0	150.0	91.9	150.0	107.2
Public sector	50.0	0.0	50.0	0.0	50.0	0.0	50.0	0.0	50.0	0.0

Timely and adequate risk provisions

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

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

VALUE ADJUSTMENT RATIOS AS AT 31.12.2015 in EUR millions

	Private clients		Corporate clients		Companies in the financial sector		Public sector		Total		Ratio in %
	Adjustment	Portfolio	Adjustment	Portfolio	Adjustment	Portfolio	Adjustment	Portfolio	Adjustment	Portfolio	
31.12.2010	87.9	7,749.9	674.2	11,887.1	31.6	34,156.0	0.0	14,273.0	793.7	68,066.0	1.2
31.12.2011	100.4	7,251.9	567.1	11,659.9	31.6	33,710.5	0.0	20,177.2	699.1	72,799.5	1.0
31.12.2012	88.6	6,771.8	505.8	10,959.8	31.6	31,236.1	0.0	23,941.6	626.0	72,909.2	0.9
31.12.2013	92.9	6,373.7	432.1	10,886.2	31.6	31,300.6	0.0	23,846.3	556.6	72,406.8	0.8
31.12.2014	87.6	6,091.8	373.2	11,006.3	21.9	30,211.3	0.0	23,039.4	482.7	70,348.9	0.7
31.03.2015	96.5	6,019.2	349.4	11,357.1	70.0	32,285.9	35.8	23,203.3	551.7	72,865.5	0.8
30.06.2015	94.3	5,966.8	339.9	11,078.2	70.0	32,626.4	35.8	25,708.0	540.0	75,379.4	0.7
30.09.2015	92.2	5,916.2	318.3	10,369.6	70.0	35,023.9	35.8	26,444.2	516.3	77,753.9	0.7
31.12.2015	88.8	5,873.0	265.4	9,183.5	15.0	30,393.8	35.8	27,784.3	405.0	73,234.6	0.6

Qualitative assessment of credit rating and collateral classifications

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

RISK CATEGORIES AND THE CORRESPONDING DEFAULT PROBABILITIES

Risk category	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Mean probability of default in %	0.01	0.03	0.06	0.13	0.27	0.56	1.15	2.35	4.75	9.37	17.63	30.72	100	100
Range of probability default 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
	0.02	0.04	0.09	0.19	0.39	0.80	1.65	3.35	6.70	12.95	23.55	100		
External (S&P)		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							

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

To indicate the loss exposure, the risk-mitigating effects of certain types of collateral are taken into account. Payables from regional banks that are guaranteed by "grandfathering" and are underwritten by public guarantee and maintenance obligations are assigned to risk category 1. Similarly, loans that are guaranteed by municipalities and real-estate loans secured on residential properties in Baden-Württemberg are also allocated to risk category 1.

Where collateral is provided in the form of property charges on residential property in Baden-Württemberg – independent of the real-estate loan, but within the relevant lending ratio – it is assigned to risk category 4. In the case of Pfandbriefe and similar bond issues (e.g. covered bonds), the external rating is used.

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

RISK STRUCTURE OF THE LOAN PORTFOLIO AS AT 31.12.2015 in EUR millions

Risk category	Private clients	Companies and self-employed persons	Companies in the financial sector	Public sector	L-Bank total	Allocation in %
1	1,875.8	3,789.8	7,801.9	21,884.5	35,352.1	48.3
2	8.7	178.7	2,936.7	5,466.0	8,590.2	11.7
3		909.2	6,016.4	31.3	6,956.9	9.5
4	3,527.5	1,808.5	11,281.7	50.0	16,667.6	22.8
5	62.9	963.1	1,741.1		2,767.0	3.8
6	331.4	404.2	366.2	278.3	1,380.1	1.9
7	0.1	444.0	17.5		461.7	0.6
8		222.3	182.9	2.6	407.8	0.6
9		71.3	48.7		120.0	0.2
10		72.4		0.0	72.4	0.1
11	31.5	47.3	0.6		79.4	0.1
12	15.6	93.4		0.0	109.1	0.1
13		77.4			77.4	0.1
14	19.4	101.8		71.7	192.8	0.3
Total	5,873.0	9,183.5	30,393.8	27,784.3	73,234.6	100.0

The total exposure shown above, amounting to EUR 73,234.6 million, includes securities and CDS totalling EUR 26,403.4 million. L-Bank aims to hold securities and CDS to final maturity. With the exception of buybacks of own issues and purchased securities with a residual maturity of less than one year at the time of purchase, all securities are assigned to fixed assets. The Bank consequently treats them as loans and applies a moderated form of the lower of cost or market principle. No securities have been written down due to permanent impairments. The general value adjustment of EUR 20.0 million on the uncollateralised securities portfolio of the peripheral eurozone nations was reduced by EUR 5.0 million to EUR 15.0 million in 2015. 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 31.12.2015 in EUR millions

Risk category	Portfolio	Hidden liabilities	Spread risks
1	18,443.7	20.3	798.8
2	4,966.1	13.3	90.7
3	565.6	1.7	10.0
4	1,324.3	8.9	41.0
5	729.6	3.7	16.5
6	295.3	0.0	10.9
7	30.0	0.0	0.3
8	0.0	0.0	0.0
9	48.7	14.6	6.8
10	0.0		0.0
11	0.0		0.0
12	0.0		0.0
13	0.0		0.0
14	0.0		0.0
Total	26,403.4	62.5	975.1

Monitoring of problem loans

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

Loans being processed as problem loans include all loans pursuant to Art. 19 KWG (i.e. Including off-balance-sheet and derivative transactions) where there are strong indications that in order to avert or minimise losses, actions may be necessary that go beyond the normal scope of client support and intensified contact with the client, and may extend to requiring the provision of additional collateral as part of collaboration with the client in an intensive support process. In addition to payment defaults or interruptions, such indications include very low credit ratings (risk category 9 or worse). The volume of problem loans also includes non-performing loans as well as any forborne loans that are not currently in the forbearance period. L-Bank distinguishes between different kinds of problem loans: miscellaneous problem loans (risk categories 9 to 12); restructuring exposure (risk category 13), and workout exposure (risk category 14). As at 31 December 2015, the Bank's portfolio of loans at the problem-loan processing stage amounted to EUR 746.4 million. This was distributed across the Bank's business units as shown below.

LOANS BEING PROCESSED AS PROBLEM LOANS AS AT 31.12.2015 in EUR millions

	Risk portfolio	Problem loan portfolio					
	Total	Total	In %	Restructuring	Workout	Workout ratio in %	Value adjustments
Private clients	5,873.0	214.9	3.7	176.3	38.6	0.7	81.2
Companies in the financial sector	30,393.8	49.2	0.2	49.2	0.0	0.0	0.0
Other companies and self-employed persons	9,183.5	410.7	4.5	301.2	109.5	1.2	234.1
Public sector	27,784.3	71.6	0.3	0	71.6	0.3	35.9
Total	73,234.6	746.4	2.0	526.7	219.7	0.3	351.2

The Bank classifies as non-performing loans any loans (excluding off-balance-sheet transactions) where at least one of the following criteria applies:
- → Value adjustment or write-down
- → Payment arrears of more than 90 days
- → Risk category 13 or poorer
- → Loans subject to forbearance measures during forbearance period

As at the year-end, non-performing loans amounted to EUR 512.9 million, of which EUR 226.0 million (44.1%) was covered by appropriate collateral. Value adjustments of EUR 219.4 million have been made for the remaining portion (EUR 286.9 million or 55.9%).

Forborne loans are loans (excluding off-balance-sheet transactions) where the bank has given a borrower in financial difficulties extra concessions (e.g. in the form of debt deferral agreements, maturity extensions, redemption holidays or debt rescheduling) in order to re-establish or assure the borrower's capacity to meet principal repayments in the event that the said capacity has ceased to exist or is acutely at risk. Loans must be reported as forborne loans for two years after the financial difficulties have been eliminated (forbearance period). As at the year-end, the forborne loan portfolio amounted to EUR 297.3 million.

Assessing risk concentrations

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

In housing finance, for example, there is a concentration risk associated with the collateral provided. The value of residential property is determined according to the provisions of the Lending Value Ordinance, whereby L-Bank claims the privileges associated with small loans and generally omits on-site inspections. Due to the general conditions in the housing development market, a proportion of around 46.9% is secured independently of real-estate loans. The collateral is contractually agreed in the form of land charges.

Because housing development funding is restricted to the jurisdiction in which the guarantor is located, the Bank's housing finance activities are associated with a concentration risk linked to residential property in Baden-Württemberg. In the event of a severe economic downturn, the default rate would rise and earnings from the realisation of collateral would fall. In order to assess this risk, L-Bank analysed the cyclical sensitivity of the various regions in Baden-Württemberg. The Bank also analysed regional risks threatening the solvency of borrowers in the individual regions in the event of a severe economic downturn. The risk that a borrower in a given region becomes insolvent increases as a function of the regional economy's dependence on exports, as well as the level of unemployment in the region at the relevant time. The risk of insolvency decreases if price levels for residential property in the region are low and the region has a well-integrated infrastructure. The risk of insolvency is expressed as the variance between the level of borrowers' risk in a region and the risk confronting an average borrower in Baden-Württemberg. The Bank used a scoring system to determine the relative exposure in each case. According to this, a total of 58.3% of the Bank's housing development finance is committed in regions with above-average sensitivity to economic cycles. Thus, measured in terms of the federal state's economic sensitivity, the economic sensitivity of the loan portfolio rates as slightly above average.

Guarantees are subject to another collateral-related concentration risk. Of the guarantees received (without public guarantee or maintenance obligation) worth around EUR 9,053.3 million, the State of Baden-Württemberg accounts for some EUR 7,505.7 million. Due to the credit standing of the State of Baden-Württemberg, L-Bank regards this risk as negligible. Another EUR 1,001.6 million is associated with sureties/guarantees provided by other local authorities in Germany. A total of EUR 546.0 million is based on sureties/guarantees provided by private individuals, companies, banks, public-sector bodies in Germany other than local authorities, and central and regional governments abroad.

Due to L-Bank's business model, there is a further concentration risk associated with receivables from banks (EUR 28,615.2 million). Also included in this amount are receivables from central banks and other public bodies that are not taken into account when determining the degree of interconnectedness of an institution with the financial system pursuant to Commission Delegated Regulation (EU) 1222/2014 of 8 October 2014. However, the contagion risk to which L-Bank is exposed through receivables from banks is classed as exceptionally low. L-Bank issues enterprise development loans through borrowers' banks, with the result that the Bank's exposure to these banks amounted to EUR 16,087.9 million as at 31 December 2015. These lendings to banks are secured by the assignment to L-Bank of the claims on end clients. Another EUR 716.8 million is attributable to the fact that L-Bank has underwritten the commercial banks' exposure to end-client risk. EUR 11,810.5 million of the Bank's total lending commitment relates to transactions that supplement the Bank's development business, whereby L-Bank invests low-cost funds from refinancing in low-risk or risk-free issuers. Of this amount of EUR 11,810.5 million, EUR 7,755.6 million is secured by public guarantee/maintenance obligation, and EUR 404.6 million against Pfandbriefe. After deducting receivables from central banks and multilateral development banks, the remaining unsecured volume is EUR 2,636.9 million. Roughly 83.3% of this is assigned to risk categories 1 to 4 and approximately 16.7% to risk categories 5 to 8.

In regional terms, the Bank's public-service mandate means that it is exposed to a concentration risk for the region "Germany". A total of 87.5% of the risk portfolio is assignable to Germany, of which 58.2% relates to the State of Baden-Württemberg.

REGIONAL STRUCTURE OF THE LOAN PORTFOLIO AS AT 31.12.2015 in EUR millions

	Private clients	Companies and self-employed persons	Companies in the financial sector	Public sector	L-Bank total	Allocation in %
Germany total	5,872.8	8,709.8	25,245.1	24,225.0	64,052.6	87.5
Austria		82.5			8.5	0.0
Belgium		0.0	6.0	105.0	111.0	0.2
Denmark			146.2	298.8	445.0	0.6
Finland				303.0	303.0	0.4
France	0.2	17.9	440.2	689.7	1,148.1	1.6
Great Britain*		10.7	381.9	191.5	584.1	0.8
Greece						0.0
Ireland			510.1		510.1	0.7
Italy			98.0	250.4	348.4	0.5
Luxembourg		10.0	45.8		55.8	0.1
The Netherlands		105.9	860.4	438.8	1,405.1	1.9
Portugal		8.5			8.5	0.0
Spain			74.4		74.4	0.1
Switzerland	0.0	93.8	290.5		384.3	0.5
Rest of Europe			28.7	428.8	457.5	0.6
Europe total	0.3	329.2	3,145.5	3,559.4	7,034.4	9.6
Canada	0.0	0.0	519.1	0.0	591.1	0.7
USA		138.2	423.5		561.7	0.8
International organisations**	0.0	0.0	994.0	0.0	994.0	1.4
Other countries		6.3	66.6		72.9	0.1
Overseas total	0.3	473.7	5,148.7	3,559.4	9,182.0	12.5
Total	5,873.0	9,183.5	30,393.8	27,784.3	73,234.6	100.0

* Includes Guernsey, Jersey, Isle of Man and Cayman Islands.
** World Bank, European Investment Bank, European Bank for Reconstruction and Development, European Investment Fund.

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

The Bank's risk exposure in the crisis-affected peripheral eurozone nations stood at approximately EUR 941.4 million as at 31 December 2015. Of this, some EUR 40.0 million (4.2%) is secured against public-sector Pfandbriefe, Pfandbriefe or covered bonds. Roughly EUR 250.0 million (26.5%) is payable by national governments. Around 58.0% or EUR 546.0 million is associated with uncollateralised securitised loans. Unsecured claims against banks amount to around EUR 60.0 million (6.4%) in total.

Managing and monitoring counterparty default risk

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

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

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

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

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

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

Counterparty default risk is strongly influenced by the state of the economy, the low level of interest rates, but also by changes to personal circumstances (e.g. divorce). It is likely that persistently low interest rates will continue to have a positive impact on counterparty default risk. Furthermore, an improvement in the economic situation may have a positive impact on the portfolio's risk structure and lead to reversals of value adjustments.

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.

L-Bank has not separated out funds invested to cover pension provision commitments to employees. These investments form part of the euro bank book. Consequently, for the purposes of assessing market price risk, payments expected to cover pension commitments have been taken into account based on the figures used to calculate these pension commitments.

In the case of structured transactions and foreign-currency transactions, market price risk is excluded using micro hedges. Essentially, market price risk relates to the investment of equity. The Bank avoids such interest-rate positions – especially in the medium-term and long-term segments – primarily by the use of interest-rate swaps and cross-currency interest-rate swaps. As at 31 December 2015, the portfolio of interest-rate swaps (including swaptions) had a nominal value of EUR 76,511.0 million. Cross-currency interest-rate swaps had a nominal value of EUR 18,566.5 million. As a general rule, hedging relationships are reported in the balance sheet in the form of valuation units as defined in Art. 254 HGB, adhering to Art. 256a in conjunction with Art. 340h HGB with regard to currency translation, and complying with BFA 3 in respect of the loss-free valuation of the bank book.

Quantitative assessment based on value at risk

Risks on unanticipated losses are calculated using a VaR model. For this purpose, the Bank uses the historical simulation method. With interest rates declining even further during the first half of 2015, as of 31 May 2015 relative changes in interest rates were no longer taken into account when calculating the VaR. In order to show an appropriate range of historical interest-rate changes, the observation period was extended from 250 days to 1,250 days with effect from 31 May 2015. Accordingly, as of 31 May 2015, two models are produced for the daily monitoring of limits and the higher risk value is applied.

For the purposes of monitoring risk-bearing capacity, one model is used for each of the going-concern and liquidation approaches with a confidence level of 99% and 99.98% respectively, and a holding period of 250 days. The risks calculated using the going-concern approach are shown on a period-specific basis. The following table shows the parameters that are being used for the current calculations:

PARAMETER SETTINGS USED IN HISTORICAL SIMULATIONS

	Holding period (trading days)	Historical observation period (trading days)	Confidence level	Application
Absolute interest-rate changes	10 and 25	1,250	99.00 %	Daily limit monitoring
Absolute interest-rate changes	250	2,500	99.00 %	RBC, going-concern, period-specific
Absolute interest-rate changes	250	5,000	99.98 %	RBC, liquidation approach

The following table provides an overview of the proportion of the aggregate loss ceiling taken up by market price risks in the course of 2015:

VALUE AT RISK FOR MARKET PRICE RISK IN 2015 in EUR millions

	01.01.2015		31.03.2015		30.06.2015		30.09.2015		31.12.2015	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	347.4	940.0	257.6	940.0	379.6	940.0	391.7	940.0	374.4
Share of market price exposure in %	26.6	21.2	26.6	26.6	26.6	16.4	26.6	8.7	26.6	17.5
Market price risks	250.0	73.6	250.0	250.0	250.0	62.4	250.0	33.9	250.0	65.4

Qualitative assessment based on stress scenarios

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

L-Bank uses the stress tests to investigate potential losses as a result of various, more or less extreme market changes. For example, the impact of a regulatory scenario involving a parallel shift in the yield curve by 200 basis points upwards or downwards is explored with a view to assessing the impact of any resulting loss on equity capital. Given that the open interest-rate risk positions in the medium-term and long-term segments essentially relate to the investment of equity capital, only scenarios with rising interest rates represent stress situations. The risks reported here largely relate to an estimated loss of additional revenue. 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 31.12.2015	Maximum 2015	Minimum 2015	Average 2015
Loss of net present value in EUR millions	396.2	514.4	368.7	437.5
Proportion of equity in %	10.6	14.5	10.0	12.0
Loss of net present value with repayment of equity in EUR millions	49.5	101.3	2.5	50.4
Proportion of equity capital in %	1.3	2.7	0.1	1.4

MANAGING MARKET PRICE RISKS

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

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

The interest-rate risks reported relate in the main to the relatively long-term investment of equity capital. Consequently, the only way to reduce the interest-rate risk would be to invest equity capital on a short-term basis. To this extent, L-Bank's interest-rate risks and earnings risks are diametrically opposed. 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 VaR.

VALUE AT RISK FOR REFINANCING RISK IN 2015 in EUR millions

	01.01.2015		31.03.2015		30.06.2015		30.09.2015		31.12.2015	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	347.4	940.0	257.6	940.0	379.6	940.0	391.7	940.0	374.4
Share of liquidity risks in %	6.9	0.0	6.9	9.5	16.0	25.0	16.0	34.5	16.0	29.8
Liquidity risks	65.0	0.0	65.0	24.4	150.0	95.0	150.0	135.3	150.0	111.6

Quantitative assessment using regulatory ratios

Up until 30 September 2015, insolvency risk was monitored using the ratios specified in the German Liquidity Regulation. It is likely that this liquidity ratio will still have to be reported until the liquidity rules on LCR set out in Basel III have been implemented in full (anticipated completion: 1 January 2018). Since 1 October 2015, the Bank has also been required, in accordance with the CRR in conjunction with Commission Delegated Regulation (EU) 2015/61, to measure its insolvency risk using the LCR and to comply with this ratio. In order to enable banks to adapt gradually to the new minimum requirement, they are initially required to achieve an LCR compliance level of 0.6.

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

LIQUIDITY RATIO IN 2015 PURSUANT TO THE LIQUIDITY REGULATION AND LIQUIDITY COVERAGE RATIO AS DEFINED IN CRR IN CONJUNCTION WITH DELEGATED REGULATION (EU) 2015/61

Month	Liquidity ratio	Liquidity coverage ratio (CRR)	Liquidity coverage ratio (Delegated Regulation)
January	4.23	–	–
February	3.58	–	–
March	5.39	–	–
April	3.80	–	–
May	4.03	–	–
June	4.50	–	–
July	2.82	–	–
August	2.41	–	–
September	2.45	–	–
October	3.08	3.60	3.58
November	5.58	11.19	10.07
December	2.93	2.03	2.10
Average ratio	3.73	5.61	5.25

stress scenarios based on in-house, market-driven or combined causes. Liquidity buffers are reviewed on a monthly basis. By limiting and monitoring – on a daily basis – the maximum liquidity requirements for one month, the Bank ensures that the liquidity buffer is not just sufficient to cover the funding needs on the reporting date, but over the whole of the following month.

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

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

LIQUIDITY BUFFER SUBJECTED TO STRESS SCENARIOS AS AT 31.12.2015 in EUR millions

	Liquidity forecast	Stress scenario In-house causes	Stress scenario Market causes	Stress scenario In-house and market causes combined
Day 1 to day 7				
Liquidity buffer	15,254.0	15,254.0	14,562.2	14,562.2
Liquidity requirement	2,160.4	2,160.4	2,191.0	2,191.0
Disposable liquidity buffer	13,093.6	13,093.6	12,371.2	12,371.2
Day 8 to day 30				
Liquidity buffer	14,836.7	14,836.7	13,843.4	13,843.4
Liquidity requirement	8,339.6	8,382.8	8,339.6	8,382.8
Disposable liquidity buffer	6,497.1	6,453.9	5,503.8	5,460.6

The minimal variance between the liquidity forecast and the stress scenarios is due, firstly, 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. Secondly, 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 of liquidity risks

Operational liquidity management comes under the remit of the Treasury department. The system is based on a computer-assisted liquidity forecast that depicts all anticipated cash flows over the next ten years. The system produces a daily analysis for the current month and the following two months. A monthly analysis is produced for any months remaining in the fiscal year, and for the following fiscal year. An annual analysis is produced for years 3 to 10. When producing this liquidity forecast, the Bank assumes that contractual maturities will apply. For future interest-rate adjustments relating to housing development, the Bank extrapolates the current nominal interest rate. No assumptions are made regarding the extension of time deposits. These are updated on a daily basis as part of liquidity management. Budgeted figures for anticipated disbursements are updated monthly, based on new business forecasts.

The Bank has formulated a number of policies for managing liquidity risk. Limits have been placed on participation in individual securities issues and on liquidity requirements for a single month. In addition, the risk associated with follow-up finance has been limited since 1 January 2016 by restricting the refinancing transactions required per maturity year. 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 monthly basis and, through compliance with the risk management rules, is reported along 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. Any deterioration in the federal state's credit rating would have a negative impact on L-Bank's refinancing spread. Given, however, that L-Bank refinances a large portion of its development business via KfW and/or Landwirtschaftliche Rentenbank and only engages in development aid business when it is able to procure refinancing on favourable terms, any such deterioration in the refinancing spreads would not impact on the overall lending volume.

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. The Bank has classed the additional transfer and conversion risks arising in connection with counterparty default risk as legal risk.

Assessment procedures and management

For operational risks, VaR is estimated using a model similar to that used in the insurance industry to determine the risk of major disasters. The model is based on historical observations and expert estimates of the probability of occurrence of, and extent of damage resulting from, disruptions in any risk-bearing process at the

Bank. The estimates, which are audited, are aggregated to arrive at an overall VaR for the Bank as a whole. The Bank is obliged to resort to estimates simply because, to date, the Bank has only experienced a minimal number of loss events associated with operational risks, and the consequential damages have been negligible. Hence it is not possible to provide an informed calculation of the VaR on the basis of historical data sets.

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 2015 in EUR millions

	01.01.2015		31.03.2015		30.06.2015		30.09.2015		31.12.2015	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	347.4	940.0	257.6	940.0	379.6	940.0	391.7	940.0	374.4
Share of operational risk in %	1.1	0.9	1.1	1.2	1.1	0.8	1.1	0.8	1.1	0.8
Operational risk	10.0	3.1	10.0	3.1	10.0	3.0	10.0	3.0	10.0	3.0

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; changes to operating processes or structures; explicit authorisation of payments exceeding EUR 1.0 million; an IT permissions management system that excludes conflicts of interest between incompatible activities; rigorous selection criteria for new recruits). The system as a whole is based on the Bank's written documentation, which takes a modular approach to the formulation of the rules governing corporate structure and workflow.

To ensure that the Bank only enters into transactions that it can process and manage appropriately from a risk perspective, a new product process is applied to all new types of transaction. Prior to first-time acceptance, test cases are used to determine the extent to which existing processes and procedures are sufficient to cope with the new type of transaction. The test results are used to create a concept depicting all of the staffing, organisational, IT-related, balance-sheet and tax-law consequences of the new transaction.

Additionally, operational risk is reduced by ongoing reviews of the Bank's adherence to the relevant statutory and legal requirements (e.g. securities compliance, money laundering and fraud prevention, data protection).

Pursuant to the revised version of MaRisk and in accordance with the Public Corporate Governance Code of the State of Baden-Württemberg, the Bank expanded its existing Compliance department during the year under review. The aim of the Compliance department is to exclude risks that could arise from non-compliance with legal requirements. Consequently, it is the role of the department to help implement effective procedures to ensure that L-Bank complies with the statutory regulations and policies that govern the Bank's activities, and to put in place the necessary controls. The Compliance department's remit also includes the monitoring of existing statutory regulations concerning money laundering, fraud prevention and data protection. Compliance is assured by means of appropriate organisational measures and the ongoing monitoring of relevant business transactions.

Given the portfolio structure, transfer risks are generally of very limited significance to the Bank. The risk that L-Bank might suffer losses due to the restriction of payment transfers and/or currency conversions as a result of statutory interventions in the countries involved is consequently regarded as negligible.

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 transactions 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.

RECOVERY PLANNING

L-Bank is now required by the European Central Bank (ECB) to prepare a recovery plan, which it must draw up in accordance with the relevant European regulations and with the German Recovery and Resolution Act (SAG). The recovery plan supplements L-Bank's existing tools for managing risk and the bank as a whole. These aim to improve the Bank's responsiveness so that future crises can be avoided.

The Board of Management of L-Bank has set up a "Recovery Planning" working group. Under the direction of the Controlling department, this working group has prepared L-Bank's recovery plan.

The plan contains a strategic analysis, complete with a breakdown of the Bank's significant transactions, functions and relationships. The plan also presents and describes the methods used to select the recovery indicators. The effectiveness of the selected courses of action are reviewed in the form of stress analyses. Also included in the recovery plan is information on the allocation of responsibilities for the recovery process.

Strategic analysis

The strategic analysis clearly reveals that L-Bank is an instrument of indirect public administration. Through the L-Bank Act and the development programme guidelines, the State of Baden-Württemberg influences the Bank's business activities and the risk factors associated with counterparty default risk. This means that the State of Baden-Württemberg is liable for L-Bank in various ways. These liability mechanisms are markedly different from the types of financial assistance, funded by tax revenues, that could be paid to competitor banks in the event of a crisis. So it would not be appropriate to assess L-Bank's vulnerabilities purely on the basis of the Bank's core business activities, critical functions and interdependencies.

This analysis of L-Bank also shows that, in view of the credit rating structure of the Bank's borrowers, L-Bank's business activities pose no threat to the existence of the Bank itself or to the financial system, and that L-Bank does not fulfil any functions of critical importance to the real economy. Similarly, L-Bank's interrelationships with the financial system do not pose any existential risks for the financial system in general or the Bank in particular. Based on its business model and the binding provisions of the L-Bank Act, the Bank is exposed to concentration risks in relation to certain public-sector bodies and banks. Concentration risks also exist in connection with the Bank's regional focus (State of Baden-Württemberg) and its focus on specific sectors (residential property, financial sector, public administration). These concentration risks are taken into account when modelling the stress analyses.

Recovery indicators

The purpose of recovery indicators is to ensure that any negative developments relating to capital, liquidity, asset quality, profitability, refinancing sources and terms, or economic developments in specific areas of activity, are flagged up at an early stage. Where the Bank's business model and business structure permit, the recovery indicators stipulated by the supervisory authority are duly applied, with the addition of recovery indicators specific to the Bank itself. The selected indicators are based on and supplement L-Bank's existing system of key performance indicators. Reporting on the recovery indicators takes the form of a monthly risk report, which includes a dashboard.

Courses of action

The fact that L-Bank, in its capacity as a development bank, indirectly forms part of the public administration, was taken into account when evaluating the various courses of action. Consequently, four of the possible options proposed by the ECB for competitor institutions were not deemed suitable for inclusion in L-Bank's recovery plan. The selected courses of action were prioritised according to the extent to which they could be implemented by L-Bank with or without the involvement of third parties; those that could be implemented by L-Bank alone were ranked more highly.

Stress analyses

The effectiveness of the courses of action was confirmed by a series of stress analyses. The risk factors to which L-Bank is particularly exposed were taken into account when modelling the stress analyses. In the idiosyncratic scenario, the analysis focused specifically on L-Bank's business activities as a development bank. The analyses demonstrated that in all scenarios, the Bank could take courses of action without immediately involving the State of Baden-Württemberg.

Recovery governance

Recovery governance is based on existing structures and reporting lines. Where thresholds are exceeded, a Crisis Committee is convened, at which senior management and the relevant specialist departments discuss the cause and likely duration of the aberration, and consult on appropriate courses of action. In such circumstances, the senior management team will also decide on the appropriate communication strategy. Because all risk-related decisions at L-Bank are made by the senior management team, the latter also bears sole responsibility for determining the necessary recovery measures.

Findings

Overall, L-Bank finds that its business activities and web of relationships do not pose any risk to the stability of the financial system or real economy. Furthermore, the Bank has recourse to various courses of action that could be used to avoid situations that might pose a risk to the Bank's continued existence.

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 the Accounting department's involvement in the standardised process for introducing new products also help to ensure that the accounting treatment of new products is correct.

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

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

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

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

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

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

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

Karlsruhe, 9 March 2016

Dr. Axel Nawrath Dr. Ulrich Theileis

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board and its two committees have discharged the duties assigned to them by law, statute and rules of procedure. The Supervisory Board's Risk Committee performs the statutory tasks of the Audit and Risk Committee in accordance with its business directive, and also holds certain powers with regard to lending business. The Personnel Committee, in accordance with its business directive, is responsible for the statutory remit of the Nomination and Remuneration Supervisory Committee, as well as holding specific powers relating to personnel issues.

The Supervisory Board met twice during 2015, convening its committees on seven occasions. One resolution was passed by means of written circular. At its meetings, the Supervisory Board discussed and made decisions on business transactions that required its approval, while also deliberating on business policy and strategy with the Board of Management. Beginning in the second half of 2015, one notable area of discussion was the Risk Committee's consideration of its future role and functioning.

Throughout 2015, pursuant to the relevant statutory provisions, the Bank's articles of association and its rules of procedure, the Board of Management regularly briefed the Supervisory Board and its committees on the Bank's development, and on major, material business transactions. Between Supervisory Board meetings, this information was also provided in the form of suitable written reports.

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Stuttgart, carried out the statutory annual audit for fiscal year 2015, issuing an unqualified auditor's opinion. The auditor provided the Risk Committee in the latter's capacity as Audit Committee with progress reports on the audit, and also took part in discussions of the 2015 financial statements by the Supervisory Board and Risk Committee (in the latter's role as Audit Committee). In these discussions, the auditors reported on the main findings of their audit activities, answered questions and provided additional information. The Supervisory Board and Risk Committee, in its capacity as Audit Committee, discussed the auditor's report and did not raise any objections to the final outcome of the audit.

At its meeting on 29 April 2016, the Supervisory Board examined and approved the Bank's annual financial statements for fiscal year 2015 and took note of the Management Report.

The Supervisory Board approved the Board of Management's proposal to allocate EUR 50,000,000.00 of the net income for fiscal year 2015 (totalling EUR 50,878,557.88) to other retained earnings and to carry forward the remaining amount of EUR 878,557.88.

Stuttgart, 29 April 2016

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

L-BANK BALANCE SHEET AS AT 31 DECEMBER 2015

ASSETS	31.12.2015 EUR	31.12.2015 EUR	31.12.2015 EUR	31.12.2014 EUR
1. CASH RESERVE				
a) cash in hand		39,455.82		44,090.66
b) current balances with central banks		32,320,320.54		38,402,500.49
thereof: with Deutsche Bundesbank				
EUR 32,320,320.54 (EUR 38,402,500.49)				
			32,359,776.36	**38,446,591.15**
2. RECEIVABLES FROM BANKS				
a) due on demand		368,847,667.81		350,594,759.25
b) other claims		20,695,478,116.90		20,419,717,987.34
			21,064,325,784.71	**20,770,312,746.59**
3. RECEIVABLES FROM CUSTOMERS			**25,669,571,644.27**	**23,475,321,677.25**
thereof:				
secured through real-estate liens				
EUR 5,353,665,229.24 (EUR 6,183,620,756.85)				
municipal loans				
EUR 11,298,518,454.68 (EUR 8,572,752,987.61)				
4. BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES				
a) money market securities				
aa) from other issuers		0.00		149,887,000.00
thereof: eligible as collateral with				
Deutsche Bundesbank				
EUR 0.00 (EUR 99,896,370.00)				
b) bonds and debentures				
ba) from public issuers	5,954,799,744.86			5,156,500,948.72
thereof: eligible as collateral with				
Deutsche Bundesbank				
EUR 5,848,015,104.70				
(EUR 4,975,618,124.08)				
bb) from other issuers	16,990,812,870.59			16,872,176,807.31
thereof: eligible as collateral with				
Deutsche Bundesbank				
EUR 14,693,484,559.44				
(EUR 14,552,325,711.89)				
		22,945,612,615.45		22,028,677,756.03
c) own notes		73,442,097.76		376,340,162.28
nominal value				
EUR 73,050,000.00 (EUR 373,700,000.00)				
			23,019,054,713.21	**22,554,904,918.31**
Carried forward			69,785,311,918.55	66,838,985,933.30

ASSETS	31.12.2015 EUR	31.12.2014 EUR
Carried forward	69,785,311,918.55	66,838,985,933.30
5. SHAREHOLDINGS thereof: in financial institutions EUR 1,986,360.52 (EUR 301,986,360.47)	**211,740,120.37**	**572,798,395.71**
6. HOLDINGS IN AFFILIATED COMPANIES	**19,309,201.92**	**21,309,201.82**
7. FIDUCIARY ASSETS thereof: fiduciary loans EUR 53,869,892.53 (EUR 62,597,017.86)	**53,914,588.89**	**62,668,402.97**
8. INTANGIBLE ASSETS		
a) purchased licences, industrial property rights and similar rights and assets, and licences to such rights and assets	**8,282,744.16**	**10,184,454.53**
9. TANGIBLE FIXED ASSETS	**105,981,183.25**	**108,115,608.25**
10. OTHER ASSETS	**1,963,902,510.16**	**1,784,073,625.62**
11. ACCRUED ITEMS	**1,146,475,855.35**	**791,955,648.82**
TOTAL ASSETS	**73,294,918,122.65**	**70,190,091,271.02**

L-BANK BALANCE SHEET AS AT 31 DECEMBER 2015

LIABILITIES	31.12.2015 EUR	31.12.2015 EUR	31.12.2015 EUR	31.12.2014 EUR
1. LIABILITIES TO BANKS				
a) due on demand		5,659,507.64		6,363,902.81
b) with agreed term or notice period		23,057,126,272.64		21,106,229,651.38
			23,062,785,780.28	**21,112,593,554.19**
2. LIABILITIES TO CUSTOMERS				
a) other liabilities				
aa) due on demand	152,100,922.17			120,655,474.52
ab) with agreed term or notice period	7,944,940,021.29			6,975,093,961.28
		8,097,040,943.46	**8,097,040,943.46**	**7,095,749,435.80**
3. SECURITISED LIABILITIES				
a) notes issued			**35,583,686,436.34**	**35,983,355,643.03**
4. FIDUCIARY LIABILITIES			**53,914,588.89**	**62,668,402.97**
thereof: fiduciary loans EUR 53,869,892.53 (EUR 62,597,017.86)				
5. OTHER LIABILITIES			**23,897,144.78**	**354,718,480.80**
6. DEFERRED ITEMS			**1,924,394,108.11**	**1,034,322,604.54**
7. PROVISIONS				
a) provisions for pensions and similar obligations		231,869,397.00		200,006,151.79
b) other provisions		191,357,289.10		168,063,244.25
			423,226,686.10	**368,069,396.04**
8. SUBORDINATED LIABILITIES			**374,137,287.12**	**394,010,623.55**
Carried forward			69,543,082,975.08	66,405,488,140.92

LIABILITIES	31.12.2015 EUR	31.12.2015 EUR	31.12.2014 EUR
Carried forward		69,543,082,975.08	66,405,488,140.92
9. PROFIT-SHARING RIGHTS OUTSTANDING		**356,529,800.00**	**539,925,800.00**
10. FUND FOR GENERAL BANKING RISKS		**630,000,000.00**	**530,000,000.00**
11. EQUITY			
a) subscribed capital	250,000,000.00		250,000,000.00
b) capital reserve	999,426,789.69		999,426,789.69
c) retained earnings			
ca) other retained earnings	1,465,000,000.00		1,415,000,000.00
d) net income	50,878,557.88		50,250,540.41
		2,765,305,347.57	**2,714,677,330.10**
TOTAL LIABILITIES		**73,294,918,122.65**	**70,190,091,271.02**

1. CONTINGENT LIABILITIES		
a) liabilities from sureties and guarantee contracts	**5,138,636,750.51**	**5,485,405,440.29**
2. OTHER COMMITMENTS		
a) irrevocable lending commitments	**2,886,925,669.03**	**2,319,685,131.44**

L-BANK STATEMENT OF INCOME FOR THE FISCAL YEAR 1 JANUARY 2015 TO 31 DECEMBER 2015

	2015 EUR	2015 EUR	2015 EUR	2014 EUR
1. INTEREST EARNINGS FROM				
a) lending and money market transactions	1,145,123,794.54			1,261,990,197.72
b) fixed-interest and book-entry securities	600,266,618.27			623,367,226.86
		1,745,390,412.81		1,885,357,424.58
2. INTEREST EXPENSES thereof: from interest subsidies on loans EUR 103,727,727.67 (EUR 108,457,366.59)		1,513,983,031.34		1,624,861,199.12
			231,407,381.47	**260,496,225.46**
3. CURRENT INCOME FROM				
a) shareholdings			**30,298,638.49**	**6,584,622.93**
4. COMMISSION EARNINGS			**46,263,568.12**	**47,634,343.63**
5. COMMISSION EXPENSES			**3,843,440.44**	**5,279,197.90**
6. OTHER OPERATING INCOME			**14,252,453.37**	**8,318,515.32**
7. GENERAL ADMINISTRATIVE EXPENSES				
a) personnel expenses				
aa) wages and salaries	76,767,283.75			74,853,274.89
ab) social security contributions and expenses for pensions and other benefits thereof: for pension provision EUR 7,370,619.96 (EUR 5,502,923.96)	19,583,016.59			17,386,369.05
		96,350,300.34		92,239,643.94
b) other administrative expenses		63,878,431.62		56,081,629.09
			160,228,731.96	**148,321,273.03**
8. WRITE-DOWNS AND VALUATION ADJUSTMENTS ON INTANGIBLE ASSETS AND TANGIBLE ASSETS			**10,907,726.69**	**17,307,004.34**
9. OTHER OPERATING EXPENSES			**34,309,624.80**	**32,875,035.17**
Carried forward			112,932,517.56	119,251,196.90

	2015 EUR	2014 EUR
CARRIED FORWARD	112,932,517.56	119,251,196.90
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 100,000,000.00 (EUR 130,000,000.00)	**64,392,567.88**	**93,434,823.40**
11. INCOME FROM REVALUATION OF SHAREHOLDINGS, SHARES IN AFFILIATED COMPANIES AND SECURITIES TREATED AS FIXED ASSETS	**6,953,810.25**	**24,434,197.52**
12. INCOME FROM NORMAL BUSINESS ACTIVITIES	**55,493,759.93**	**50,250,571.02**
13. TAXES ON INCOME AND EARNINGS	**4,681,511.87**	**878,163.52**
14. OTHER TAXES NOT STATED UNDER ITEM 9	**184,230.59**	**184,230.64**
15. NET INCOME	**50,628,017.47**	**49,188,176.86**
16. PROFIT CARRIED FORWARD FROM THE PREVIOUS YEAR	250,540.41	1,062,363.55
	50,878,557.88	**50,250,540.41**
17. NET PROFIT	**50,878,557.88**	**50,250,540.41**

L-BANK CASH FLOW STATEMENT AS AT 31 DECEMBER 2015

	01.01.–31.12.2015 EURk	01.01.–31.12.2014 EURk
Net profit/loss for the period	50,628	49,188
Depreciation, value adjustments and write-ups on receivables including contingent liabilities and securities	38,069	75,133
Depreciation, value adjustments and write-ups on fixed assets and intangible assets	10,808	17,307
Depreciation, value adjustments and write-ups on financial assets (excluding securities)	7,755	1,799
Change in provisions (excluding loan loss provisioning)	14,489	54,278
Profit/loss on the sale of fixed assets and intangible assets	–2	–49
Profit/loss on the sale of financial assets	–7,560	–18,990
Other adjustments (net)	–640,118	1,723
Change in receivables from banks	–290,121	–284,770
Change in receivables from customers	–2,240,048	203,053
Change in securities (excluding financial assets)	–459,180	1,637,664
Change in other assets from operating activities	–525,596	–1,454,581
Change in liabilities to banks	1,950,192	–2,595,396
Change in liabilities to customers	1,001,292	–612,249
Change in securitised liabilities	–399,669	3,210,110
Change in other liabilities from operating activities	486,762	–639,576
Net interest income	–231,407	–260,496
Income taxes paid	4,682	878
Interest payments and dividend payments received	2,615,223	2,015,147
Interest paid	–1,743,698	–1,756,374
Income tax payments	–4,682	–878
Cash flow from operating activities	**–362,181**	**–357,079**
Proceeds from sales of financial assets	379,776	28,701
Disbursements for investments in financial assets	–16,913	–92,861
Proceeds from sales of fixed assets	858	49
Disbursements for investments in fixed assets	–4,966	–6,549
Proceeds from sales of intangible assets	0	27
Disbursements for investments in intangible assets	–2,661	–2,340
Cash flow from investment activities	**356,094**	**–72,973**
Proceeds from equity contributions by shareholders	0	48,576
Cash flow from financing activities	**0**	**48,576**
Cash and cash equivalents at start of period	38,447	419,923
Cash flow from operating activities	–362,181	–357,079
Cash flow from investment activities	356,094	–72,973
Cash flow from financing activities	0	48,576
Cash and cash equivalents at end of period	**32,360**	**38,447**

L-BANK STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2015

	Subscribed capital EURk	Capital reserve EURk	Statement of changes in equity Retained earnings EURk	Net profit EURk	Equity EURk
Balance as at 31.12.2013	**250,000**	**950,851**	**1,315,000**	**101,063**	**2,616,914**
Allocation to capital reserve		48,576			48,576
Allocation to retained earnings			100,000	–100,000	0
2014 net income for the year				49,188	49,188
Balance as at 31.12.2014	**250,000**	**999,427**	**1,415,000**	**50,251**	**2,714,678**
Allocation to retained earnings			50,000	–50,000	0
2015 net income for the year				50,628	50,628
Balance as at 31.12.2015	**250,000**	**999,427**	**1,465,000**	**50,879**	**2,765,306**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2015

GENERAL PRINCIPLES

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

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

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

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

The disclosures required pursuant to Art. 26a, para. 1, clause 2 of the German Banking Act (KWG) (country-by-country reporting) are provided in the Annex to the annual financial statements. The other disclosures required pursuant to Art. 26a, para. 1 KWG and Art. 435 et seq. of CRR (Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) 646/2012) are contained in a separate disclosure report, which is updated annually for publication on the L-Bank website shortly thereafter.

PRINCIPLES OF CURRENCY CONVERSION

Currency conversion has been carried out according to the provisions of Art. 256a in conjunction with Art. 340h HGB, as well as IDW RS BFA Opinion 4. Assets and liabilities denominated in foreign currencies, as well as all pending foreign currency cash transactions, are converted at the mean spot rate on 30 December 2015. In the case of forward currency contracts, the forward rate is separated out into cash and interest portions.

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

ACCOUNTING AND VALUATION METHODS

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

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.

Negative interest from financial investments is reported under interest earnings, while negative interest from borrowing is reported under interest expenses.

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

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

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

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

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

FIXED AND INTANGIBLE ASSETS

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

PROVISIONS

Provisions for pensions and similar obligations are determined according to actuarial principles using Dr. Heubeck's mortality tables (RT 2005 G). The projected unit credit (PUC) method is used for valuation purposes. Future wage and salary adjustments are included in the calculation, based on a projected average increase of 2% p.a.; future pension adjustments are also included, based on increases of 1.6% or 2%. All provisions are discounted at the average market interest rate over the last seven fiscal years, assuming a residual term of 15 years. The rate of interest applied is 3.89% (2014: 4.53%).

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

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

Interest accruing on provisions (including provisions for pensions and similar obligations) totalling EUR 31 million (2014: EUR 19 million) is stated under net interest income.

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

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

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

TREATMENT OF HEDGING TRANSACTIONS

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

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

The hedged transactions in macro hedges within the meaning of Art. 254 HGB are presented in the table below. Where applicable, the stated book values have been converted into EUR at the mean spot rate on 30 December 2015.

HEDGED TRANSACTION IN MACRO HEDGE

	Book value in EURk	of which interest-rate risk	of which currency risk	of which price risk
Assets	516,431	61,284	–	455,147
Liabilities	620,370	329,469	290,901	–
Total	1,136,801	390,753	290,901	455,147

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2015

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

	31.12.2015 EURk	31.12.2014 EURk
RECEIVABLES FROM BANKS		
due on demand	368,848	350,595
up to three months	1,189,789	1,477,620
more than three months and up to one year	2,939,216	3,767,708
more than one year to five years	6,622,132	6,851,025
more than five years	9,944,341	8,323,365
RECEIVABLES FROM CUSTOMERS		
up to three months	806,838	757,455
more than three months and up to one year	1,940,115	1,969,461
more than one year to five years	6,733,451	5,730,626
more than five years	16,189,168	15,017,780
BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES		
maturing in the following year	1,640,372	2,473,222
LIABILITIES TO BANKS		
due on demand	5,659	6,364
up to three months	1,214,102	1,457,428
more than three months and up to one year	1,662,598	1,041,062
more than one year to five years	6,633,436	6,190,497
more than five years	13,546,991	12,417,243
LIABILITIES TO CUSTOMERS		
due on demand	152,101	120,655
up to three months	1,249,238	846,836
more than three months and up to one year	43,721	212,234
more than one year to five years	422,663	317,583
more than five years	6,229,318	5,598,441
SECURITISED LIABILITIES		
maturing in the following year	17,096,091	14,534,981

EXPLANATIONS OF INDIVIDUAL BALANCE-SHEET ITEMS

	31.12.2015 EURk	31.12.2014 EURk
RECEIVABLES FROM BANKS		
This item comprises:		
– receivables from companies in which an equity interest is held	–	7,261,818
RECEIVABLES FROM CUSTOMERS		
This item comprises:		
– receivables from affiliated companies	53,864	83,126
– receivables from companies in which an equity interest is held	615,561	110,795
– subordinated claims	17,545	30,642
BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES		
This item comprises:		
– receivables from companies in which an equity interest is held	1,661,834	1,669,238
The securities in this item eligible for listing break down as follows:		
– listed	22,623,091	21,969,005
– not listed	410,963	605,900

Securities with a book value (excluding prorated interest accrued) of EUR 22,507,028,000 are assigned to investment assets. Of these, securities with a book value of EUR 2,608,468,000 have a market value of EUR 2,546,157,000. 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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2015

EXPLANATIONS OF INDIVIDUAL BALANCE-SHEET ITEMS

	31.12.2015 EURk	31.12.2014 EURk
SHAREHOLDINGS		
The shareholdings in this item eligible for listing break down as follows:		
– listed	231	68,866
FIDUCIARY ASSETS		
This item comprises:		
– receivables from banks	46,952	53,834
– receivables from customers	6,918	8,763
– other assets	45	71
TANGIBLE FIXED ASSETS		
This item comprises:		
– plots and buildings used for the Bank's own activities	86,419	89,227
– plant and office equipment	6,580	7,540
OTHER ASSETS		
of which subordinated	7,522	7,523
ACCRUED AND DEFERRED ITEMS – ASSETS		
– Difference between disbursement amount or acquisition cost and lower nominal value of receivables	878,328	462,366
– Difference between issue price and higher repayable amount of liabilities	47,851	61,002
LIABILITIES TO BANKS		
This item comprises:		
– liabilities to companies in which an equity interest is held	–	337,539
LIABILITIES TO CUSTOMERS		
This item comprises:		
– liabilities to companies in which an equity interest is held	–	426,168

EXPLANATIONS OF INDIVIDUAL BALANCE-SHEET ITEMS

	31.12.2015 EURk	31.12.2014 EURk
FIDUCIARY LIABILITIES		
Fiduciary liabilities comprise		
– liabilities to banks	2,327	3,514
– liabilities to customers	51,543	59,083
– other liabilities	45	71
ACCRUED AND DEFERRED ITEMS – LIABILITIES		
– Difference between disbursement amount or acquisition cost and higher nominal value of receivables	3,030	4,755
– Difference between issue price and lower repayable amount of liabilities	15,654	3,517
SUBORDINATED LIABILITIES AND PROFIT-SHARING RIGHTS		
– Interest expenses on subordinated liabilities	10,785	18,619
– Interest expenses on profit-sharing rights	21,749	26,003

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

Currency	Amount in EURk	Interest rate %	Maturity date
EUR	78,860	0.00	01.09.2036
EUR	40,000	2.27	14.11.2023
JPY	75,953	2.14	24.08.2018
JPY	37,977	1.79	07.09.2016

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2015

INDIVIDUAL AMOUNTS THAT ARE MATERIAL IN ASSESSING THE ANNUAL FINANCIAL STATEMENTS

	31.12.2015 EURk	31.12.2014 EURk
OTHER ASSETS		
– Balancing item from currency conversion	1,855,519	1,333,286
– Receivables from swaps	76,715	416,693
– Works of art	14,682	14,653
– Participation certificates	7,522	7,523
PREPAYMENTS AND ACCRUED INCOME		
– Single payments made in advance for swaps	213,743	261,526
OTHER LIABILITIES		
– Single (bullet) repayments on swaps	12,164	342,743
DEFERRED INCOME		
– Single payments received in advance for swaps	1,905,656	1,025,986
PROVISIONS		
Among other provisions:		
– provisions for interest-subsidised loans	82,943	71,462
CONTINGENT LIABILITIES AND OTHER COMMITMENTS		
Liabilities from sureties and guarantee contracts include:		
– loan guarantees to financial institutions	376,569	544,569
– credit default swaps	3,752,787	3,959,046

The assessment of utilisation risk is based on the Bank's risk management approach. The overwhelming proportion of contingent liabilities comprise credit risks from borrowers with a first-class credit rating. A total of 96.9% of the total portfolio of contingent liabilities has an investment grade rating. Credit default swaps only oblige L-Bank, in its capacity as protection seller or guarantor, to make compensation payments for default risk within the meaning of IRW RS BFA Opinion 1. The intention is to hold the credit default swaps until maturity or until the credit event occurs.

	31.12.2015 EURk	31.12.2014 EURk
INTEREST EARNINGS		
– Negative interest from financial investments	3,610	136
COMMISSION EARNINGS		
– Income from other services	37,333	37,658
OTHER OPERATING INCOME		
– Income associated with venture capital finance	5,118	–
– Rental income	4,794	4,589

INDIVIDUAL AMOUNTS THAT ARE MATERIAL IN ASSESSING THE ANNUAL FINANCIAL STATEMENTS

	31.12.2015 EURk	31.12.2014 EURk
INTEREST EXPENSES		
– Negative interest from borrowing	5,198	601
GENERAL ADMINISTRATIVE EXPENSES		
Other administrative expenses include auditor's fees (excluding sales tax):		
– for auditing services	383	375
– for other certification services	30	–
OTHER OPERATING EXPENSES		
– Expenses for subsidies awarded in the course of processing development programmes for the State of Baden-Württemberg	24,929	19,814
TOTAL VALUE OF ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES		
– Assets	4,531,326	3,957,378
– Debts	25,679,878	25,271,078
The exchange rate risk from foreign exchange balance-sheet items is essentially covered by off-balance-sheet hedging transactions. Currency conversion produced other operating income in the sum of	235	71

PROVISION OF COLLATERAL

For refinancing purposes, securities in the amount of EUR 3,366 million (2014: EUR 11,312 million) were deposited with Deutsche Bundesbank.

As collateral for OTC transactions, the Bank paid out cash sureties totalling EUR 2,629 million (2014: EUR 2,618 million), reported under receivables from banks.

TRANSACTIONS WITH CLOSELY ASSOCIATED COMPANIES AND PERSONS

As at 31 December 2015, transactions concluded with closely associated companies and related parties on the basis of conditions that do not conform with market conditions had a reported value of EUR 17 million (2014: 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 2015

DERIVATIVE TRANSACTIONS

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

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

DERIVATIVE TRANSACTIONS – SUMMARY OF AMOUNTS in EUR millions	Nominal values 31.12.2015	Nominal values 31.12.2014	Market values positive 31.12.2015	Market values negative 31.12.2015	Market values positive 31.12.2014	Market values negative 31.12.2014
INTEREST-RATE RISKS						
Interest-rate swaps	76,206	73,372	2,919	–5,961	3,341	–6,205
Interest-rate risks – total	**76,206**	**73,372**	**2,919**	**–5,961**	**3,341**	**–6,205**
CURRENCY RISKS						
– Forward currency contracts/swaps	9,331	9,230	179	–24	334	–6
– Currency swaps/cross-currency interest-rate swaps	18,566	17,963	2,309	–1,464	1,387	–1,293
Currency risks – total	**27,897**	**27,193**	**2,488**	**–1,488**	**1,721**	**–1,299**

On balance, no significant profit or loss on foreign exchange transactions or interest-rate valuations is due from interest-rate/currency swaps and the corresponding hedged items, especially on bonds or debentures issued in foreign currencies. Market values of interest-rate/currency swaps totalling EUR 1,856 million are due to changes in spot exchange rates. A balancing item from the currency conversion was set up in this amount on the assets side and stated under "Other assets".

Interest-rate swaps in the non-trading portfolio are used primarily to control total interest-rate exposure, and show a net negative market value of EUR 3,042 million as at year-end 2015. 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.

DERIVATIVE TRANSACTIONS – BY COUNTERPARTY in EUR millions	Nominal values 31.12.2015	Nominal values 31.12.2014	Market values positive 31.12.2015	Market values negative 31.12.2015	Market values positive 31.12.2014	Market values negative 31.12.2014
– Banks in the OECD	89,739	87,822	4,804	–5,841	4,511	–6,128
– Public-sector agencies in the OECD	0	66	0	0	0	–3
– Other counterparties (including stock-exchange transactions)	14,364	12,677	603	–1,608	551	–1,373
Total	**104,103**	**100,565**	**5,407**	**–7,449**	**5,062**	**–7,504**

DERIVATIVE TRANSACTIONS – BY TERM Nominal values in EUR millions	Interest-rate risks 31.12.2015	Interest-rate risks 31.12.2014	Currency risks 31.12.2015	Currency risks 31.12.2014
Remaining terms up to three months	1,352	1,825	10,531	6,667
more than three months and up to one year	5,844	8,333	4,827	5,676
more than one year and up to five years	31,596	29,944	7,979	10,120
more than five years	37,414	33,270	4,560	4,730
Total	**76,206**	**73,372**	**27,897**	**27,193**

There are no trading activities

VALUING DERIVATIVE FINANCIAL INSTRUMENTS

The market valuation of derivatives is based on market data as at 31 December 2015, including yield curves, exchange rates 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
Interest-rate structures	Interest-rate structure models (BGM model, Hull-White model, modified Hull-White model for multiple currencies)

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 tax and trade tax.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2015

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	35,641	183
2.	Baden-Württemberg International – Gesellschaft für internationale wirtschaftliche und wissenschaftliche Zusammenarbeit mbH, Stuttgart	24.00	3,448	–5,070
3.	BrandMaker GmbH, Karlsruhe	35.65	7,191	–5,790
4.	CONTTEK Holding GmbH, Pforzheim	44.75	6,945	–1,291
5.	DBAG Expansion Capital Fund GmbH & Co. KG, Frankfurt/Main	21.77	10,216	189
6.	Digital Commerce Network GmbH, Karlsruhe	42.33	–804	–172
7.	GUTEX Holzfaserplattenwerk H. Henselmann GmbH & Co. KG, Waldshut-Tiengen	36.50	24,966	4,729
8.	H. Henselmann Verwaltungsgesellschaft mbH, Waldshut-Tiengen	36.57	423	8
9.	iQuest Holding GmbH, Frankfurt/Main	27.83	1,284	518
10.	MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH, Stuttgart	26.80	56,429	4,419
11.	Micropelt GmbH, Freiburg	20.10	**	**
12.	OnSee Holding GmbH, Bruchsal	47.71	***	***
13.	ONVENTIS GmbH, Stuttgart	34.35	634	130
14.	PT German Centre Indonesia II, Tangerang/Indonesia	98.42	343****	–146****
15.	Rhitex-Bauplatten Gesellschaft mit beschränkter Haftung, Waldshut-Tiengen	36.55	101	5
16.	Selbca Holding GmbH, Berlin	36.55	2,915	–4,755
17.	Staufen.AG Beratung Akademie Beteiligung, Köngen	25.10	5,568	4,244
18.	StEP Stuttgarter Engineering Park GmbH, Stuttgart	100.00	4,082	–1,751

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

No.	Name/registered office	Direct shareholding in %	Equity* in EURk	Earnings* in EURk
19.	Strohheker Holding GmbH, Pforzheim	49.50	1,245	–399
20.	SYMPORE GmbH, Tübingen	34.98	**	**
21.	Technologiepark Karlsruhe GmbH, Karlsruhe	96.00	12,235	1,631
22.	Technologieparks Tübingen-Reutlingen GmbH, Tübingen	100.00	8,318	946
23.	Wessel-Werk Beteiligungsverwaltung GmbH, Karlsruhe	35.00	**	**

* As at the last fiscal year available in each case.
** No annual financial statements were prepared due to insolvency.
*** Newly established, so no annual statements are available as yet.
**** Conversion rate: 1 EUR = 15,081.3 IDR.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2015

STATEMENT OF CHANGES IN FIXED ASSETS

Fixed assets Balance-sheet items	Acquisition costs 01.01.2015 EURk	Additions EURk	Retire-ments EURk	Transfers EURk	Write-ups, cumulative EURk	Depreciation, cumulative EURk	Book value 31.12.2015 EURk	Depreciation for the year 2015 EURk
Bonds, debentures and other fixed-interest securities	22,168,106			Net change pursuant to Art. 34 (3) sentence 2 RechKredV: –293,208			22,507,028	–
Shareholdings	835,645						211,740	–8,044
Holdings in affiliated companies	27,534						19,309	–
Intangible assets	30,738	2,661	–161	–	–	–24,955	8,283	–4,563
Fixed assets	224,734	4,966	–1,812	–	–	–121,907	105,981	–6,345
Other assets	14,675	29	–	–	–	–22	14,682	–

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

Remuneration paid to members of the Board of Management for 2015 in EURk	Fixed remuneration	Other non-cash benefits	Payments from third parties in relation to Board of Management activities	Total
Dr. Axel Nawrath Chairman	682	23	8	712
Dr. Ulrich Theileis Vice-Chairman	488	19	6	513
Prof. Dr. Manfred Schmitz-Kaiser[1]	220	–	3	223
Dr. Karl Epple[2]	226	9	5	240
Total	1,615	51	21	1,688

1 Prof. Dr. Manfred Schmitz-Kaiser resigned from the Board of Management with effect from 31 May 2015.
2 Dr. Karl Epple resigned from the Board of Management with effect from 30 June 2015.

In 2015, the members of the Board of Management received benefits totalling EUR 14,000 according to their entitlements under civil-service law. An occupational pension scheme is in place for members of the Board of Management based on the rules applicable to L-Bank employees.

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

Remuneration paid to members of the Supervisory Board for 2015 in EURk	Membership of Supervisory Board	Membership of committees	Attendance fees	Total
Dr. Nils Schmid[1] Chairman	9.0	3.9	0.9	13.8
Alexander Bonde[1] Vice-Chairman	7.5	3.9	0.6	12.0
Reinhold Gall[1] Vice-Chairman	7.5	3.9	1.1	12.5
Katrin Altpeter[1]	6.0	–	0.2	6.2
Leni Breymaier	6.0	–	0.3	6.3
Dr. Maximilian Dietzsch-Doertenbach	6.0	3.9	1.4	11.3
Roger Kehle	6.0	–	0.6	6.6
Gabriele Kellermann	6.0	2.4	0.9	9.3
Dr. Peter Kulitz	6.0	–	0.5	6.5
Klaus-Peter Murawski[1]	6.0	–	0.2	6.2
Dr. Dieter Salomon	6.0	–	0.2	6.2
Claus Schmiedel	6.0	–	0.3	6.3
Edith Sitzmann	6.0	–	0.3	6.3
Franz Untersteller[1]	6.0	2.4	0.3	8.7
Joachim Wohlfeil	6.0	–	0.3	6.3
Clemens Meister	6.0	–	0.6	6.6
Tatjana Aster	6.0	–	0.6	6.6
Thomas Dörflinger	6.0	–	0.6	6.6
Total	114.0	20.4	9.6	144.0

1 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 2015

REMUNERATION PAID TO MEMBERS OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD	31.12.2015 EURk	31.12.2014 EURk
– Payments to former members of the Board of Management or their surviving dependants	1,463	1,130
– Advisory Board remuneration (including travel costs)	145	155
– Pension provisions for former members of the Board of Management and their surviving dependants	25,895	17,249

LOANS TO EXECUTIVE BODIES (INCLUDING CONTINGENCIES AND COMMITMENTS)	31.12.2015 EURk	31.12.2014 EURk
– Board of Management	–	417

AVERAGE NUMBER OF EMPLOYEES IN 2015	Male	Female	Total
Employees*	493	672	1,165
of whom: full-time employees	469	399	868
part-time employees	24	273	297

* Excluding vocational trainees and interns.

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

DR. ULRICH THEILEIS, VICE-CHAIRMAN OF THE BOARD OF MANAGEMENT

Vorarlberger Landes- und Hypothekenbank AG, Bregenz	Member of the Supervisory Board
Sächsische Aufbaubank – Förderbank –, Dresden	Member of the Administrative Board

EXECUTIVE BODIES OF L-BANK

BOARD OF MANAGEMENT

Dr. Axel Nawrath
Chairman

Dr. Ulrich Theileis
Vice-Chairman since 01.06.2015

Prof. Dr. Manfred Schmitz-Kaiser
Vice-Chairman until 31.05.2015

Dr. Karl Epple
until 30.06.2015

SUPERVISORY BOARD MEMBERS IN 2015

Regular members

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

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

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

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

Leni Breymaier
Regional Manager, VER.DI Baden-Württemberg

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

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

Gabriele Kellermann
Member of the Board, BBBank eG

Dr. Peter Kulitz
President, Ulm Chamber of Industry and Commerce

Klaus-Peter Murawski
State Secretary, Ministry of State

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

Claus Schmiedel MdL
Chairman, SPD parliamentary group

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

Franz Untersteller MdL
Minister of the Environment, Climate and Energy

Joachim Wohlfeil
President, Karlsruhe Chamber of Trades and Crafts

Consulting members

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

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

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

Alternate members

Helmut Althammer
Managing Director,
Althammer GmbH & Co. KG

Catharina Clay
Regional Manager, IG BCE
Baden-Württemberg

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

Wilhelm Freiherr von Haller
Co-head of Private and Commercial
Banking, Deutsche Bank AG
until 30.06.2015

Klaus Maier MdL
since 17.03.2015

Peter Hofelich MdL
until 28.02.2015

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

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

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

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

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

Rolf Schumacher
Permanent Secretary, Ministry of
Finance and Economic Affairs
since 01.02.2015

Ingo Rust MdL
State Secretary, Ministry of Finance and
Economic Affairs
until 31.01.2015

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

Joachim Walter
President, Baden-Württemberg
Association of District Councils

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

Other alternate members

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

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

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

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

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

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

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

The Board of Management hereby proposes to the Supervisory Board that out of the net income for fiscal year 2015 totalling EUR 50,878,557.88, an amount of EUR 50,000,000.00 should be allocated to other retained earnings and the remaining amount of EUR 878,557.88 carried forward to the current fiscal year.

Karlsruhe, 9 March 2016

L-Bank

Dr. Axel Nawrath Dr. Ulrich Theileis

ANNEX TO THE FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2015

COUNTRY-BY-COUNTRY REPORTING PURSUANT TO ARTICLE 26A, PARA. 1, CLAUSE 2 KWG

L-Bank (Landeskreditbank Baden-Württemberg – Förderbank –) 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 programs that comply with the European Union's regulations governing state aid.

The Bank has its head office in Karlsruhe, with a branch office in Stuttgart. The Bank has no branches outside the Federal Republic of Germany. All disclosures in the Annual Financial Statements within the meaning of Art. 26a, para. 1, clause 2 KWG apply exclusively to the Federal Republic of Germany.

L-Bank's sales revenue for the fiscal year from 1 January to 30 December 2015 breaks down as follows:

	2015 EUR millions	2014 EUR millions
Net interest income (including current income)	262	267
Net commission income	42	43
Other operating income	14	8
Sales revenue	**318**	**318**

During 2015, L-Bank employed the equivalent of 1,071 full-time salaried employees on average (2014: 1,057). The Bank's pre-tax profit for the year was EUR 55 million (2014: EUR 50 million).
Taxes on income during fiscal year 2015 totalled EUR 5 million (2014: EUR 1 million). These consisted exclusively of non-reimbursable taxes on capital, plus the solidarity surcharge. Pursuant to Art. 5, para. 1 section 2 KStG and Art. 3, section 2 GewStG, L-Bank is exempt from corporate income and trade tax.

The Bank did not receive any public funding in the year under review or in the previous year.

DECLARATION OF THE BOARD OF MANAGEMENT REGARDING THE FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2015

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, 9 March 2016

Dr. Axel Nawrath Dr. Ulrich Theileis

AUDITOR'S REPORT

We have audited the financial statements – comprising the balance sheet, income statement, notes to the accounts, 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 2015 to 31 December 2015. The accounting methods and the preparation of financial statements and a Management Report in accordance with German commercial law are the responsibility of the corporation's Board of Management. Our responsibility is to express an opinion on the financial statements, including the accounting methods and Management Report, on the basis of our audit.

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

Our audit did not give rise to any reservations.

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

Stuttgart, 11 March 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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