

ANNUAL REPORT/  
SUSTAINABILITY REPORT  
2016

# L-BANK IN FIGURES

## OVERVIEW 2012–2016 in EUR millions

	2012	2013	2014	2015	2016
Total assets	70,629.81	70,682.10	70,190.09	73,294.92	75,075.39
Equity	2,516.15	2,616.91	2,714.68	2,765.31	2,814.64
Net interest income <sup>1</sup>	437.82	414.03	375.54	365.41	368.93
Net income	147.35	100.77	49.19	50.63	49.33

	2012	2013	2014	2015	2016
Tier 1 capital ratio <sup>2</sup>	14.15%	15.68%	14.17%	16.38%	18.00%
Tier 1 capital ratio fully phased-in <sup>3</sup>	–	12.11%	13.95%	16.38%	18.00%
Total capital ratio	19.07%	20.28%	16.87%	19.00%	20.29%
Return on equity	14.02%	11.73%	12.22%	10.67%	12.42%
Cost-income ratio	30.97%	32.24%	41.97%	42.82%	41.65%

2016	Moody's	Standard & Poor's
Rating	Aaa	AAA

1 Based on business operations. 2 Basel II until 2013, Basel III CET1 ratio from 2014 onwards. 3 Basel III CET1 ratio.

# CONTENTS

A Letter to our Business Partners	05
Greetings from the State Premier	07
Responsibility	
Clients and Partners	09
Sustainability Management	29
Employees	33
Ecology	45
Society	57
Sustainability Programme	65
Key Performance Indicators	69
About the Sustainability Report	73
GRI G4 Index	75
Corporate Governance Report	79
Management Report	
Report of the board of L-Bank for fiscal year 2016	82
Report of the Supervisory Board	128
Financial Statements	129



## A LETTER TO OUR BUSINESS PARTNERS

Dear Business Partners,

Once again, we can look back over a good year, with plenty of development finance. The total lending volume approved in 2016 came to around EUR 10.6 billion, stabilising at a gratifyingly high level. Our equity allocation showed good progress, we made a number of key policy decisions in regional development and, once again, did good work by paying out some EUR 2.2 billion in financial assistance. But above and beyond pure funding figures, what did the bigger picture look like? We are tasked with reconciling economic demands with ecological progress and social objectives. Were we able to fulfil this task? This year, we took advantage

of our annual report to take a closer look. And here is the result: for the first time, we present a joint annual and sustainability report that describes not just our economic performance, but also our ecological and social activities. Because a complete picture of L-Bank only emerges when one examines the organisation as a whole.

As a development bank, L-Bank is especially well known for its extensive areas of activity. In enterprise development, we approve huge volumes of funding to support small and medium-sized businesses in Baden-Württemberg, as well as new business start-ups and fledgling enterprises. In this way, we help to secure the future of the federal state's SMEs. For very good reason – after all, the businesspeople who run our SMEs make a significant contribution to the federal state's prosperity and provide millions of jobs.

But the significance of the big picture is made up of many tiny brushstrokes, which is why our other development activities are also important – such as the funding we provide for coaching entrepreneurs engaged in innovation projects, or our efforts to facilitate access to continuing education through our development programme for specialist courses. Even these comparatively minor initiatives deserve our regular attention, because our various activities should not be judged solely in terms of the sheer size of their measurable success.

No matter how large or small the scale of our activities, our core question always remains the same: what will make our federal state a more enjoyable, more attractive, but also more kind-hearted place to live? In this sense, the various areas in which we are less conspicuously involved are also important – such as our ongoing support and subsidies for outstanding artistic and cultural events, our support for the socially disadvantaged, and the awards we present to members of our community who help to inspire others. By taking these quiet, low-profile initiatives, we highlight the values that define our federal state – and inspire others to adopt and apply them. This is how we live up to our motto "For love of state and country ..." at every level, large and small.

Last year, our employees once again showed great sensitivity in managing our many different projects. Whether transferring vast sums of money or helping anxious individuals, whether working in direct contact with customers or behind the scenes – our employees showed their dynamism and commitment in actions on the largest down to the smallest scale.

For this, I give them all my warmest thanks.



Dr. Axel Nawrath  
Chief Executive Officer



## GREETINGS FROM THE STATE PREMIER

Acting in accordance with the principles of sustainability should help to ensure that our modern lifestyle does not restrict the prospects of future generations, and that people living in the world's poorer countries have a chance to live comfortable lives. A sustainable lifestyle is equally dependent on economic, social and ecological factors. L-Bank has already recognised the many development opportunities associated with sustainable business management and proved to be the reliable partner Baden-Württemberg's state government needs as we strive to attain our sustainability objectives.

For the state government, the fact that our federal state's ecology is inseparable from its economy is a core principle. We want to highlight the fact that the conservation of natural resources is inextricably linked to the future viability of the many businesses currently operating in Baden-Württemberg. To do so, we need new economic models that no longer equate growth with resource consumption. While Baden-Württemberg has a strong economy, it is weak in resources, which is why the growing scarcity and rising prices of resources are having such an impact on us. At the same time, nowhere else in Europe is a higher proportion of a region's economic output invested in research and development than in Baden-Württemberg. This means we are in a position to develop the solutions we need for ourselves.

With its sustainability strategy, the state government is pursuing the goal of embedding sustainability in all areas of policy and translating it into concrete political action. Sustainable business management is a key component of this strategy. The WIN Charter and other initiatives were launched in order to encourage companies in our region to make a voluntary commitment to the implementation of the principles of sustainability. Since 2014, a total of 99 companies have signed up to the WIN Charter.

L-Bank was one of the very first WIN Charter signatories. The Bank has made various undertakings as a result: to introduce corporate mobility management, for example, and to incorporate sustainability issues into employee training and continuing professional development. L-Bank is also sponsoring an ongoing competition for trainee, student and junior enterprises. Furthermore, L-Bank's development finance products are intended to provide the residents of, and businesses in, our federal state with explicit incentives to live and work in resource-efficient ways, always keeping one eye on the future. Many of the development programmes managed by L-Bank – financing energy efficiency, building renovation, the use of renewable energy – are already contributing to the sustainable development of Baden-Württemberg.

L-Bank is striving to become a role model of sustainable activity. The success of these efforts is largely due to the dedication and commitment of the Bank's employees. For this, I give you all my warmest thanks, and wish you and L-Bank every success in the new fiscal year!



Winfried Kretschmann MdL  
State Premier of the State of Baden-Württemberg





# GIVING MODEST IDEAS A GREAT FUTURE

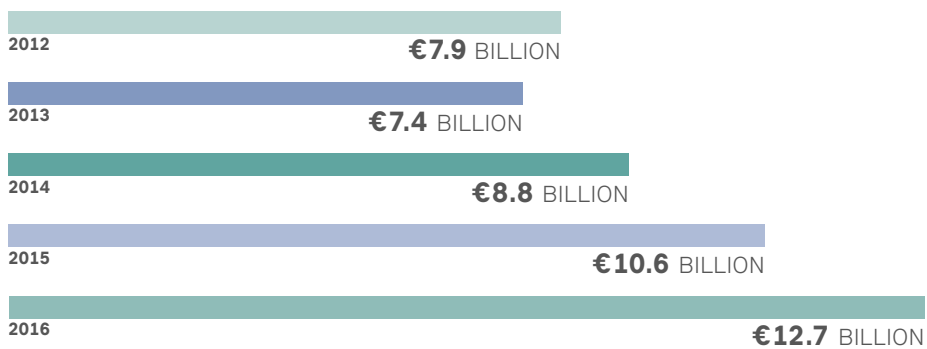
Our day-to-day work takes place in two dimensions: macro and micro. Whether we are processing microloans or managing major syndications, our clients and partners expect exactly the same attention to detail from us in projects large and small. We aim to offer our clients and partners a rich array of user-friendly, easy-to-manage finance products. By doing so, we give them a better chance of successfully achieving their various goals, no matter how ambitious – or modest – they may be.

**CLIENTS AND PARTNERS**

# NOVELTY DOES NOT NECESSARILY MEAN PROGRESS

While change is necessary, it is by no means sufficient for progress. And this is where our development funding comes in. Our main priorities are reliability and continuity. Where necessary, we can refocus our efforts or respond to current developments rapidly and in line with the needs of our target groups. This is how we fulfil our development mandate – by helping to boost the ongoing development and steady progress of our home region of Baden-Württemberg.

DEVELOPMENT BOOST FOR BADEN-WÜRTTEMBERG



## THE MANY DIMENSIONS OF PROGRESS

Technology, the economy, ecology and social behaviours are all important parameters of progress, interacting in various complex ways. As a whole, they represent societal development while simultaneously highlighting areas of tension. This is why genuine progress requires carefully considered, well-balanced action.

With our development programmes, we systematically implement the mandate we have been given by the federal state by creating incentives for different target markets, including individuals, businesses and local authorities. We build up each relationship in very different ways, depending on the client. For example, we might base our relationship with a private individual on funding for home ownership, or for energy efficiency in response to climate change.

Our support for SMEs is intended to help them become more competitive. They need to be flexible and innovative so they can operate from a stable basis both as individual businesses and as part of the regional economy, now and in the future. We also provide suitable incentives for corporate climate and environmental protection initiatives; here, our support helps to significantly reduce amortisation periods.

Fledgling companies and new business start-ups are at a disadvantage compared

to well-established companies, above all with respect to financing conditions. Their projects are often more difficult to quantify, and accurate risk assessments are also problematic, so that ultimately, many funding decisions are based purely on the available collateral. Here, our start-up finance products help to lower the barriers to market entry.

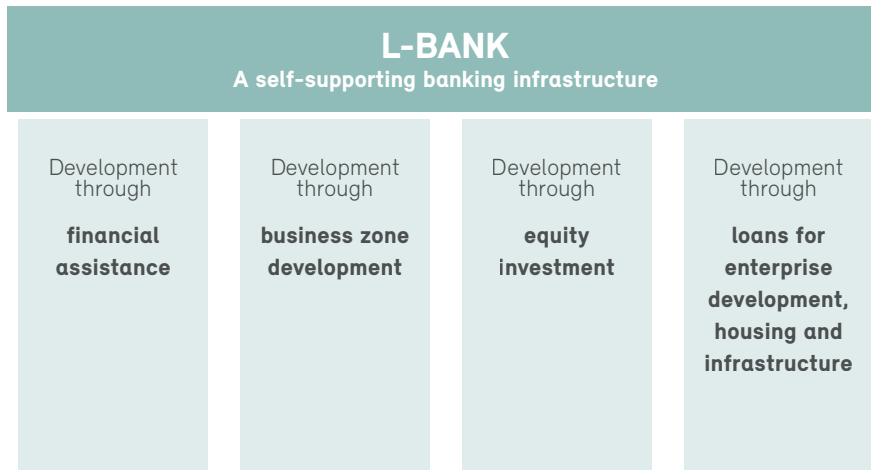
We also assist local authorities in their efforts to reduce carbon emissions, provide energy-related advice or mitigate climate change. L-Bank has suitable development programmes for challenges such as social integration, language teaching and education. The Bank's product portfolio includes incentives for investment in infrastructure.

In addition, we have devised special development programmes optimised for specific target groups. One example is our finance for apartment owners' associations, useful for helping to fund architecturally harmonious conversion projects or refurbishing the energy systems in residential buildings.

All our activities are based on our four-pillar model: development through financial assistance, development through business zone development, development through equity investment, and development through loans for enterprise development, housing and infrastructure. Our portfolio of specialised products make us the only full-service provider of development finance in the Federal Republic of Germany.

### L-BANK'S 4-PILLAR MODEL

With our banking infrastructure, we are an important partner to the State of Baden-Württemberg.



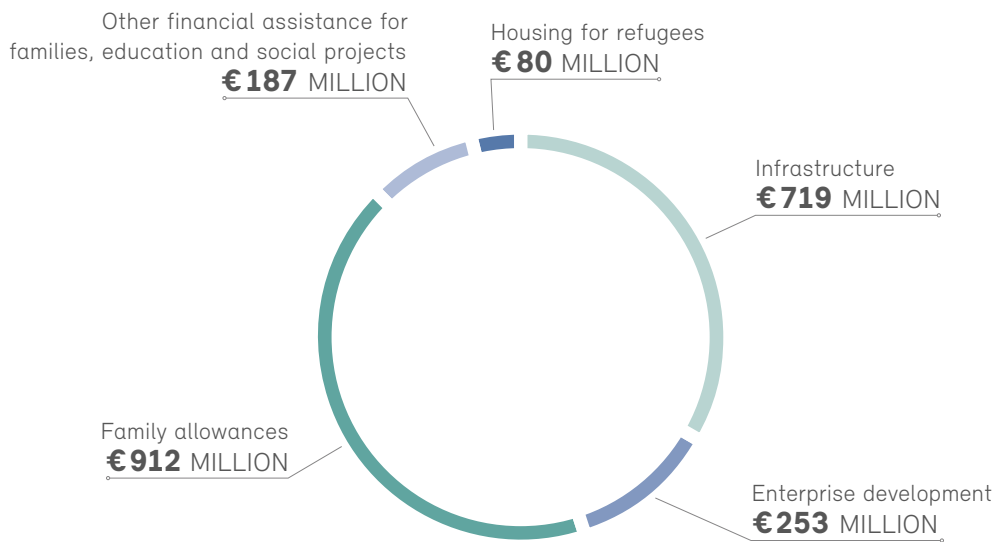
### DEVELOPMENT THROUGH FINANCIAL ASSISTANCE: AS THE ADMINISTRATOR OF FINANCIAL ASSISTANCE PROGRAMMES, WE ARE RESPONSIBLE FOR THEIR IMPLEMENTATION

As a service provider to the State of Baden-Württemberg, L-Bank distributes and administers a significant proportion of the financial assistance provided by the State of Baden-Württemberg for economic and infrastructural purposes, as well as for supporting families, education and social projects. The Bank distributes funds provided by the federal state, the federal government and the European Union. We have the skills to manage all aspects of and stages in the financial assistance process, using our banking infrastructure as the underlying platform to ensure that funding reaches beneficiaries as quickly as possible, with a minimum of red tape. Depending on the programme, we also manage other stages in the funding process, providing advice and support for applications, reviewing and approving applications, right through to specialised functions such as auditing state aid and distribution channels.

We work with very capable partners. The figures speak for themselves – with 8,056 new approvals, the number of cases processed rose by more than 1.7%, representing a record number of new approvals.

NEW FINANCIAL ASSISTANCE TOTALLING **€2.2 BILLION** (2015: €2.1 BILLION) WAS APPROVED IN 2016

DISTRIBUTION OF FINANCIAL ASSISTANCE

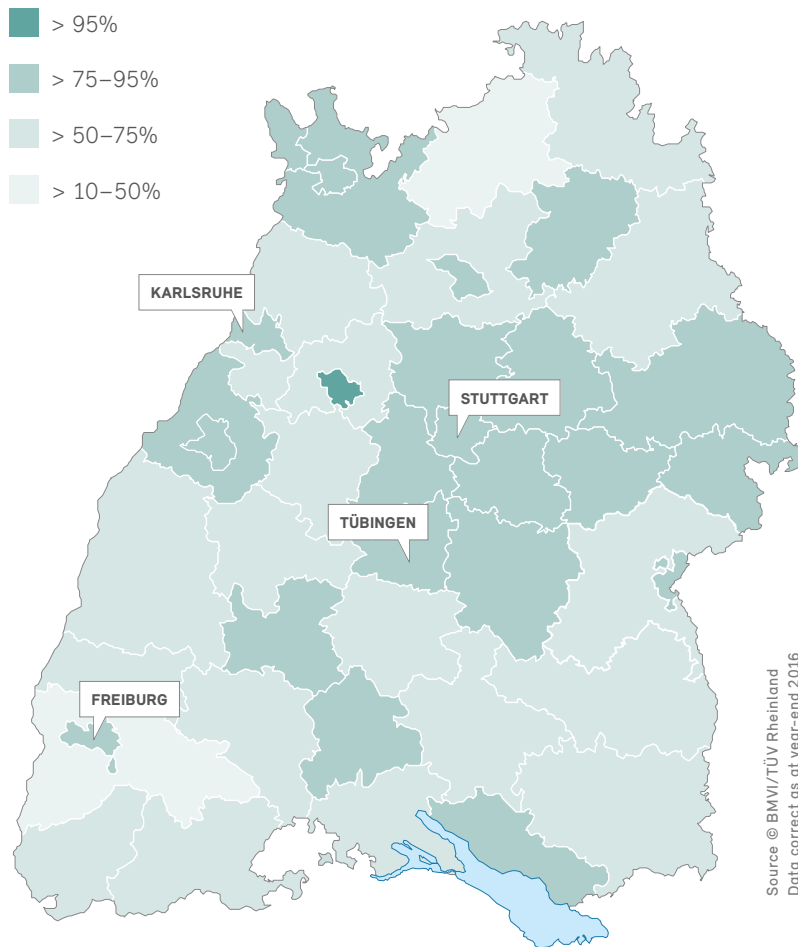


Financial assistance makes it possible to respond to acute problems with exceptional speed. Thus in 2016, for example, under our “Housing for Refugees” programme, we approved EUR 80 million in financial aid to local authorities so they could create new, long-term accommodation for refugees. Because the refugee situation in local communities has eased during the year, we are currently merging this development programme with the federal state’s housing assistance programme.

Financial assistance is also suitable for active interventions where the market fails to meet specific needs. Since the telecommunications market was liberalised by the European Union, telecoms companies have been responsible for providing reliable broadband services. However, this market-driven development of the broadband infrastructure only works in places where it is economically viable for the companies concerned. But Internet access capable of transferring large quantities of data at speed is a vital part of any modern infrastructure and should therefore be available across the entire federal state, ensuring that it remains an attractive business venue. Our broadband development programme reflects the increasing significance of high-speed Internet access for quality of life and economic performance, especially in areas where such services would otherwise be unavailable or substantially delayed.

### FEDERAL CHART OF BROADBAND PROVISION IN BADEN-WÜRTTEMBERG

Broadband availability in % of households (all ≥ 50 Mbit/s)



The Bank’s broadband development programme is intended for local authorities and, until recently, was implemented jointly with the federal state’s Ministry of Rural Affairs and Consumer Protection. In October 2016, responsibility for the programme was transferred to the State Ministry of the Interior, Digitisation and Migration and regional funding was increased, giving extra impetus to the federal state’s Broadband Offensive 4.0.

VOLUME OF  
BROADBAND  
DEVELOPMENT  
PROGRAMME  
**€128.6 MILLION**

Language teaching and development in early childhood is a keystone of Baden-Württemberg's educational policy. The overall approach to language training in Baden-Württemberg focuses on individual development and the processes used to educate children, and is expected to ensure that children receive appropriate support and encouragement from the outset. As an educational and developmental subject area, "Language" is a key element in the federal state's road map for education and training. The SPATZ regional programme (for language support in all day-care facilities with supplementary needs) is a useful resource for kindergartens and day-care facilities. In schools, the programme extends to include homework, language and learning assistance. In the 2015/2016 academic year, the federal state made EUR 28.6 million available for this programme, helping several thousand providers to support more than 88,000 children.

The biggest item under financial assistance, with a funding volume of EUR 912.4 million, is the family allowance. More than 140,000 applications for family allowances were approved in 2016. As the central issuer of this benefit, we also provided comprehensive information and advice to families.

**312,158**  
**PHONE CALLS**  
 ASKING FOR  
 HELP WITH  
 FAMILY BENEFITS

#### **BUSINESS ZONE DEVELOPMENT: ACADEMIC, SCIENTIFIC AND TECHNOLOGICAL PROGRESS IS POWERED BY COLLABORATION AND KNOWLEDGE SHARING**

Traditional companies emerge and grow in traditional environments. They are already aware of the regional factors that impact on their business activities, and take them into consideration in their planning. The situation in the high-tech sector is very different: here, structural change is the rule rather than the exception. So a range of services designed to protect and support innovators can unleash groundbreaking reserves of creativity.

L-Bank offers precisely such a range of services as part of our business zone development activities. Our technology parks are located near universities and research facilities. Thanks to sophisticated building design combined with professional space management, we provide highly flexible spaces suitable for many different applications. They can be adapted to rapidly changing needs, expanded with customised additions or extensions, or enhanced with specialised equipment or amenities. Our park model also offers a multi-company infrastructure and services tailored to specific target markets, making it much easier for resident companies to concentrate on their core business.

## NETWORKING HELPS COMPANIES TO GROW

Currently, our Karlsruhe Technology Park (TPK), Stuttgart Engineering Park (STEP) and Tübingen-Reutlingen Technology Park (TTR) each focus on very different industries. Thus the Tübingen-Reutlingen Technology Park hosts more than 50 companies specialising in biotechnology and nanotechnology. As in Karlsruhe and Stuttgart, the many local universities, research facilities and hospitals offer outstanding conditions for business development, facilitating the transfer from scientific concept to practical application. The Biotechnology Centre at the Technology Park in Tübingen offers fully equipped laboratory space for rental, whereas Reutlingen makes flexible premises available for offices, laboratories and clean rooms. Construction of the fifth building has now been completed and the first tenants are expected in early 2017. New rental space is also under construction in our Karlsruhe Technology Park and Stuttgart Engineering Park, and will be available for occupation in 2017 and 2018. All three parks offer customisable premises with full technical support, making them highly attractive to young companies. Additional land has also been reserved for further expansion, ensuring attractive development prospects for fast-growing enterprises. This reflects our constructive approach to the end-to-end development of high-tech clusters.

OUR PARKS ENJOY A  
**100%**  
OCCUPANCY RATE

## MEDICAL TECHNOLOGY IS AMONG THE WORLD'S LARGEST GROWTH INDUSTRIES – AND MANNHEIM IS A LEADING HUB

Now that construction work on the newly established Technologiepark Mannheim GmbH on the Mannheim Medical Technology (MMT) campus in Mannheim has been given the formal go-ahead, the further development of an industry-specific infrastructure for medical technology in Baden-Württemberg is taking another giant step forwards. The MMT campus is within walking distance of the Mannheim Medical Faculty, part of Heidelberg University. The first stage of the project will see the construction of four buildings with space for offices, workshops and laboratories. The optimised building layout will create synergies by enabling product developers, clinicians and researchers to jointly develop medical products faster and more efficiently than they could elsewhere.

REVOLVING  
INVESTMENT  
CAPITAL  
TOTTALLING  
**€130 MILLION**

As one of our pillars, the business zone development unit is designed to be self-supporting. In the future, not only do we intend to further develop our existing parks, we also intend to jointly develop new parks with other operators. Here, our top priority will be to integrate our well-established parks – all in towns and cities with good university links – into our new campus model so we can support them during the next phase of development. In particular, we shall be relying on our strengths in the structural amalgamation of laboratory and office space. For many high-tech growth enterprises, this is an important requirement which most investors fail to fulfil.



## DEVELOPMENT THROUGH EQUITY INVESTMENT: DISRUPTIVE INNOVATIONS SUBVERT EXISTING MARKET STRUCTURES

Almost all pioneering technological advances have been overlooked by traditional industry leaders. Small and fledgling companies are the first to rely on new technologies and subsequently disrupt entire industries; their innovative mindsets need venture capital. The situation is somewhat different when financing evolutionary business growth or start-ups in traditional sectors, where debt finance or mixed financial instruments are better alternatives. Venture capital is not a mass-market product for financing young companies.

The analysis of venture capital offerings which L-Bank commissioned from the Centre for European Economic Research (ZEW) reflects well on the status of VC development in Baden-Württemberg. Next to Berlin, Baden-Württemberg is the only federal state in which VC investments over the 2011–2014 period exceeded pre-crisis levels. Particularly striking is the positive develop-

ment of medium-sized VC shareholdings – a market segment in which L-Bank is heavily involved. When seeking out potential for VC optimisation, the entire financing ecosystem should be taken into consideration. The ZEW study acknowledges that the development lending system in Baden-Württemberg is exceptionally well-resourced and enjoys a high level of acceptance. The high guarantee ratios associated with our development loans under, for example, the Start-up Finance 80 programme acts as a kind of “venture credit” at the low-volume end of the market, partially replacing venture capital; thus there is no need to take VC-boosting action at this level. The modernisation of the Bank’s direct investment strategy launched in 2015 represents L-Bank’s attempt to make the most of any remaining optimisation potential by focusing more intensely on growth venture capital while simultaneously reinvigorating our equity finance products for SMEs in Baden-Württemberg. The uptake through 2016 confirmed the positive impact of these initiatives; L-Bank’s investments in equity finance increased significantly compared to the previous year, reaching EUR 37.6 million (2015: EUR 19.1 million).

---

### VC PORTFOLIO

Invested:

**77.9** MILLION  
EUROS

---

At the same time, new business in our venture capital portfolio showed good growth, with investments totalling EUR 23.7 million (2015: EUR 14.1 million), as did our participation in the new SME fund (LEA Mittelstandspartner fund; see below), which attracted new business worth EUR 10.4 million.

Directly or indirectly, L-Bank plays an important role in all these activities as a partner to other financing institutions. By focusing L-Bank's VC commitments on technology companies specialising in information and communication technology in particular, we are already systematically strengthening our technology cluster in Karlsruhe. In 2017, as part of our drive to transform Baden-Württemberg into an even more potent IT and technology hub, we are planning to set up an external venture capital fund focusing on high-tech growth companies.

The new SME fund we set up in tandem with leading institutions in Baden-Württemberg's banking and insurance sector is aimed at companies in the industrial and IT sectors that could grow faster with the support of an active, partnership-based shareholding approach. December 2016 saw the first two investments in the new SME fund (officially known as LEA Mittelstandspartner GmbH & Co. KG). Over the course of 2017, we are planning to top up the fund to over EUR 100 million with the help of other investors.

But the ZEW study also highlighted the fact that the VC market has become a much more complex arena. In particular, increasingly large exposures mean that co-investment is becoming a much more attractive option. With nearly 600 venture capital providers operating in today's marketplace, regional platforms such as VC-BW and events such as VC-Pitch VW (jointly organised by L-Bank) create much-needed transparency while also acting as forums in which investors can contact other VCs with the aim of initiating partnerships.

---

#### VC-PITCH BW

**15**  
START-UPS

NEARLY  
**EIGHTY**  
INVESTORS  
FROM ALL OVER GERMANY,  
AS WELL AS SWITZERLAND  
AND AUSTRIA

**200**  
PARTICIPANTS

---

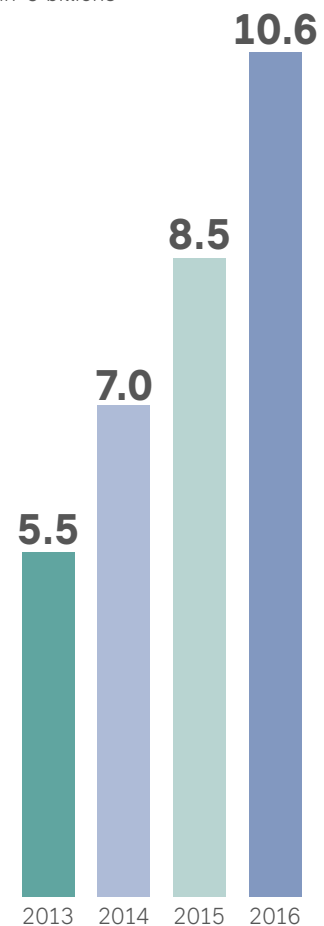
## DEVELOPMENT THROUGH LOANS: LOANS ARE A UNIVERSAL DEVELOPMENT INSTRUMENT

Attractive loans are a useful instrument for pursuing a wide variety of development objectives across many different target markets. L-Bank issues development loans for housing development, enterprise development and infrastructure development. When configuring development offerings, L-Bank takes any existing finance instruments provided by the federal government into consideration. To refinance lending activities, L-Bank also makes use of funds from the KfW banking group, Landwirtschaftliche Rentenbank and the European Investment Bank (EIB) to extend and diversify its funding basis.

While the products themselves must be attractive, of course, it is just as important to make access to development loans as straightforward as possible. We have designed our application documentation so that it is easy to understand and simple to complete. To enable us to process our development business efficiently, L-Bank will be paying special attention to the digitisation of business activities over the next few years, starting with our development departments. Step by step, we intend to digitise and eventually automate work in these departments. However, our digitisation plans are largely dependent on developments at partner institutions, central banking institutions and commercial banks.

The introduction – in Article 3, para. 5, sentence 4 of the L-Bank Act – of an appropriate legal framework for granting loan approvals in a fully automated procedure was an important first step towards full digitisation. By linking this to the KfW development funding platform Bankdurchleitung Online 2.0 (BDO) in mid-2016, we also took the first step towards simplifying and streamlining funding approvals in the housing development sector. Now our financing partners' account managers can apply for an L-Bank loan and receive an immediate lending decision while they are still interviewing the client; the entire process takes place over the Internet. This new service makes it much easier for private individuals to access selected housing-related products offered by L-Bank.

DEVELOPMENT LOANS  
in € billions



**HOUSING DEVELOPMENT:  
L-BANK HAS ITS ROOTS IN HOUSING  
DEVELOPMENT**

L-Bank’s predecessors were founded back in the 1920s and 1930s with the aim of creating affordable housing in the federal states of Baden and Württemberg. Alongside other priorities, this need is still very relevant today. For years, demand for low-rental housing has exceeded supply, especially in conurbations. L-Bank continues to meet these needs and is now the largest housing finance provider of all Germany’s regional development banks.

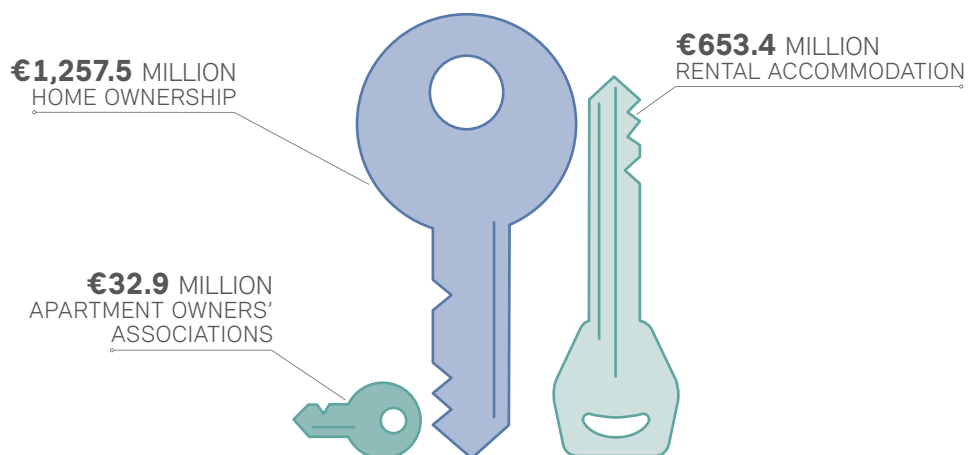
Last year’s high level of housing finance was maintained throughout the reporting period. Despite the expiry of several high-volume programmes, the number of approvals for housing development loans was down just 7% on the previous year.

**FOR MANY PEOPLE, LIVING IN THEIR  
OWN HOMES IS A MAJOR STEPPING  
STONE IN THEIR LIFE PLAN**

But home ownership is not just about quality of life – it also has major implications for individual retirement provision and wealth creation. It strengthens regional ties and contributes to a greater awareness of happenings and conditions in the region. Last but not least, home ownership is a major driver of the construction industry and, in this sense, directly relevant to the economy as a whole.

The premature discontinuation of the Energy Efficiency Finance – Construction and Energy Efficiency Finance – Renovation programmes at the end of August 2016 imposes inevitable limits on direct comparisons of the Bank’s housing development activities in fiscal years 2015 and 2016. Overall, however, the level

**HOUSING DEVELOPMENT**  
Total: € 1,943.9 million



of funding approved for home ownership purposes remained very high at EUR 1,257 million. Since April 2012, the State Ministry of the Environment and L-Bank have been financing energy efficiency initiatives under the “Construction” and “Renovation” programmes. More than 65,000 loans were paid out over this period, representing a total volume of at least EUR 3.6 billion. Every year, the energy-efficiency initiatives funded by these loans reduce CO<sub>2</sub> emissions by some 250,000 tonnes, demonstrating that the federal state’s energy-efficiency campaign has indeed delivered the expected boost to the energy efficiency of some 2.4 million older and very old buildings in Baden-Württemberg.

### THE GROWTH OF FUNDING FOR RENTAL ACCOMMODATION IS VERY ENCOURAGING

This primarily reflects the strong increase in regional funding for housing development. EUR 204.6 million was paid out for more than 2,400 residential units for rental in the social housing sector alone (2015: EUR 112.7 million). Under the federal state’s housing development programme, the State of Baden-Württemberg supports the construction (including redevelopment) and purchase of new rental accommodation, as well as modification or extension projects that create new accommodation for households on limited incomes (pursuant to the income thresholds specified in Art. 15 LWoFG). Overall, the rental accommodation development programme supported the construction, modernisation or regulated tenancies of more than 7,800 rental apartments.

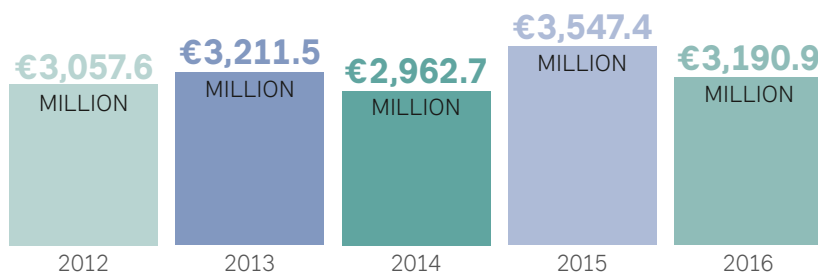
For apartment owners’ associations, it is often difficult to carry out comprehensive renovation or conversion work on large residential complexes. Since 2012, a special L-Bank programme has made it easier for associations to finance these projects: Baden-Württemberg is the first federal state to offer development loans secured against the state’s own sureties to apartment owners’ associations. Last year’s uptake once again showed just how important this programme has become for the housing market. Loans worth a total of EUR 32.9 million were approved for 3,783 residential units, representing another significant increase over the previous year’s already high figure (2015: EUR 23.9 million for 3,333 residential units).

In 2017, Baden-Württemberg’s housing development activities will be affected by numerous optimisations in the federal state’s 2017 housing development programme. For example, the elimination of existing zones will mean that housing finance will be standardised across Baden-Württemberg. In addition, the launch of the new programme will enlarge the pool of potential customers for development finance.

**ENTERPRISE DEVELOPMENT:  
FINANCING SMES CONTINUES TO BE A KEY ELEMENT OF L-BANK'S STRATEGY**

New initiatives and fresh ideas often take hold in SMEs and fledgling companies much faster than they do in large corporations. The Bank paid out low-interest loans totalling EUR 2.9 billion to 4,250 SMEs, 2,700 new businesses and 520 agricultural businesses. While disbursements were slightly down on the record figures achieved in 2015 (by 9%), the level of funding remained very high.

ENTERPRISE DEVELOPMENT  
through loans and subsidies



Across all programmes supporting SMEs, low-interest loans worth a total of EUR 2.2 billion (2015: EUR 2.5 billion) were issued to more than 4,250 companies. This helped to create some 7,700 new jobs and protect nearly 260,000 existing jobs.

The Resource Efficiency Finance programme was especially popular with SMEs. Under this development programme, small and medium-sized businesses are provided with loans on favourable terms in support of initiatives that seek to use energy and resources more efficiently. In turn, this encourages companies to act responsibly for the sake of future generations. The growth in uptake of the Resource Efficiency Finance programme shows that companies in Baden-Württemberg are perfectly willing to invest in more efficient methods for using energy and resources.

## THE APPLICATION OF RESOURCE EFFICIENCY FINANCE HAS CHANGED

When the Resource Efficiency Finance programme was first launched in 2015, the main emphasis was on funding new machinery and optimising production processes. Nowadays, SMEs are focusing increasingly on business premises, because this is where economics and ecology can be combined most effectively. The operating costs of a commercial building that meets the environmentally friendly Low Energy House standard are up to 50% lower than for a conventional building, meaning that energy costs can be amortised over more manageable time periods.

In short, these forward-looking investments are unlocking significant cost-saving potential, especially in industry. For Baden-Württemberg – the federal state with the highest concentration of industry – optimising resource efficiency at all levels is a very important step towards improving the region’s competitive position in the international marketplace.

### RESOURCE EFFICIENCY FINANCE



## INNOVATION FINANCE BOOSTS SMES’ ABILITY TO INNOVATE

This programme finances near-market research and development (R&D) carried out by the applicant company itself. The funding covers expenditure associated with the incorporation of new products into the company’s production programme, the introduction of new production procedures, the introduction of new services, or substantial upgrades to existing products, production processes or services developed by the company in-house.



## WITH CONTINUING PROFESSIONAL DEVELOPMENT FINANCE 4.0, WE ARE BREAKING NEW GROUND

Unlocking potential for innovation frequently places demands on the workforce, because only suitably qualified employees are capable of transforming the potential benefits of new technologies into genuine productivity advantages. The success of Industry 4.0 thus depends on the workforce – and costs money.

These are the circumstances for which L-Bank's new CPD Finance 4.0 programme was devised. It enables firms to finance continuing education and professional development initiatives for raising the professional qualifications of the workforce. Companies can apply for a development loan to fund both the direct and indirect costs of financing such initiatives. As an alternative to demonstrating the eligibility of training costs for a development loan, companies can apply for funding based on a flat rate of EUR 20,000 per employee – finance for which proof of eligibility is not required.

CPD FINANCE FOR  
**35 FIRMS**  
AMOUNTING TO  
**€4 MILLION**  
IN TOTAL

### ONE OF BADEN-WÜRTTEMBERG'S STRENGTHS IS THE PARITY OF LIVING CONDITIONS IN RURAL AND URBAN AREAS

This is due to the federal state's well-balanced economic development. No other federal state has so many hidden champions based not just in our towns and cities, where you might expect them, but also in our rural areas. To ensure that we can preserve this advantageous state of affairs, we must systematically dedicate a proportion of our development finance to rural areas, which is why we support companies that invest in rural areas with our Investment Finance programme.

**837 COMPANIES**  
WERE PROVIDED  
WITH  
LOANS AVERAGING  
**€708,000**  
UNDER OUR  
INVESTMENT FINANCE  
PROGRAMME

### FINANCING BUSINESS START-UPS IS A GREAT WAY TO SAFEGUARD THE FUTURE

When devising development programmes, it is important to keep the needs of the target market firmly in mind. The popularity of the Bank's development programmes for start-ups clearly shows that we have succeeded in meeting the needs of business founders and fledgling companies. Both our Start-up Finance programme and our joint programme with Bürgschaftsbank Baden-Württemberg, Start Finance 80, very nearly reached the record levels set in 2015, with a total volume of EUR 598.5 million (2015: EUR 609.1 million). More than 2,700 new business start-ups and corporate successions benefited from this funding. A flourishing economy, low unemployment and high wage levels generally tend to discourage people from taking the risks associated with going into business on their own behalf or taking over as managers of an existing business. Since precisely these conditions prevail in Baden-Württemberg, demand for these programmes is surprisingly strong.

Through the Start Finance 80 programme, L-Bank and Bürgschaftsbank jointly cover relatively low-volume financing needs. In 2016, demand for this programme was once again very high, with EUR 50 million awarded to almost 900 business start-ups. Young artisans were especially active – the programme supported 245 fledgling artisanal companies with just under EUR 13.5 million in funding, establishing an important precedent for the future of the artisanal sector in Baden-Württemberg.

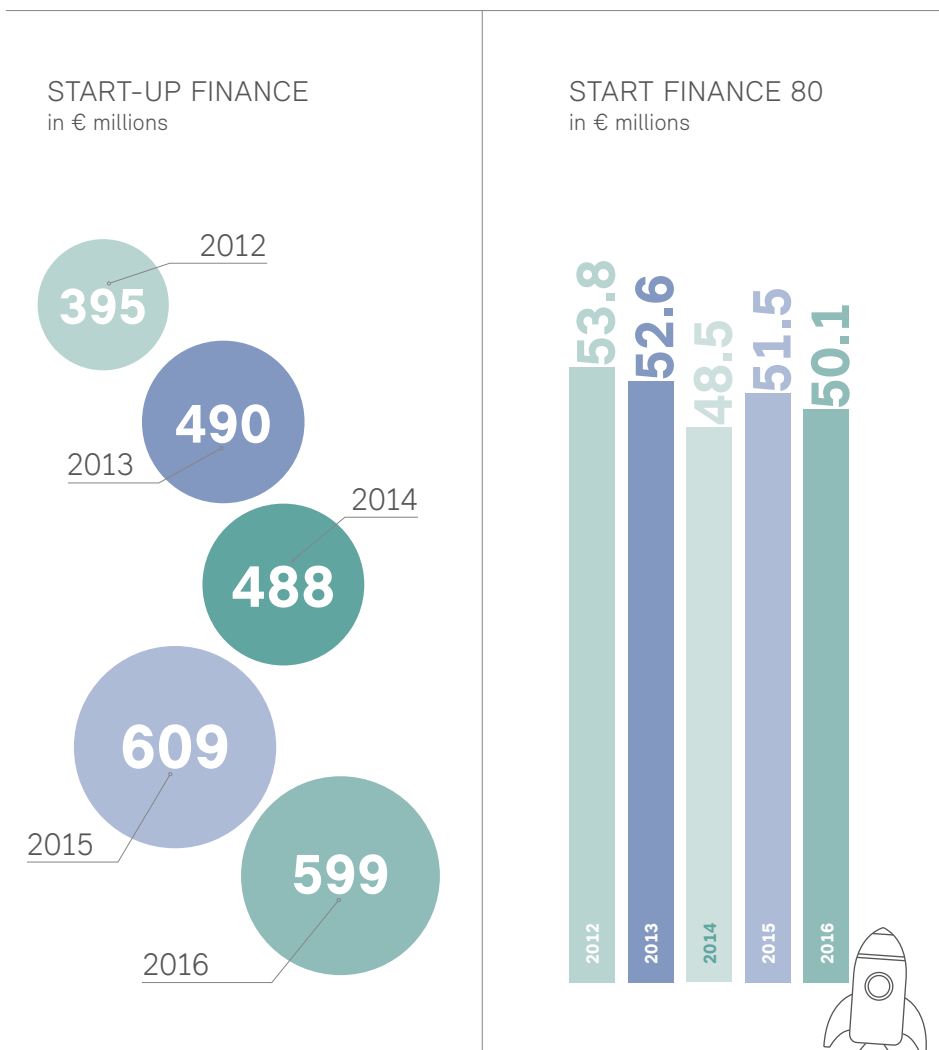


Funding provided under the Start-up Finance programme reached similar levels to those achieved in 2015. Of note is the trend towards larger projects, which caused the average funding volume to increase to EUR 293,000, at least 2% higher than in the preceding year.

Development funding for new business start-ups continues to show very good growth. Even so, we believe there is still considerable untapped potential in the microbusiness start-up segment. Over the course of next year, we are planning to introduce a brand-new instrument to address the needs of entrepreneurs for whom crowdfunding represents an attractive option. Under our new Baden-Württemberg Microfinance programme, a direct loan is linked to a crowdfunding campaign, combining the advantages of a crowdfunding approach with an attractive direct loan from L-Bank.

START-UP  
FINANCE  
**€548 MILLION**

**1,872 COMPANIES**  
FINANCED



# DEVELOPMENT THROUGH LOAN FINANCING: 1 JANUARY TO 31 DECEMBER, 2016

DEVELOPMENT LOANS FOR HOUSING, INFRASTRUCTURE AND ENTERPRISE DEVELOPMENT	VOLUME OF COMMITMENTS	COMMITMENTS	
	10,675,606,033.40	27,609	
	VOLUME OF COMMITMENTS	COMMITMENTS	RESIDENTIAL UNITS
HOUSING DEVELOPMENT	2,023,867,236.13	18,892	33,006*
<b>Home ownership assistance</b>	1,257,490,460.92	17,668	18,555
Home Ownership Finance – BW including finance for growing families – Structured loans (regional housing development)	208,252,912.40	1,729	950
Top-up loans	83,135,042.51	1,142	
Energy Efficiency Finance – Construction	403,205,500.00	4,093	4,702
Energy Efficiency Finance – Renovation	217,892,271.32	3,411	5,099
Living with Children	312,929,000.00	6,286	6,450
Living for the Future	31,349,184.69	1,000	1,345
Other programmes	726,550.00	7	9
<b>Rental accommodation support</b>	653,449,805.75	695	7,832
Rental Accommodation Finance – BW – New builds – MW15/MW25 (regional housing development)	157,450,800.00	86	1,011
Rental Accommodation Finance – BW – Approval of regulated tenancies (regional housing development)	11,325,000.00	178	390
Rental Accommodation Finance – BW – Modernisation (regional housing development)	35,775,309.00	77	1,002
Rental Accommodation Finance – L-Bank – New builds	149,113,300.00	127	2,863
Rental Accommodation Finance – L-Bank – Modernisation	56,214,006.75	115	2,566
Top-up loans (new builds/modernisation)	243,571,390.00	112	
<b>Support for apartment owners' associations (regional housing development)</b>	32,945,419.77	265	3,783
<b>Housing for refugees (grants)</b>	79,981,549.69	264	2,836

\* The total includes multiple counting, as the various home ownership finance programmes may be combined in certain cases.

	VOLUME OF COMMITMENTS	COMMITMENTS
INFRASTRUCTURE DEVELOPMENT	<b>5,714,081,949.00</b>	<b>101</b>
Municipal investment loan, direct	58,701,100.00	71
Municipal loans	66,000,000.00	3
Direct funding for the State	5,460,280,000.00	21
New Energy – Community windfarms	15,000,000.00	4
Other financial instruments	114,100,849.00	2

	VOLUME OF COMMITMENTS	COMMITMENTS	COMPANIES
ENTERPRISE DEVELOPMENT	<b>2,937,656,848.27</b>	<b>8,616</b>	<b>7,541</b>
<b>Business start-up support</b>	<b>598,501,008.14</b>	<b>3,176</b>	<b>2,768</b>
Start Finance 80	50,074,153.41	904	896
Start-up Finance	548,426,854.73	2,272	1,872
<b>SME finance</b>	<b>2,193,774,440.13</b>	<b>4,861</b>	<b>4,253</b>
Growth Finance	405,493,418.59	1,653	1,508
Local Transit Finance	10,494,000.00	233	97
Tourism Finance	4,112,500.00	8	8
Liquidity loans	83,451,188.00	378	370
Investment Finance	592,425,931.15	1,031	837
Rural Area Development	94,873,783.17	424	412
Resource Efficiency Finance	671,341,837.68	931	840
Direct loans and syndicated finance	195,811,006.51	18	16
Surety and guarantee programme/Sureties for refinancing loans	27,040,324.07	21	16
Loans to associated companies	15,173,350.96	12	6
Refinancing of associated companies	7,250,000.00	13	11
Innovation Finance	82,335,600.00	102	97
CPD Finance	3,971,500.00	37	35
<b>Agricultural development</b>	<b>145,381,400.00</b>	<b>579</b>	<b>520</b>
Agriculture Growth	60,381,800.00	340	314
Loans for environmental and consumer protection, sustainability, new energies	71,275,100.00	200	169
Loans for operating resources – Growth in agriculture and food industry	13,724,500.00	39	37

## SUSTAINABILITY MANAGEMENT

# ROOTED IN THE STATE MANDATE

L-Bank is an independent public-law institution wholly owned by the State of Baden-Württemberg, with offices in Karlsruhe and Stuttgart. It has a full banking licence. L-Bank does not compete in the open market, operating instead as a neutral development bank, and is subject to banking supervisory regulations in its capacity as a credit institution.

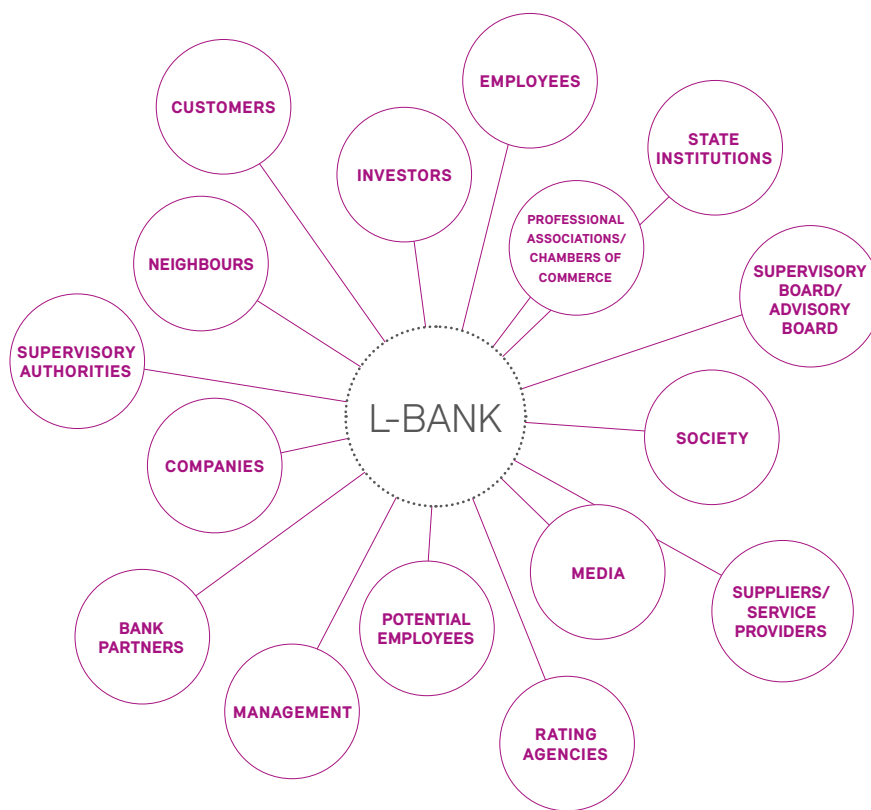
According to the L-Bank Act, the Bank's activities are governed by its statutory remit, namely to "support the state government of Baden-Württemberg in the fulfilment of its public duties, especially in terms of structural, economic and social policy, by managing development programmes that comply with the European Union regulations governing state aid". The Bank has a close and multifaceted relationship with the State of Baden-Württemberg: as the State Bank of Baden-Württemberg, its business activities are designed to serve the interests of the State of Baden-Württemberg. L-Bank benefits from the federal state's maintenance and public (statutory) guarantee obligation, as well as an explicit state guarantee for L-Bank's liabilities.

Sustainability management is governed by the GRI G4 Guidelines which place the principle of materiality at the centre of sustainability reporting. Companies must conduct a systematic materiality analysis to identify their core action areas along with their importance for the company and its stakeholders. L-Bank performed this kind of analysis in 2016 and drew up a report based on the GRI Guidelines which covered stakeholder identification and inclusiveness and provided the results of the materiality analysis. This report satisfies the requirement for completeness and presentation of the organisation's performance in the wider context of sustainability.

In principle, L-Bank's stakeholders are all people and organisations that are directly or indirectly affected by L-Bank's business activities or could themselves influence the success of L-Bank's business. Stakeholders have a diverse range of very different interests in the Bank. For some stakeholders, it is important that the Bank respects rules of conduct, such as compliance with regulatory requirements or appropriate management of risks, whereas other stakeholders are focused on results, whether they relate to business development or environmental and social goals.

For L-Bank, the requirements of its stakeholders are of primary importance: if these requirements are identified and systematically categorised at an early stage, they can be used to determine where a specific need for action exists. This makes it possible to secure the success of the company and preserve L-Bank’s good reputation.

L-BANK STAKEHOLDERS



The established meeting formats are very well suited to gathering information in this context. Consequently, L-Bank engages in dialogue with stakeholders at all levels, in particular with the Bank’s own Supervisory Board and Advisory Board. In addition to the Bank’s owner, L-Bank’s most important stakeholders are represented in these bodies at Board of Management level. L-Bank’s core lines of development and their impact on stakeholders were first discussed in seven preliminary committee meetings and one Advisory Council meeting and then in three Supervisory Board meetings.

Other important public and non-public meetings in 2016 included: the Economic Forum in Ulm, the SME Forum in Stuttgart, the Resource Efficiency Conference in Karlsruhe, meetings of the Wirtschaftsinitiative Nachhaltigkeit (Sustainable Business Initiative), participation in VfU meetings and video conferences, participation in UNEP FI video and teleconferences, meetings of the Enterprise Development department with regional Chambers of Commerce, meetings of the Wohnungsbau-Allianz, dialogue meetings with our commercial bank partners, bank breakfasts with our business partners and important advocates in the regions, meetings related to supplier management, and media and customer events.

### PARTICIPANTS IN BANK BREAKFASTS

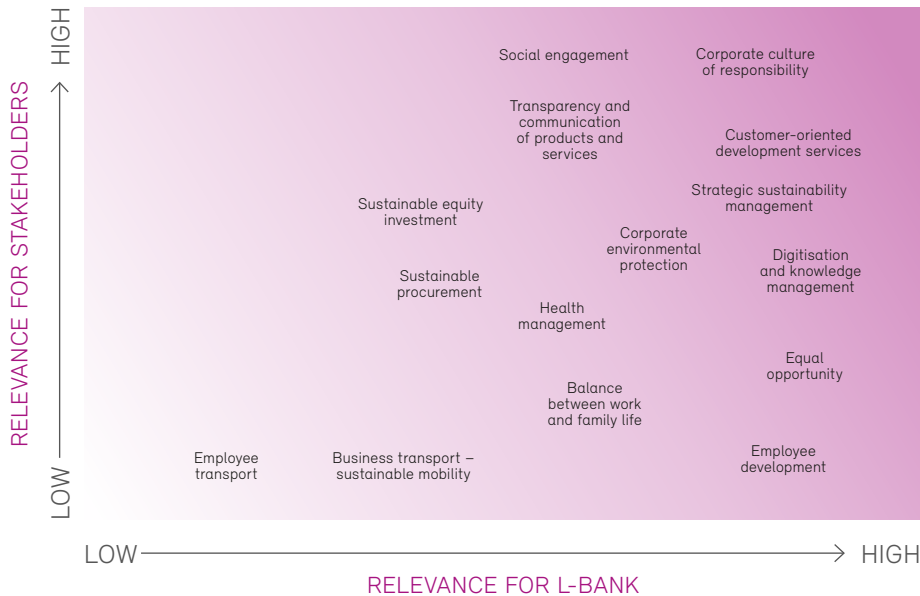
Dialogue between L-Bank, Bürgschaftsbank and RKW with the financial institutions of various regions.



L-Bank benefits not only from the specific suggestions and ideas put forward in these meetings, but also from structural incentives. Our memberships of the Association for Environmental Management and Sustainability in Financial Institutions (Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. – VfU) and the United Nations Environment Programme – Finance Initiative (UNEP FI) are both outcomes of such stakeholder meetings, and will further enhance the flow of information in the future.

The information collected was analysed to determine its materiality. L-Bank's value chain served as the point of departure for mapping the sustainability aspects: the relevant activities, information and stakeholder assessments were organised along this value chain, making it possible to identify the materiality of the associated sustainability aspects in a multi-stage process.

MATERIALITY MATRIX



RESPONSIBILITY

The materiality matrix above does not depict legal aspects (such as data security) or aspects associated with economic stability, because these aspects are considered fundamental. The materiality matrix classifies sustainability aspects according to two criteria: the relevance of sustainability to stakeholders, and the relevance of sustainability to L-Bank. The combination of these two criteria reflects their overall relevance from a sustainability perspective. The result is a prioritised list of action areas which is used in the next step to define the Bank’s sustainability targets and Sustainability Programme, taking operational possibilities into account.

The materiality matrix requires regular reviews, so that it becomes the basis of a continuous improvement process. New or newly evalu-

ated sustainability aspects are reflected in new or newly adapted initiatives, which are integrated into the Sustainability Programme. This process ensures that the Sustainability Programme is systematically updated and progress towards achieving targets is reviewed at least once a year.

Transparency creates trust – internally and externally. The annual reports and disclosure reports, which are also published on our website, help to create such transparency. They contain extensive information about our business activities, together with the relevant corporate data. Sustainability reporting supplements the economic perspective by covering non-financial and indirectly financial aspects of the organisation in a three-year cycle.

# OUR GREATEST GUARANTEE OF SUCCESS: OUR EMPLOYEES

Our employees are just as diverse as our customers. And that's a good thing, because it means we have colleagues with the right skills in every department. To make this approach even more successful in the future, we strive to preserve our reputation as an attractive employer by addressing the needs of our current and future employees as flexibly as possible. By nurturing and building on their strengths while at the same time eliminating any weaknesses through further training or targeted new hires, we bring our entire workforce as close to our customers as we can.





## EMPLOYEES

# DEMOGRAPHIC CHANGE IS A CALL TO ACTION

According to experts, the next few years will see a diminishing labour force, a decline in the number of young workers and the loss of many skilled workers due to retirement. At the same time, competition for highly qualified professionals will intensify in view of the limited supply of domestic workers and Germany's positive economic growth.

### OF THE MANY FACTORS THAT DRIVE A COMPANY'S SUCCESS, EMPLOYEE QUALITY IS THE DECISIVE ONE

This is especially true for L-Bank. Increasingly challenging market conditions, a regulatory environment with ever more complex supervisory and legislative requirements, and the growing complexity of development regulations are all placing more and more demands on our employees. This impacts on their commitment and motivation just as much as their skills. Furthermore, they need to be increasingly flexible and teamwork-oriented in what they do. Demands on our employees are increasing; only if they meet them will we be able to ensure the future success of L-Bank.

### KNOWLEDGE AND VALUES DEFINE THE GUIDELINES FOR THE CONDUCT OF L-BANK EMPLOYEES

One of an organisation's primary tasks is to enshrine knowledge within the organisation and guide employee conduct in line with its interests. Rules, databases and expert systems help to achieve this goal. They form a knowledge and management base unique to the organisation, which is then available as a permanently accessible resource.

By contrast, knowledge held purely in the minds of individuals is short-lived, and is immediately lost when the person who possesses the knowledge leaves the company. Knowledge management is closely connected to L-Bank's digitisation strategy.

L-Bank's obligation to uphold standards of good corporate governance is an integral part of its corporate identity. As the development bank of the State of Baden-Württemberg, L-Bank has a special obligation to act in perfect compliance with prevailing legislation and in the public interest. The Bank is committed to meeting its ethical responsibilities and aspires to set an example in this respect. In doing so, it does not rely solely on compliance with applicable laws or external statutes such as the extensive banking supervisory regulations (which contain multiple requirements relating to corporate governance and organisation). In addition to this, L-Bank's Board of Management and Supervisory Board decided to adopt the Public Corporate Governance Code of the State of Baden-Württemberg in 2013 as a binding governance framework. Furthermore, the senior management team approved a code of ethics and conduct as well as a Sustainability Code, and incorporated sustainable development as a guiding principle in the Bank's business strategy. L-Bank employees have a clear frame of reference for their own actions, thanks to these and other voluntary commitments by the Bank to, for example, the Climate Protection Act of Baden-Württemberg, EMAS validation and WIN Charter obligations, as well as our commitment to the incorporation of ESG aspects arising from our UNEP FI membership. Overall, the Bank's corporate governance structures underscore what L-Bank expects of its employees: not merely compliance with laws, regulations and internal rules, but active promotion of the Bank's values. L-Bank relies on its employees to be responsible and exemplary in their conduct. At the same time, the Bank is also aware of its special duty to ensure the welfare of its employees, and gives a high priority to fulfilling this obligation.

## EMPLOYEE DEVELOPMENT IS AN INVESTMENT IN THE FUTURE OF L-BANK

Measures to support and develop the next generation of employees are therefore particularly important. Training will become a strategic factor as the number of applicants shrinks over the long term. And, because qualifications and skills are less long-lived than in the past, continuing education in the skills needed by the Bank will be an even higher priority. As a result, L-Bank is preparing employees to cope with constantly changing requirements and helping them to enhance their capabilities and skills in the process. They have at their disposal a wide range of opportunities to further develop their professional, methodological and social skills individually and as needed.

**1,085**  
CONTINUING  
EDUCATION  
INITIATIVES

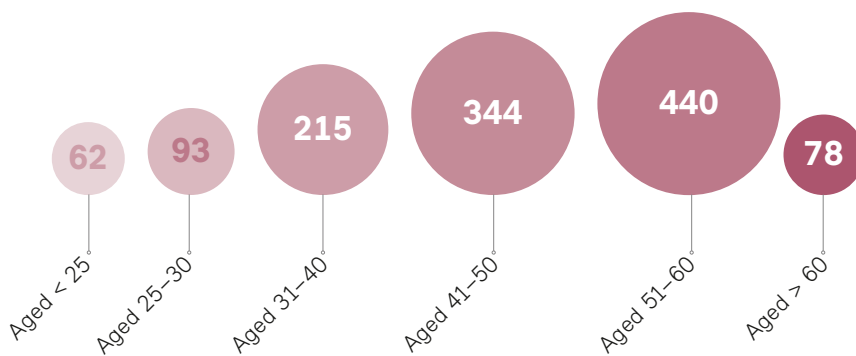
INVESTMENT  
IN CONTINUING  
EDUCATION  
TOTTALLING  
**€571,519**

We are well positioned to tackle this challenge: in autumn 2015, the Human Resource Development working group was formed under the auspices of the Chief Human Resources Officer. The working group aims to optimise the development of human – hence also managerial – resources. In 2015, a talent management programme was launched as a building block in our new HR development plan, with the aim of systematically fostering the development of high achievers at L-Bank.

**68 APPLICANTS**  
 TO TAKE PART IN OUR  
 TALENT DIALOGUE  
 UNDER OUR TALENT  
 MANAGEMENT PROGRAMME

### AGE DISTRIBUTION IN 2016

The age distribution at L-Bank clearly indicates that a generational shift will take place within the next ten years.



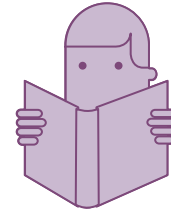
Over the last five years, 65 junior staff have been introduced to work at L-Bank, either in a dual-education programme (combining professional training with theoretical classroom studies) or an individually tailored trainee programme for university graduates. We are in the best possible position to develop L-Bank’s future human resources, with 109 highly capable in-house trainers who are dedicated to their work.

We also regularly attract junior staff to L-Bank through various types of internships. Through our BOGY programme (see below), career discovery days, traineeships, and compulsory or voluntary internships for students, we endeavour to get young people excited about the Bank in a wide variety of ways.

---

JUNIOR STAFF  
in 2016

**ONE** TRAINEE, **27** INTERNS  
AND **40** DUAL-EDUCATION STUDENTS



---

As part of our BOGY programme (career and study guidance for high schools), our dual-education students talk to 9th or 10th grade students at high schools and give them a first impression of working life at L-Bank. Over a one-week period, they experience up to ten different L-Bank departments at first hand. They also find out more about the dual-education programme from our current dual-education students. A number of former BOGY participants have subsequently joined our ranks as dual-education students.

#### COMMUNITY WORK ENCOURAGES AND ENHANCES SATISFACTION

Low academic achievement, no training, no job, on social benefits instead of a salary – for many young people, often from immigrant backgrounds, any hopes of a professional career are extinguished before they even start. It is important to break this vicious cycle as quickly as possible, which is precisely what the nationwide JOBLINGE initiative aims to do. The involvement of players from the private, public and non-profit sectors is intended to give young people a realistic chance of finding a traineeship while simultaneously helping companies to meet their need for skilled labour. To ensure that both sides benefit from the initiative, support from working professionals acting as volunteer mentors is essential. L-Bank is actively involved in the JOBLINGE initiative in various ways:

- financially, through participation in the non-profit company
- structurally, through participation in the Supervisory Board
- as a provider of career-orientation internships
- with dedicated staff as mentors, providing one-to-one career guidance for young people once a week

For us, this is a good example of how employee activities and L-Bank sponsorship can be combined in a coherent package. But support for disadvantaged young people is not the only area in which L-Bank employees are actively involved: for many years, they have also been delivering lectures at various universities and helping to further develop teaching methods.

### QUALITY OF LIFE IS THE BENCHMARK. WORKING LIFE SHOULD NOT BE TREATED IN ISOLATION

L-Bank's family-friendly working environment provides good conditions for improving quality of life. Working hours can be adapted to each employee's stage of life and individual needs. Consequently, around one quarter of our employees take advantage of the opportunity to work part-time. The various part-time models offered by the Bank provide many different options for structuring working hours, especially for families. Part-time work, however, is not just reserved for working parents, it is generally available to every employee.

It is also possible to telecommute. As at 31 December 2016, 102 employees had contracts to work from home. Other employees are equipped with mobile technology allowing them to work outside the workplace. When formulating working conditions, L-Bank responds to the needs of employees and their personal situations as far as the requirements of their respective jobs allow.

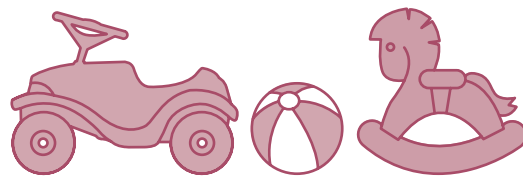
Whether in arranging one-to-one consultations, organising informational events, providing informative materials or managing the online portal, pme Familienservice GmbH is our partner for responding to all issues related to balancing career with children and/or care of family members. Active use was once again made of their services in 2016.

In both Stuttgart and in Karlsruhe, we partner with two strong childcare service providers that guarantee competent childcare: pme Familienservice and netzwerk mensch. Because many parents prefer childcare close to home, we refocused our strategy in 2016. Starting in 2017, rather than providing places in childcare centres, we now pay out a childcare allowance for every employee's child of pre-school age who attends a childcare facility. This strategy will enable all employees to benefit equally from the Bank's support in the future. All existing care arrangements will be honoured until the children involved start at primary school.

If there is an emergency because the private network is unable to assist with childcare, L-Bank also provides a parent-and-child office option, available at both sites since 2014. The parent-and-child office is a fully equipped office that was designed by pme Familienservice to be child-friendly and safe. Children in particular love the facility because of the range of play options provided. With the parent-and-child office, we offer all employees who are experiencing a temporary childcare bottleneck the chance to bring their children to work on a daily basis.

---

AS AT 31 DECEMBER 2016  
**47 EMPLOYEES**  
HAD BEEN GRANTED A CHILDCARE  
ALLOWANCE FOR  
**50 CHILDREN**



---

#### HEALTH IS THE FOUNDATION FOR QUALITY OF LIFE

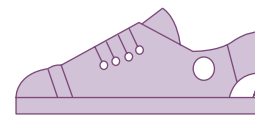
L-Bank attaches great value to an integrated model that spans occupational health and safety, addiction prevention, corporate integration management and workplace health promotion. As employees of a financial services company, L-Bank employees perform low-risk activities that are not especially harmful to health. Nevertheless, L-Bank regards it as important to sensitise employees to health-conscious habits in their professional and private lives and give them opportunities to become physically active.

In addition to diseases of the musculoskeletal system, mental disorders and illnesses increase the rate of absenteeism and are a growing challenge. L-Bank tries to identify problems of this kind at an early stage and prevent them from occurring by taking suitable preventive measures. All employees who are responsible for staff therefore undergo mandatory training in dealing with psychological stress and illness. Still, it is not always possible to prevent psychosocial problems. When they do occur, rapid, professional support is required. This is where external employee counselling can be helpful. L-Bank uses these services to organise individual consultations with external contract physicians at short notice in the event of crises or illness.

In training sessions on ergonomics, employees are also informed and made aware of proper workplace design, as well as sensible preventive measures. Over and above compliance with workplace legislation, the Bank pays attention to creating the best possible conditions for a sustainably healthy workplace by providing high-quality office equipment. Ergonomics and occupational health play a central role in the procurement of furniture and IT equipment. An external expert in occupational safety, the company doctor, a health manager and a qualified healthcare provider all help to create a safe, healthy working environment. During workplace inspections, on-site conditions are assessed, employees are given tips on making ergonomic adjustments, and where corrective measures are required, they are made on the spot. The individuals responsible for occupational health and accident prevention come together to discuss fundamental issues of workplace safety at meetings of the Occupational Safety Committee – a key element in maintaining L-Bank's high standards of occupational health and safety.

Movement is important – especially in terms of compensating for long hours spent sitting at a desk. Consequently, L-Bank has set up health centres at both sites that provide personal training courses on exercise equipment as well as preventive courses. Spinal exercises, back training, Pilates, Aroha, Zumba, yoga – the range of courses on offer is very diverse. In L-Bank's sports groups, which have been around for many years, sports activities combine fun with a sense of community. Health considerations also spurred L-Bank to optimise conditions for bike-riding employees by making bicycle storage, showers and changing rooms available – also with the aim of motivating more employees to switch to this healthy and environmentally friendly form of transport in the future.

The Bank's health strategy is having an effect. Despite growing demands on staff, the attendance (health) rate remained high in 2016, at 94.07%.



**255**

**MEMBERS**  
OF SPORTS GROUPS

---



## QUALITY HAS A PRICE

On 1 January 2014, a new version of the Regulation Governing Executive Remuneration at Institutions (Institutsvergütungsverordnung) entered into force. According to Art. 17 of this regulation, L-Bank is considered significant because it has been under the direct supervision of the European Central Bank since 4 November 2014. It must therefore comply with stricter requirements for structuring its remuneration system. L-Bank's remuneration system complies with these requirements. Since 2015, L-Bank has only paid fixed remuneration. By completely eliminating variable remuneration elements, L-Bank ensures that there are no individual incentives for taking disproportionately high risks. Furthermore, the fixed remuneration model selected ensures that the remuneration system remains risk-neutral.

L-Bank pays its employees under the terms of the collective bargaining agreement for the public and private banking industry. The collective bargaining agreement is treated as a collective agreement for all employees, both those who are subject to collective bargaining and those who are not. L-Bank also employed ten people in 2016 who were remunerated under state pay-scale legislation (Landesbesoldungsgesetz). An attractive occupational pension scheme and group accident insurance contribute to social security at the Bank.

## SPIRITED PARTICIPATION AT ALL LEVELS

The State Staff Representation Act (Landespersonalvertretungsgesetz) governs the representation of employee interests at L-Bank. These interests are protected by a Central Staff Council which is responsible for company-wide issues, as well as two local staff representative bodies in Karlsruhe and Stuttgart.

For all strategic changes, L-Bank relies on close collaboration with staff representatives. To achieve optimum, balanced results, L-Bank involves employee representatives in discussions as early as possible. Together with its social partners, the Bank makes every effort to prepare employees for changes in their working environment. The aim is to increase the efficiency and effectiveness of the planned strategic initiatives while at the same time improving individual performance and versatility.

**58**  
STAFF COUNCIL  
MEETINGS

Staff representation on the Supervisory Board also ensures that employee interests are taken into account in important decisions. The Chairman of the Central Staff Council and the two Chairs of the Karlsruhe and Stuttgart Staff Councils sit on L-Bank's Supervisory Board in an advisory capacity.

---

LENGTH OF EMPLOYMENT  
in 2016

WAS ON AVERAGE

**SEVENTEEN  
POINT  
EIGHT  
YEARS**

---

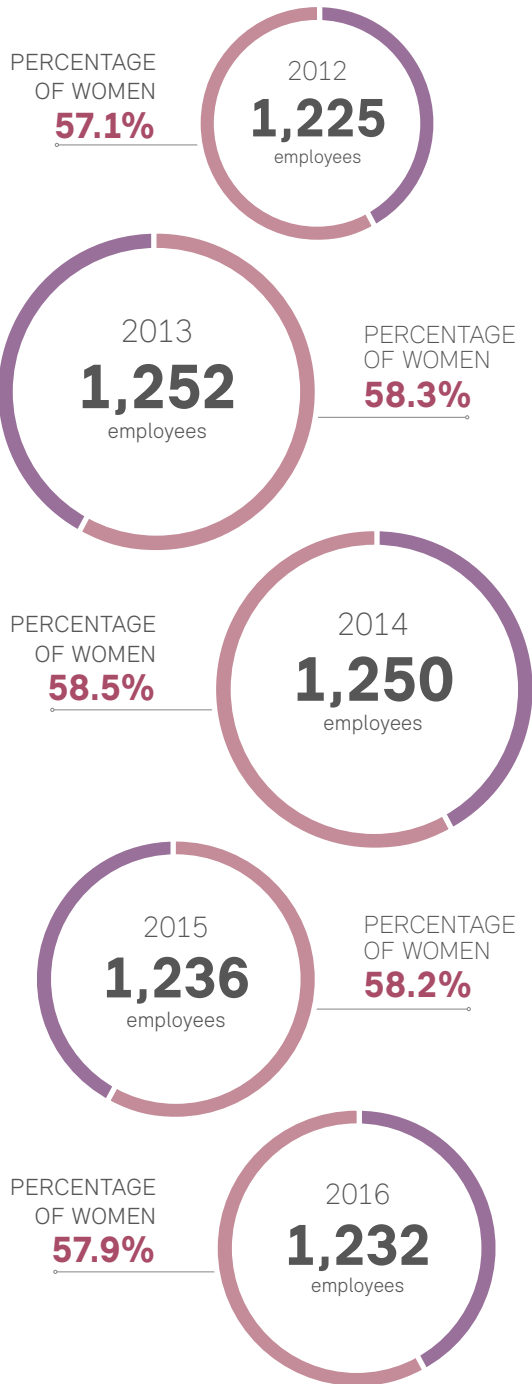
THE OVERALL PACKAGE IS  
ATTRACTIVE – OUR EMPLOYEES FEEL  
VALUED, AND WE CAN RELY ON OUR  
EMPLOYEES

Personnel changes mainly related to internal restructuring, the setting-up of central staff units and the introduction of stricter regulatory requirements.

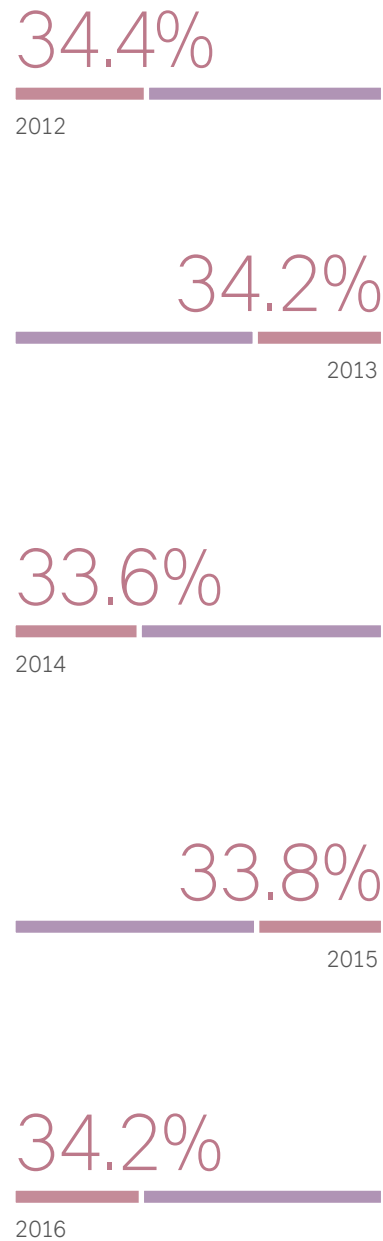
Companies increasingly find that employees' experience of corporate culture also has an influence on whether they consider changing jobs. Our age distribution, average length of employment and 1.79% staff turnover rate are all good indications that our employees feel loyal to L-Bank and take a positive view of the corporate culture.

This long length of service is a major asset for L-Bank, because it guarantees that extensive work experience, hence well-established expertise, remain in-house. It also ensures a high level of commitment, because satisfied employees are happy to go the extra distance. These factors are especially important when considering our changing areas of activity, because they provide a solid foundation on which to build.

CHANGES IN NUMBERS OF EMPLOYEES



PERCENTAGE OF WOMEN MANAGERS





# EVERY SHEET COUNTS

With more than 1,200 employees, even minor tweaks or savings can have major results. For example: if every L-Bank employee used one less piece of paper a day for just one year, this would be the equivalent of saving three 25-metre pine trees.

This awareness encourages us to take a closer look and unlock the potential that lies hidden even in apparently trivial things in every part of our lives.

$1,200 \times 230 = 276,000$  sheets of paper  
1,000 sheets of paper = 5 kg  
 $276,000 / 1,000 \times 5 = 1,380$  kg of paper  
 $1,380 \times 2.2 = 3,036$  kg of wood

## ECOLOGY

# MAKE PROGRESS BY THINKING IN CYCLES

Environmental responsibility is characterised by the effective and efficient use of resources, and is an issue that affects everyone, everywhere – worldwide.

It all began with the United Nations Conference on the Human Environment held in Stockholm in 1972, when an attempt was made to formulate a global environmental policy for the first time. Today, efforts to mitigate climate change are on the agenda around the world. Climate agreements that aim to limit global warming are negotiated at the annual UN climate conferences. However, these have long been seen more as an expression of will than as an obligation. The entire international community signed a historic, binding climate treaty for the first time at the Climate Change Conference in Paris in 2015. This new global climate agreement entered into force on 4 November 2016, and sets binding targets for all countries. The Paris Protocol is thus no longer a non-binding expression of will, but a reality. When it joined the United Nations Environment Programme – Finance Initiative (UNEP FI) in 2016, L-Bank reaffirmed its commitment to integrating environmental and sustainability aspects at all levels of the company.

## RESOURCE CONSERVATION DOES NOT NECESSARILY INVOLVE SACRIFICE

Quantitative growth does not automatically mean more prosperity, even though international comparisons suggest that there is a close correlation between the level of gross domestic product and the degree of material prosperity. The growth thus generated, however, was often accompanied by increased consumption of resources and damage to the environment. In industrial countries, quality of life no longer means overcoming deficiencies, but preserving quality of life across the board. The aim is to achieve prosperity – including increased material prosperity – by using resources efficiently. In Baden-Württemberg, Article 3a of the state constitution stipulates that all public-sector institutions are responsible for protecting the natural environment for future generations. L-Bank has incorporated sustainable development into its business strategy and voluntarily committed to legal provisions promoting climate change mitigation in Baden-Württemberg. L-Bank is striving to achieve climate-neutral business operations by 2040.

### RESOURCE CONSERVATION – HOW DO WE ACTUALLY MEASURE IT, AND WHERE DO WE STAND?

Transparency is important: we have to clarify what we actually want to influence and how. If we can't measure it, we can't manage it. So we need metrics and indicators which can be used to make statements on our environmental performance. At L-Bank, we have created a solid database for this purpose. Our primary benchmark is the sum total of our greenhouse gas emissions. This carbon footprint is captured using the international standard of the Greenhouse Gas Protocol (GHG Protocol). It represents the total carbon dioxide emissions that are directly or indirectly caused by our activities.

To do this, L-Bank uses software provided by the Association for Environmental Management and Sustainability in Financial Institutions (Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. – VfU). This uses a standardised process to convert resource consumption and waste into their carbon-dioxide equivalents.

### OPTIMISING RESOURCE USE – HOW ARE WE DOING IT?

Every kind of business activity is associated with resource consumption and has a negative impact on the environment. Consequently, it is L-Bank's goal to ensure that as far as possible, its business processes are optimised for the efficient, responsible use of natural resources. To achieve this goal, L-Bank has implemented an environmental management scheme that complies with EMAS guidelines (Eco-Management and Audit Scheme).

The EMAS scheme's structures and instruments serve as the basis for optimising L-Bank's environmental performance: transparency regarding applicable legal regulations, clarification of potential environmental risks, plus identification of deficiencies in health management

#### L-BANK'S CO<sub>2</sub> FOOTPRINT

Total direct and indirect greenhouse gas emissions caused by L-Bank



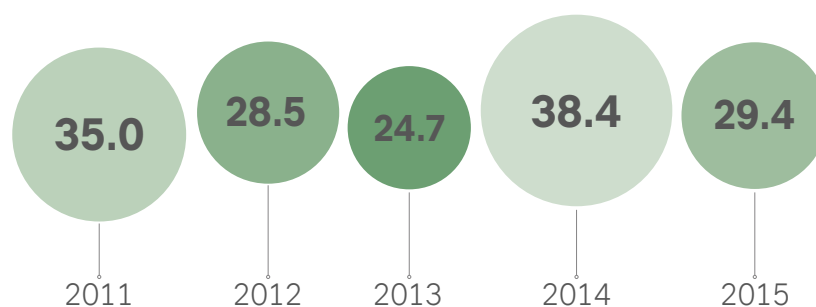
and environmental protection – this approach enables us to systematically identify and remedy potential weaknesses. Using the EMAS system, we can ensure that we comply with all relevant statutory environmental protection regulations and minimise environmental risks. As part of our sustainability management system, the environmental management scheme is firmly embedded in L-Bank’s business strategy. It serves as the basis for setting up environmentally compatible processes and makes it possible to manage and systematically monitor these processes in internal and external audits. Specific goals and measures that contribute to the continuous, systematic improvement of our environmental performance are decided by the Board of Management and documented in our Environmental Programme.



### ENVIRONMENTAL PROTECTION AND RESOURCE CONSERVATION – STARTING SMALL

Following the principles of L-Bank’s environmental management manual, every employee is required to actively put our environmental management scheme into practice, and make all decisions and perform all activities in accordance with the principles of the manual. Unfortunately, carbon emissions cannot be prevented in every area of activity. In such cases, we take pains to keep carbon emissions as low as possible and try to offset them. For example, we have been sending our post via GOGREEN, Deutsche Post’s climate-neutral shipping option, since 2010.

#### OFFSETTING THROUGH GOGREEN in t CO<sub>2</sub>





## RAISING AWARENESS OF RESOURCE USE

Awareness informs action, which is why we have firmly set our sights on the responsible use of natural resources – on a large and small scale. The same applies to our employees. One example: through our participation in the TerraCycle recycling programme for pens, we have been disposing of empty plastic pens in pen collection boxes and sending them for recycling since June 2016. The positive feedback from employees has turned a temporary campaign into a permanent effort.

We have sponsored many other initiatives designed to send out a strong signal. For example, the new Fächerrad cycle hire station right next to our staff entrance in Karlsruhe was made possible by our sponsorship. Every day, it reminds us of the importance of bicycles for keeping L-Bank employees mobile. L-Bank also sets an example to the general public by, for instance, participating once again in Earth Hour, an annual event organised by WWF to draw attention to climate change mitigation. Every year, thousands of cities, towns, villages and buildings around the world turn off their lights for one hour.

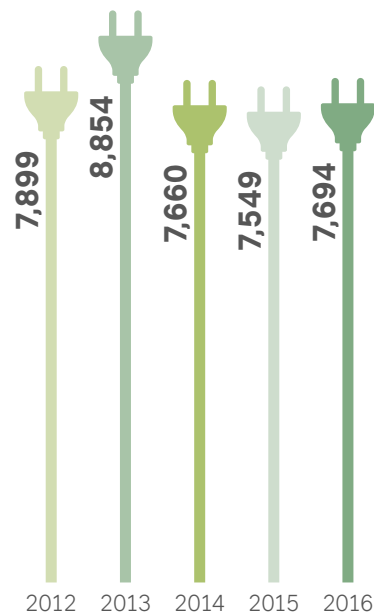
## USE OF RESOURCES IN BANKING OPERATIONS

Our activities, the use and management of company buildings, business trips and trips for training purposes, all directly impact the environment. They all produce emissions such as waste heat, exhaust air, waste water, general waste and noise pollution. The most significant energy and material flows – hence the ones that are most material for L-Bank's operations as a financial services provider – include building energy, water, waste, paper and business travel.

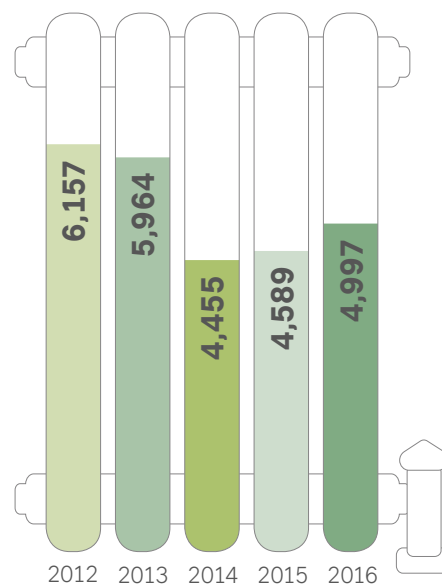
Since 2011, L-Bank has been buying climate-neutral green electricity from Karlsruhe's public utilities to supply power to its own buildings as well as leased premises. The electricity is 100% generated from hydropower and is certified annually by TÜV Nord. L-Bank is systematically working to strengthen energy management and make the most of other potential savings. For example, meters to measure consumption at individual points of use were installed in Stuttgart for the first time in 2015, so that individual consumption can now be recorded and managed separately. As for thermal energy, L-Bank now relies on an efficient, eco-friendly alternative: district heating. In Karlsruhe, the district heating provided by the local utility company is especially climate-friendly, with an industrial waste heat percentage of 61%.

## CHANGES IN BUILDING ENERGY CONSUMPTION

ELECTRICITY in MWh



DISTRICT HEAT in MWh

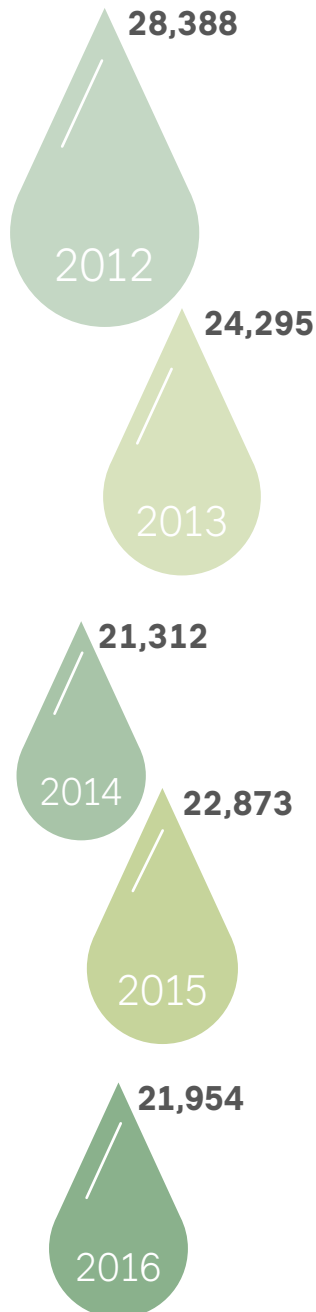


Conscientious use of water as a resource is a vital component of a responsible environmental policy. L-Bank is particularly aware of this responsibility – after all, the Bank's offices on Börsenplatz in Stuttgart are located in a conservation area for medicinal springs. Stuttgart has one of the largest mineral water deposits in Europe.

L-Bank obtains water exclusively through the public drinking water supply. Many different factors influence the Bank's water consumption, such as the two staff restaurants. In the case of water consumption by the Stuttgart restaurant, it is also important to take into account the fact that the restaurant is open to tenants and selected visitors from outside the Bank. There are limits on the Bank's ability to manage other aspects of its water consumption. Due to the design and condition of the water pipes, for example, they must be regularly flushed out. Production of cold air for the air-conditioning systems largely depends on weather conditions. Furthermore, during the summer, L-Bank runs a large fountain in Stuttgart's Börsenplatz. While this is a charming addition to Stuttgart's water-feature culture, it is also associated with significant levels of water consumption.

### CHANGES IN WATER CONSUMPTION

in m<sup>3</sup>



### TO COMMUNICATE, YOU NEED TO BE CLOSE

Rooms for virtual conferences and meetings can replace business trips, helping to reduce carbon emissions. Since July 2015, the Bank has equipped five meeting rooms with audiovisual meeting technology for holding videoconferences. These are especially suitable for regular coordination meetings or other routine discussions. In addition, L-Bank has been relying on webinars to run selected training sessions for commercial bank partners since 2015. Not only does this have an impact on the frequency of business trips, it will also make it possible to expand the range of training courses on offer in the future. However, despite the opportunities offered by technical solutions, there is still no substitute for personal contact with colleagues, customers, partners and investors. This requires business trips, for which the public transport system should be used by preference.

Although much use was made of videoconferences in 2016, the number of trips between the Bank's offices did not decline. In particular, the many company-wide projects and organisational restructurings have increased the need for communication, which can only be met in part by videoconferencing.

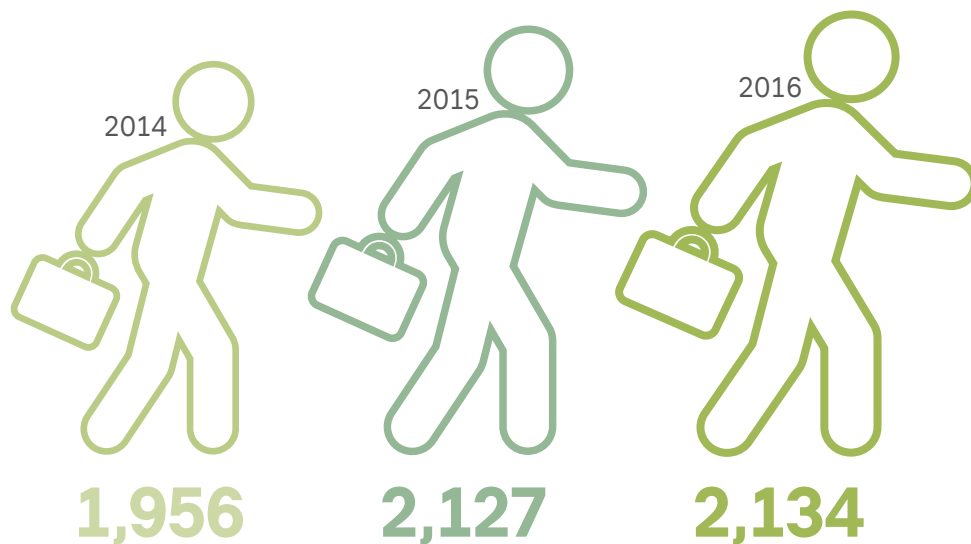
Close contact with our business partners is important to the success of L-Bank's development efforts. On-site meetings are especially vital for enterprise development projects. Communication using state-of-the-art technologies cannot replace face-to-face meetings. However, business trips should be avoided whenever possible – at present, for example, the groundwork is being laid for a video consulting service that will partially replace personal on-site consultations in the future.

**6** WEBINARS

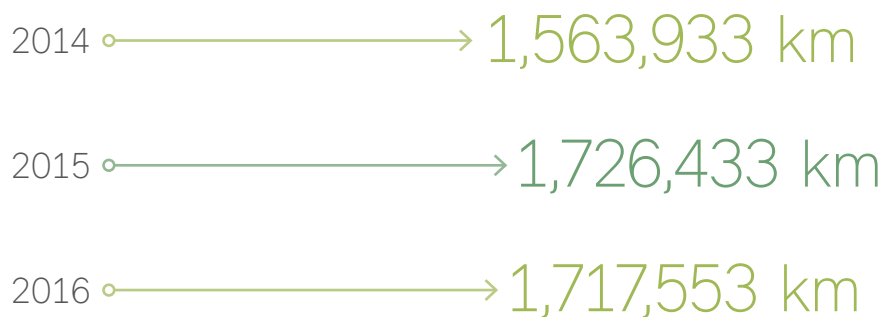
**389** VIDEOCONFERENCES

As a major development bank, L-Bank depends on a broad – hence international – refinancing base. So it is impossible to avoid flights to meetings with international investors, whether to initiate contact or cultivate existing relationships. This is the only way that the Bank will continue to be able to offer development finance on favourable terms in the future.

#### NUMBER OF BUSINESS TRIPS Karlsruhe – Stuttgart



#### CHANGES IN BUSINESS TRAVEL Kilometres travelled on business trips

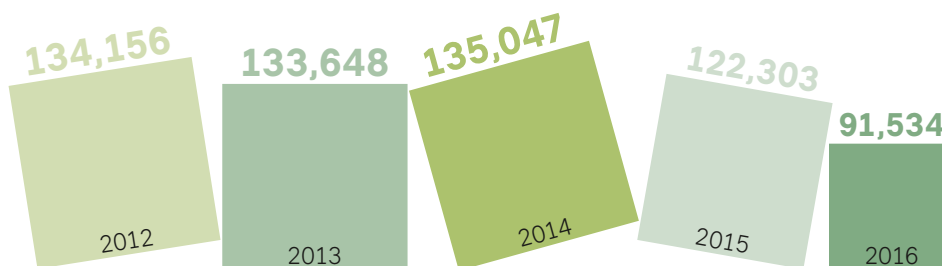


## THE FIGURES SHOW THAT PAPER IS THE MOST IMPORTANT MATERIAL USED IN L-BANK

This is why it is so important to use paper conscientiously as a resource. To make this easier, L-Bank has formulated principles to help employees judge the most appropriate levels of paper use for their activities. The transition from paper to electronic documents, electronic archiving and computer-assisted application procedures have rendered much paper documentation superfluous. But L-Bank does still have a large number of paper-based application processes, as well as hard copy for purposes of documenting compliance.

Our ongoing review of printing requirements and the growing availability of documents in various electronic formats are gradually reducing the amount of printed documentation. By taking advantage of potential savings in written correspondence and improving employees' consumption habits, we have been able to reduce the amount of paper required for copying and printing. And by expanding our electronic press clipping service in mid-2015, we were able to save on subscriptions to daily newspapers and specialist journals.

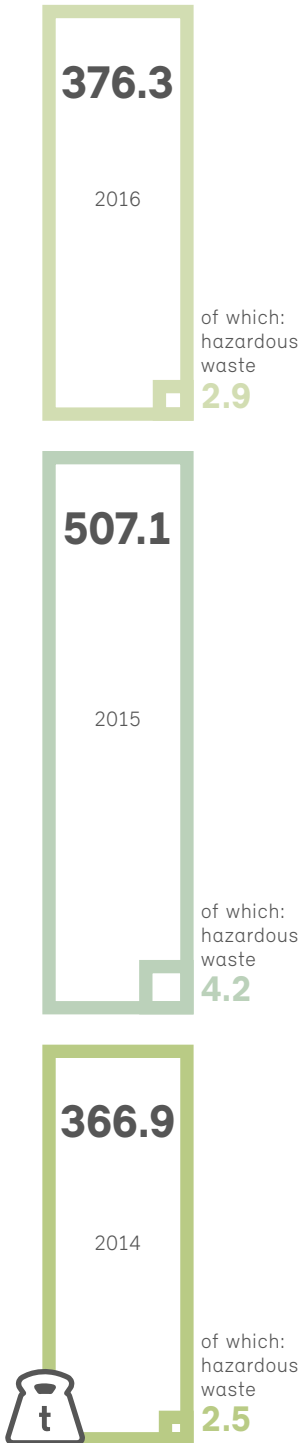
PAPER CONSUMPTION in kg



## BUT QUANTITY IS ONLY ONE SIDE OF THE COIN

The quality of paper used is also a factor in reducing environmental impact. Since late 2016, we have been using recycled paper with the Blue Angel environmental label for our office paper. This sends a message: as a national eco-label in Germany, Blue Angel has been setting high standards of environmental protection and sustainability across a wide variety of product areas for the last 30 years, and of all the paper labels, sets the highest standards for recycled paper.

WASTE in t



### MATERIALS FLOW MANAGEMENT CONSERVES RESOURCES AND REDUCES WASTE

A circular economy is the ultimate goal in terms of waste management, which is why we consider the proper triage and disposal of waste as a key component of our environmental activities. The disposal of hazardous waste primarily involves emptying the fuel separators in our underground car parks, as well as properly disposing of fluorescent tubes.

### CENTRAL PROCUREMENT FACILITATES STANDARDISATION OF THE PURCHASING PROCESS

The Central Procurement department was set up in mid-2016, as part of our Legal unit. By establishing this central procurement management function, we have paved the way for further systematisation and increased focus on sustainability in procurement. In all issues related to procurement, L-Bank has always followed the guiding principle of short transport routes based on local suppliers. The Bank’s restaurants also prioritise fair-trade products and locally produced food, thereby contributing to environmentally responsible business practices in the region, as well as healthy nutrition for employees. During Sustainability Week, launched on 30 May 2016, our staff restaurants highlighted this mission with an “action plan” menu. They also introduced selected regional producers involved in sustainable farming.

### THE IMPORTANCE OF EMPLOYEE TRANSPORT IS OFTEN UNDERRATED

As part of the Mobil.Pro.Fit project – a joint venture between Germany’s Federal Ministry for the Environment, Nature Conservation and Nuclear Safety and B.A.U.M. e.V. – we have exhaustively analysed the various issues surrounding corporate mobility. One of the key areas on which our analysis focused were daily commutes. Employees’ mobility profiles were captured using residential location analysis, and were then collated with the various modes of transport used. The high percentage of season ticket holders and bicycle users among our employees are a testament to our efforts to promote eco-friendly mobility.

**746**  
SEASON TICKET  
HOLDERS

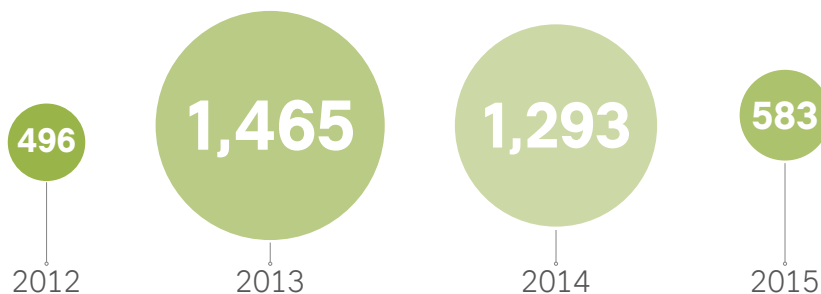
## RESIDENTIAL LOCATION ANALYSIS for the Karlsruhe site, 2015

DISTANCE in km	NUMBER of employees	EMPLOYEES cumulative
2	68	68 <b>7%</b>
5	193	261 <b>26%</b>
10	179	440 <b>44%</b>
15	172	612 <b>61%</b>
20	128	740 <b>73%</b>
30	161	901 <b>89%</b>
40	59	960 <b>95%</b>
50	11	971 <b>96%</b>
> 50	41	1,012 <b>100%</b>

### CLIMATE CHANGE MITIGATION AND ENVIRONMENTAL PROTECTION IN BANKING DIRECTLY IMPACT RESOURCE CONSERVATION; DEVELOPMENT PRODUCTS IMPACT THROUGH THIRD PARTIES

L-Bank's activities also have an indirect impact on the environment. This is caused by activities and changes in the behaviour of third parties brought about by L-Bank's policies, products and services.

### REDUCTION IN CARBON EMISSIONS DUE TO TARGETED DEVELOPMENT over product life cycle in 1,000 t carbon



Savings achieved through Energy Efficiency Finance programmes for SMEs and follow-up Resource Efficiency Finance products

Source: IFAM Fraunhofer

# CHILDREN WITH SPECIAL NEEDS

DESERVE OUR SPECIAL  
EFFORTS

The “Magical” project is a creative competition organised by L-Bank in support of school students who would otherwise rarely experience the satisfaction of winning. This simple example alerts us to the fact that social engagement must be many-layered and multifaceted, because the true strength of every society ultimately lies in its penchant for diversity.





## SOCIETY

# DIVERSITY IS THE FOUNDATION OF ALL PROGRESS

Our society is not – and never was – homogeneous. As a democracy, it is an open society. It offers space for people of different origins and different life paths, for immigrants, displaced persons and refugees, as well as long-established residents. Everyone belongs – regardless of education, religion, age, sexual orientation or skin colour.

This means that our society is predestined for innovation, because change rarely emerges from homogeneous structures which tend to encourage linear and one-dimensional development. Progress requires the elaboration of entirely new perspectives based on unblinkered thinking, laying aside preconceptions, accepting uncertainty and being permanently curious and willing to learn.

But to move forward together, people must speak the same language – language skills are a basic prerequisite for mutual understanding and integration. L-Bank responded immediately to the high number of asylum seekers over the last two years by providing a classroom for integration courses to the Karlsruhe Adult Education Centre (VHS) at no cost. An intensive “German as a Foreign Language” course is held here four days a week, morning and afternoon.

---

GERMAN AS A FOREIGN LANGUAGE

**EIGHT** COURSES  
COMPLETED

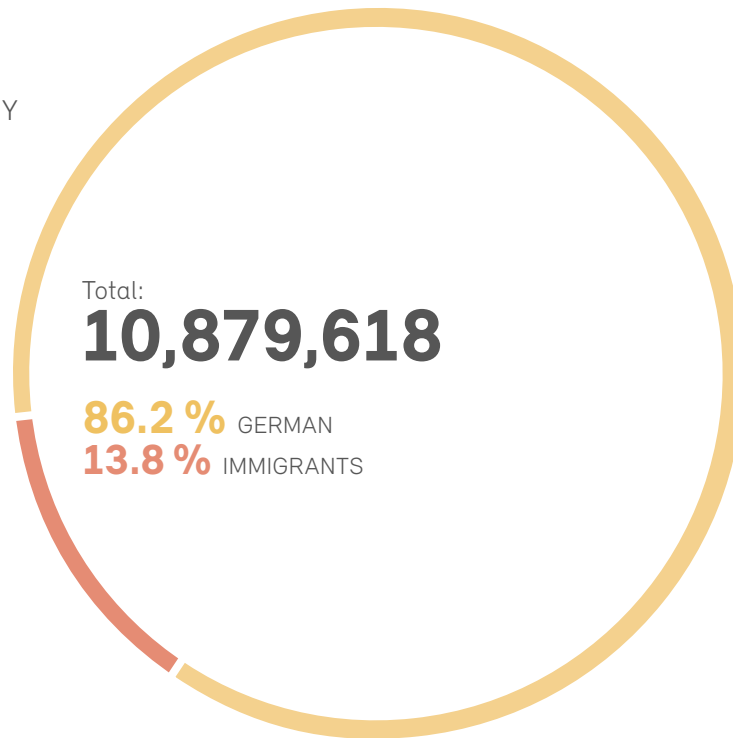
**107**  
PARTICIPANTS

---

# POPULATION OF BADEN-WÜRTTEMBERG

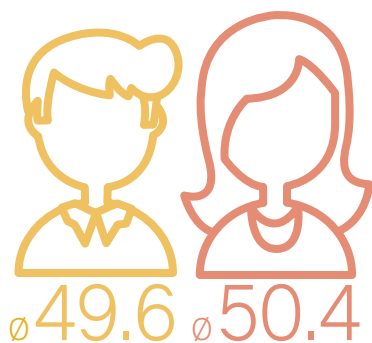
Source: statistik.baden-wuerttemberg.de

BY NATIONALITY  
2015<sup>1</sup>



RESPONSIBILITY

GENDER BREAKDOWN  
2015<sup>1</sup>



OVERALL AVERAGE

**FORTY-THREE POINT TWO**  
YEARS OLD

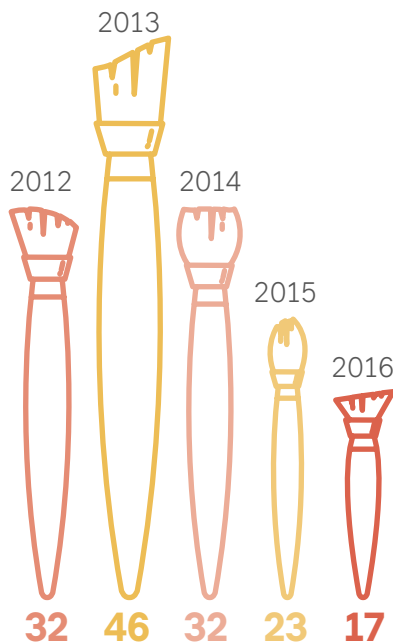
<sup>1</sup> In cities and municipalities with state-managed first-reception facilities for refugees (Landeserstaufnahmeeinrichtung für Flüchtlinge – LEA), the high number of arrivals and departures may result in procedure-related divergences between official population estimates and official population figures.

## DIVERSITY ALONE IS NOT ENOUGH – IT MUST BE ABLE TO FLOURISH

Diversity will only be able to flourish in the presence of equal opportunities and active support for creativity. Without creativity, we run the risk of repeating familiar patterns of behaviour. The United Nations has stated, in no uncertain terms, that cultural diversity – as a source of dialogue, renewal and creativity – is just as essential for humankind as biodiversity is for nature. Knowledge is vital, but creative thinking is just as vital, which is why it must be encouraged. What we need is the unconventional, associative thinking typical of artistic pursuits.

L-Bank's annual "Magical" competition is geared to schools for pupils with special needs in the federal state. It is the only competition in Germany that specifically targets special-needs schools. The competition targets school classes for children up to 12 years of age, inviting them to submit essays on a set subject. The competition gives pupils the opportunity to unleash their creative potential. The theme for the 2016 competition was "Magical Bach – When Your Thoughts Take a Journey". The assignment was to use trains of association to create something entirely new about two piano pieces in Bach's "Well-Tempered Clavier" collection. Pupils worked in teams to interpret the pieces in play and then, with their teachers' help, to find ways to present the theme effectively.

MAGICAL  
Number of participating schools



Taking part in education, art and culture should not be treated as a luxury. Such participation builds understanding, promotes social cohesion and broadens horizons. It is particularly important to give the younger generation access to art. For many years, we have made it possible for children and young people up to 20 years of age to gain free admission to the Stuttgart Staatsgalerie art museum. We also sponsor the Junge Kunst-halle, an art museum for children and young people in Karlsruhe.

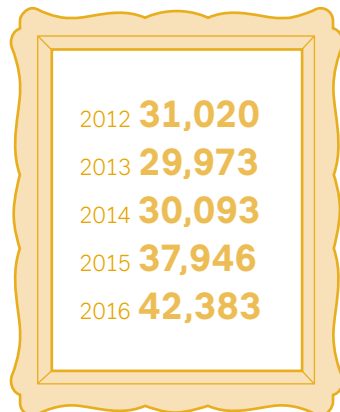
An important aspect of our social projects is to provide guidance and effectively communicate values and a sense of belonging. At the same time, we increasingly interconnect our individual social activities so that everyone involved can benefit from the added value. We do not just want to support projects financially, we also aim to foster understanding for other cultures and lifestyles and provide insights into other ways of thinking.

What we mean by this, and exactly how our activities are interconnected, is shown by our “Pink Box” project. We no longer give traditional Christmas presents to our business partners. Instead, we used the freed-up resources to task playground designer KuKuk with converting a decommissioned sea freight container into a mobile playground. Founded in 2004, KuKuk won first prize in the 2012 state competition for young entrepreneurs awarded by L-Bank in cooperation with the Ministry of State of Baden-Württemberg, not least due to its high level of social commitment. Thanks to its standardised dimensions, the converted container can be cost-effectively transported and set up in many different locations. L-Bank’s ambassador, Pink Box, the fully equipped “playground in a container” aims to spread fun and happiness wherever it is: whether in a schoolyard or neighbourhood with social problems, or outside refugee housing. In parallel with this project, we made contact with the JOBLINGE initiative. The young people involved in this initiative helped convert the container as part of a team-building project.

The first location for the Pink Box was Heilbrunnen School. This school has taken part in L-Bank’s creative “Magical” competition every year since 2009. The children and young people in this special-needs school were able to enjoy an additional place to play through to the end of the year. In the future, the container will be relocated in front of a refugee shelter so that the children there can enjoy it. Through this initiative, we also supported the city of Stuttgart, which was a UNICEF partner city in 2016.

L-Bank also supports projects that aim to raise environmental awareness, promote environmental education and embed the issue of sustainability more firmly in society. For many years, L-Bank has partnered with the two environmental information centres: Haus des Waldes in Stuttgart, and Waldklassenzimmer in Karlsruhe. Understanding for biodiversity and the sheer variety of life – especially among children and young people – is fostered by innovative educational models. Together with the Haus des Waldes, we organised a team-building project for the JOBLINGE initiative during which teams worked together in the forest on special project days.

**NUMBER OF  
VISITING CHILDREN  
AND YOUNG PEOPLE  
FREE ADMISSION  
TO THE  
STAATSGALERIE STUTTGART**



But teamwork was only part of the deal – the last JOBLINGE summer party, including a presentation of the Pink Box, was held in the Haus des Waldes.

By supporting smaller projects, we try to provide information, convey values and encourage a sense of belonging in all kinds of different ways. Typical projects include the event-based soup kitchen SOUP DU JOUR e. V. in Karlsruhe and a social subscription to the Stuttgarter Nachrichten news service.

#### TOP-LEVEL RESEARCH REQUIRES DIVERSITY AND ORIGINALITY – AND STRONG LINKS TO THE REAL WORLD

Anyone who wants to think outside the box must strike out in new directions. Heterogeneity offers the ideal conditions for this – heterogeneity of disciplines and structures, but also of the people who research and teach in these disciplines. Academic freedom is inviolable, but it is important that findings make their way out into the real world. This is why we endeavour to support the transfer of academic knowledge into real-world practice through our technology parks. In this process, knowledge is not just shared between businesses and traditional sources of technological breakthroughs such as universities or research institutions – knowledge shared between businesses is what really drives development forward. This knowledge sharing is facilitated by the technology clusters we have created in our parks.

#### POLITICAL DECISIONS ARE BASED ON AN ARRAY OF INFORMATION – THIS DATA PLAYS A ROLE IN THE QUALITY OF DECISIONS

Our goal is to support policymakers with our regional analyses, evaluations of economic trends in Baden-Württemberg and studies on specific issues. At the same time, these analyses – such as our analysis of VC availability and monitoring of the start-up environment – provide important information for managing L-Bank's business activities. Ongoing economic reporting in collaboration with the Ifo Institute and the GfK consumer research association, plus our regular updates on housing market trends, offer valuable planning information that we make available at no cost.

#### ENTREPRENEURSHIP IS AND CONTINUES TO BE THE BASIS OF THE MARKET ECONOMY – LAYING THE GROUNDWORK AT AN EARLY STAGE INCREASES THE LIKELIHOOD OF SUCCESS

Great things can also emerge from seemingly unremarkable ideas. Motivation, drive and mindset all play a crucial role in this context. A pioneering spirit requires broad foundations: entrepreneurial ambition, spirit and flexibility, coupled with the ability to put ideas into practice, are the key factors that will build Baden-Württemberg's future.

Our work focuses on many different areas: we support entrepreneurial education in schools with the sustainability competition for trainee, student and junior enterprises. This familiarises potential entrepreneurs with sustainability issues at an early stage. And all student and junior enterprises can apply for a loan through our SchulBankKredit initiative. This gives them the opportunity to apply for finance – usually covered by parental funding – in a realistic process that eventually results in the award of a fixed-term bank loan, granted after a genuine funding meeting.

Entrepreneurship still plays a secondary role at university level, so we are also trying to stimulate interest here. HfWU Nuertingen-Geislingen University supports its exceptionally talented students with the Talente@HfWU programme. L-Bank, working with whf AG, thought up something special for these students. On a project day, the students were brought together with two young entrepreneurs who each described a real-life problem. The goal was to work together to identify suitable solutions. This workshop gave students a useful insight into the world of start-ups, and an overview of the opportunities for setting up their own businesses.

Through showcases such as the Baden-Württemberg Elevator Pitch, we help create platforms for innovative business ideas, and give entrepreneurs opportunities to build their experience of speaking in front of larger audiences.

The State Prize for Young Companies (Landespreis für junge Unternehmen) honours entrepreneurs who work hard to turn their ideas into reality. The award winners act as role models for all those who are thinking about going into business for themselves. The State Prize for Young Companies was awarded for the 11th time in 2016. The patron of the competition, which is held every two years by the state government in cooperation with L-Bank, is State Premier Winfried Kretschmann. The prize focuses on the impressive performance, cutting-edge attitudes and creativity of Baden-Württemberg's young entrepreneurs, but also on their social and environmental engagement.

**231 IDEAS**  
ENTERED IN COMPETITION  
**163 ENTREPRENEURS**  
PRESENTED THEIR  
BADEN-WÜRTTEMBERG  
COMPANIES

**604 CANDIDATES**  
– MORE THAN EVER BEFORE –  
APPLIED FOR THE  
2016 STATE PRIZE FOR  
YOUNG COMPANIES

# SUSTAINABILITY PROGRAMME

## DOCUMENTING PROGRESS TO DATE AND ROAD MAP OF 2017–2018 SUSTAINABILITY PROGRAMME

	STRATEGIC GOALS INITIATIVES	STATUS	IMPLEMENTATION (QUARTERLY)
FOR THE ORGANISATION	Pursue ISO 14001 certification	✓	EMAS validation, hence simultaneous ISO 14001 certification; first entered in EMAS Registry on 19 December 2016
	Become a member of the Association for Environmental Management and Sustainability in Financial Institutions (Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. – VfU)	✓	L-Bank has been a member of the VfU since August 2014, regularly attends meetings to share experiences, and participates in general meetings
	Review the sustainability guidelines to identify update requirements	→	April 2017
	Conduct materiality analysis from a stakeholder perspective	✓	Conducted as part of sustainability reporting
	Develop a working manual on the organisation of sustainability management	→	April 2017
	Further develop the reporting system	→	Ongoing
	Review implementation of the UNEP FI declaration and make changes where necessary	○	Annually
	Arrange EMAS control audit by external environmental auditor	○	April 2017
FOR COMMUNICATION	Create an informative sustainability section on the L-Bank website	✓	Completed
	Actively gather stakeholder feedback on first sustainability report	✓	Feedback was obtained and is being incorporated into the design of the second sustainability report
	Respond centrally to sustainability enquiries received via <a href="mailto:nachhaltigkeit@l-bank.de">nachhaltigkeit@l-bank.de</a>	→	Replies to ongoing enquiries about specific environmental management issues are sent via <a href="mailto:umweltmanagement@l-bank.de">umweltmanagement@l-bank.de</a>
	Create opportunities for all employees to participate in sustainability projects via the intranet	✓	Participation in the TerraCycle pen collection programme
	Expand the intranet's "Sustainable Development" information portal	→	Ongoing
	Publish second sustainability report	○	February 2017
	Actively gather stakeholder feedback on second sustainability report	○	March 2017
	Publish WIN Charter sustainability report	○	Annually; first WIN Charter sustainability report was published in early 2016
	Revise and update the sustainability section on <a href="http://l-bank.de">l-bank.de</a>	○	February 2017
	Update the Environmental Statement	○	Annually



	STRATEGIC GOALS INITIATIVES	STATUS	IMPLEMENTATION (QUARTERLY)
FOR CUSTOMERS	Conduct customer satisfaction analysis: evaluate results of 2013 Development Atlas	✓	High level of customer satisfaction; suggestions for more transparency and simplification have been included
	Stakeholder dialogue: evaluate "Climate change and enterprise finance" stakeholder dialogue	✓	Suggestions were incorporated into the further development of development programmes; communication with advocates and target groups intensified
	Assess membership of UNEP Finance and UN Principles for Responsible Investors	✓	Joined UNEP FI on 1 January 2016
	Set up an expert portal as an information platform for partners	○	January 2017
	BW microfinance – integrate a crowd platform to create another element that supports immigrant entrepreneurs, the creative sector and business start-ups	○	January 2017
	Review further development of lending guidelines for equity investment	○	April 2017
FOR EMPLOYEES	Set up an intranet portal with information on childcare, careers and family care	✓	Intranet portal has been set up
	Sustainable further education: ongoing development of seminars for employees	→	Ongoing
	Perform risk assessment of mental stress	○	January 2017
	Restructure the BEM process	○	February 2017
	Continue talent management initiative	○	Ongoing
	Recertify Systematic Workplace Safety (AMS) scheme for 2017/18	○	April 2017
FOR SOCIETY	Organise the State Prize for Young Companies in recognition of entrepreneurs who work hard to turn their ideas into reality; prizewinners also act as role models for anyone thinking about going into business for themselves	→	In 2018, the State Prize for Young Companies will be awarded for the twelfth time
	Organise the "Magical" creative competition, a student competition aimed exclusively at applicants from special-needs schools	→	L-Bank has been organising this annual competition since 2009
	Sponsor the Staatsgalerie in Stuttgart and the Staatliche Kunsthalle in Karlsruhe to interest young people in the visual arts	→	This initiative will continue in 2017
	Promote education in sustainable development by sponsoring the Haus des Waldes in Stuttgart and the Waldklassenzimmer in Karlsruhe	→	This initiative will continue in 2017
	Sponsor JOBLINGE gAG in the Stuttgart region	→	Ongoing
	Support refugees by providing a classroom for language courses at the Centre for Adult Education (VHS)	○	In 2016, a classroom for language courses was made available to the Centre for Adult Education; this initiative will continue in 2017
	Ideas management: incorporate an employee ideas platform for sustainability initiatives into the existing ideas management platform, but with a restructured suggestion system	✓	Sustainability initiatives can also be proposed under the in-house suggestion system; they are then routed to the officers responsible

✓ Completed – Not completed → Continue ○ New initiative

	STRATEGIC GOALS INITIATIVES	STATUS	IMPLEMENTATION (QUARTERLY)
FOR THE CORPORATE CULTURE	Organise a sustainability day at L-Bank to raise employee awareness	✓	Event organised in 2014, 2015 and 2016; event planned for 2017
	Create introductory presentation on L-Bank's sustainability concept for new employees	✓ –	Sustainability Code and sustainability guidelines are an integral part of the welcome package for new employees; an introductory presentation is not given
	Strengthen awareness training: introductory presentation on "Sustainability at L-Bank" for all new dual-education students	✓	Established as an integral component of the introductory programme for dual-education students at L-Bank since 2014
	Create new section on "Sustainable Business" in the in-house press clipping service	–	Press clippings have been expanded; the separate "Sustainable Business" section has been reintegrated as one of the subjects under each of our business activities
	Cooperate with the "Fair Trade" trade show by organising an employee raffle for entry tickets	○	February 2017
	Register employees on DKMS stem cell database	○	March 2017
	Sign Diversity Charter	○	January 2017
	Employee campaign for Diversity Day on 30 May 2017	○	February 2017
	By sponsoring 61 "Pink Bikes" and setting up a bicycle hire station next to the staff entrance, the Bank is implementing an alternative means of private and business transport	○	By 2018
FOR THE ENVIRONMENT Buildings	Reduce total building energy consumption by 5%	– →	Not yet achieved; still seeking further reduction
	Install meters at points of consumption in Stuttgart for precise monitoring of electricity and thermal energy	→	Completed; installation continues due to structural changes in buildings
	Upgrade air-conditioning systems in Stuttgart	✓	As part of the conversion, air-conditioning technology in the L-Bank rotunda was upgraded
	Upgrade district heat transfer station in Stuttgart	✓	District heat transfer station was upgraded in 2015
	Upgrade/decommission pressure booster system in Stuttgart	✓	The old pressure booster system in Stuttgart was decommissioned
	Replace lighting in the communal areas of Schlossplatz 10 with energy-saving LEDs	→	Ongoing, in all L-Bank buildings
	Replace all unregulated heat pumps at Schlossplatz 10 with modern high-efficiency heat pumps	– →	For the building at Schlossplatz 10, the goal is to find a turnkey energy solution; as a result, all separate initiatives have been temporarily suspended as long as they are not urgently required. An expert assessment of modernisation needs will be commissioned: April 2017
	Upgrade building control system in Stuttgart	○	By 2018
	Continue to install presence detectors in the communal areas in Stuttgart	○	Ongoing
	Determine need for modernisation of the heating system at Schlossplatz 21 based on an expert assessment	○	January 2017
	Install metering management (power and water management) at the Karlsruhe site	○	April 2017
Install modern meters at points of consumption in Stuttgart for precise monitoring of water	→	Completed, ongoing	

✓ Completed – Not completed → Continue ○ New initiative

STRATEGIC GOALS INITIATIVES		STATUS	IMPLEMENTATION (QUARTERLY)
Water	Reduce water consumption by 10%	–	Not achieved because the pipes in Stuttgart are regularly flushed due to extensive modernisation work; water consumption cannot be managed in some parts of L-Bank
	Develop a plan for neutralising business transport emissions	→	The goal is an integrated approach – develop complete plan by April 2017
Transport	Mobility survey: capture mobility profile of employees (commute) and develop additional services on this basis (e.g. carpool board)	✓	Residential location analysis completed; an additional service such as a carpool board would not achieve the desired effect due to the heterogeneous distribution of residential locations
	Intensify the use of videoconferencing systems to replace business trips between L-Bank sites	○	Ongoing
	Establish webinars as an integral component of training courses offered to commercial bank partners	○	2017
	Test the use of video consultations	○	January 2017
	Aim for carbon-neutral printing of the annual report and revise the mailing list concept	→	Carbon-neutral printing of the annual report was implemented in 2016; the mailing list concept is subject to ongoing revision
FOR THE ENVIRONMENT Paper	Increase percentage of recycled paper to 20%	✓	Percentage of recycled paper was more than 20% in 2016; office paper was switched to recycled paper with the Blue Angel label in late 2016
	Introduce electronic filing – review the evaluation process prior to a Bank-wide launch	○	January 2017
	Analyse results of 2013 ideas competition to save paper and draw up a list of specific initiatives	✓	Principles for paper use were defined and communicated to employees
	Reduce paper consumption by 15%	✓	Paper consumption has been steadily reduced, but still depends on multiple factors that cannot all be influenced to the same extent
	Implement travel expense report as a digitally accessible document in the “Employee Self-Service (ESS)” online tool	○	January 2017
	Increase recycling in Stuttgart by 25% by establishing a standardised waste management programme across all sites	–	Disposal depends on waste collection services; it is therefore not possible to create a standardised waste management programme at all sites
Procurement/Waste	Implement requirements/criteria for the environmental quality of goods and services purchased – revise operational directive	○	January 2017
	Conduct supplier survey	○	February 2017
	Reduce number of printers – assess the roll-out of local floor printers	○	February 2017
	Campaign to raise awareness of the importance of “waste” as a resource	✓	Participation in TerraCycle pen collection programme
	Conduct disposal audit	○	Annually

# KEY PERFORMANCE INDICATORS

ECONOMIC INDICATORS	UNIT	2014	2015	2016
BUSINESS INDICATORS				
Total assets	EUR m	70,190.1	73,294.9	75,075.4
Equity	EUR m	2,714.7	2,765.3	2,814.6
Net interest income	EUR m	375.5	365.4	368.9
Net income	EUR m	49.2	50.6	49.3
Tier 1 capital ratio	%	14.2	16.4	18.0
Total capital ratio	%	16.9	19.0	20.3
Cost income ratio	%	42.0	42.8	41.7
Payments to the State of Baden-Württemberg	EUR m	128.3	128.6	127.7
Personnel expenses	EUR m	92.2	96.4	93.4
Expenses for occupational pension arrangements	EUR m	5.5	7.4	5.7
Taxes on income and other taxes	EUR m	0.9	4.7	1.5
DEVELOPMENT BUSINESS LINES				
Enterprise development	EUR m	2,962.7	3,547.4	3,190.9
Housing development	EUR m	1,985.9	2,168.0	2,023.9
Infrastructure development	EUR m	2,637.4	3,652.4	6,432.9
Families, education and social issues	EUR m	1,219.3	1,182.7	1,099.4
FINANCIAL RATINGS				
Standard & Poor's		AAA	AAA	AAA
Moody's		Aaa	Aaa	Aaa

SOCIAL INDICATORS	UNIT	2014	2015	2016
<b>WORKFORCE STRUCTURE</b>				
Overall workforce	Employees	1,250	1,236	1,232
Full-time equivalents <sup>1</sup>	Employees	1,113	1,133	1,115
Percentage of women	%	58.5	58.2	57.9
Percentage of men	%	41.5	41.8	42.1
Percentage of female employees in management positions	%	33.6	33.8	34.2
Temporary	Employees	16	19	16
Period of employment	Years	17.4	17.5	17.8
Turnover rate <sup>2</sup>	%	2.5	3.8	1.8
Average age	Years	46.2	46.2	46.5
Severely disabled	Employees	41	43	40

1 The number of employees expressed as full-time equivalents is used as a reference value for data per employee.  
2 Staff turnover includes every permanent departure of an employee that was not initiated by the employer.

<b>TRAINING AND EDUCATION</b>				
Participants in training sessions <sup>1</sup>	Employees	3,884	2,406	2,299
Training sessions	Number	1,450	1,112	1,085
Average training time per employee	Days	2.0	1.5	1.3
Dual-education students	Employees	38	48	40
Trainees	Employees	3	3	1
Company trainers	Employees	87	84	109
Investment in continuing education	EUR per employee	681	617	464

1 Only comparable to a limited extent due to new data compilation methodology introduced in 2016.

<b>BALANCING WORK AND FAMILY LIFE</b>				
Part-time employees	%	24.8	24.8	26.3
Part-time managers	%	13.5	13.2	13.5
Childcare places <sup>1</sup>	Number	30	30	29
Employees on parental leave	Employees	28	23	25

1 From 1 January 2017 onwards, employees will be eligible for a childcare allowance for every child of pre-school age. Consequently, places in childcare centres will no longer be provided directly; the Bank will continue to provide places for those children of pre-school age who are already in childcare.

<b>HEALTH AND OCCUPATIONAL SAFETY</b>				
Rate of illness	%	5.3	5.9	5.9
Reported accidents <sup>1</sup>	Number	12	5	14

1 Includes all accidents at or on the way to/from work reported to the Employer's Liability Insurance Association (Verwaltungs-Berufsgenossenschaft – VBG); no fatal accidents.

ENVIRONMENTAL INDICATORS	Unit	2014	2015	2016
<b>GREENHOUSE GAS EMISSIONS</b>				
Total	t	1,142	1,208	1,089
Per employee	kg per employee	1,026	1,066	977
Direct emissions, category I <sup>1</sup>	t	87	124	140
Indirect emissions, category II <sup>2</sup>	t	471	504	429
Indirect emissions, category III <sup>2</sup>	t	584	580	520

1 Train journeys powered by 100% green energy are not included; the changeover was made in October 2016, since when all journeys have been made on DB long-distance trains (ICE/IC) that use 100% green electricity. In 2016, private mileage driven in company cars was included in the figure. In 2015 and 2016, coolant losses also occurred; the systems are properly maintained and regularly inspected for leaks. These factors made a significant contribution to the increase in direct emissions.

2 In 2016, carbon emissions per kWh of district heat were reduced to 68 g/kWh in Karlsruhe due to a higher proportion of industrial waste heat; this brought about a reduction in indirect emissions.

<b>BUILDING ENERGY</b>				
Total electricity consumption <sup>1</sup>	MWh	7,660	7,549	7,694
Green electricity procured	%	100	100	100
Electricity from fossil fuel and nuclear sources	%	0	0	0
Electricity consumption per employee	kWh	6,883	6,663	6,901
Total district heating <sup>1, 2</sup>	MWh	4,455	4,589	4,997
District heating per employee	kWh	4,003	4,050	4,482

1 As meters are read at different times, consumption figures to December 31 are extrapolated. If unavailable when the data was collected, consumption based on ancillary billing was also extrapolated.

2 Thermal energy consumption has not been adjusted for weather conditions.

<b>BUSINESS TRAVEL</b>				
Total km travelled	km '000	1,564	1,726	1,718
Car travel <sup>1</sup>	km '000	618	562	729
Train travel	km '000	542	633	624
Air travel	km '000	404	532	364
of which short-haul	km '000	32	44	25
of which long-haul	km '000	372	488	339
km travelled per employee	km	1,405	1,524	1,540

1 Includes all kilometres driven by cars in L-Bank's fleet, as well as kilometres driven in private cars for business purposes; these figures are taken from travel expense statements. Company cars are also used privately. Due to changes in data compilation methodology, figures for 2016 are only comparable with figures for previous years to a limited extent. Kilometres travelled by hire cars or taxis are not included.

	Unit	2014	2015	2016
<b>PAPER</b>				
Total paper consumption <sup>1</sup>	t	135	122	92
Paper consumption per employee	kg	121.3	107.9	82.1
Percentage of recycled paper	%	9	9	31

<sup>1</sup> The weight of daily newspaper and trade journal subscriptions is estimated.

<b>WATER</b>				
Total water consumption <sup>1</sup>	m <sup>3</sup>	21,312	22,873	21,954
Water consumption per employee	l	19,148	20,188	19,690
Percentage of drinking water	%	100	100	100
Paved surfaces <sup>2</sup>	m <sup>2</sup>	21,171	21,171	21,171

<sup>1</sup> As meters are read at different times, consumption figures to December 31 are extrapolated. If unavailable when the data was collected, consumption based on ancillary billing was also extrapolated.

<sup>2</sup> Includes the entire area of the site at Börsenplatz 1, but not leased land.

<b>WASTE</b>				
Total volume of waste <sup>1</sup>	t	367	507	376
Waste per employee	kg	329.6	447.6	337.5
Percentage of waste recycled	%	64	76	69
Percentage of waste incinerated	%	35	23	31
Percentage of hazardous waste	%	1	1	1

<sup>1</sup> Waste is classified according to the waste code numbers in the European List of Waste. Standardised conversion factors from the Bavarian State Office for Statistics and Data Processing were used to calculate quantities of waste in tonnes.

# ABOUT THE SUSTAINABILITY REPORT

In 2013, L-Bank included a report on the Bank's corporate social responsibility activities in its annual report for the first time; the editorial deadline for the report was 30 November 2013. The Bank's second sustainability report is included in this annual report, forming a combined Sustainability and Annual Report. Together with the Bank's EMAS validation in 2016 and the Environmental Statement presented as part of the validation process, these documents provide a complete picture of L-Bank's accomplishments. To supplement this information, the Bank also reports on selected sustainability aspects under the terms of the WIN Charter. In the future, L-Bank will publish a Sustainability Report every three years. Annual updates on sustainability performance are published on the L-Bank website.

The L-Bank Sustainability Report 2016 contains standard disclosures as specified in the GRI sustainability reporting guidelines. The list of standard disclosures and where they appear in the report appears in the following GRI Index. L-Bank determined the relevant sustainability issues by carrying out a materiality analysis. The GRI aspects to be reported were then

assigned to the core issues (see table). Additional GRI-relevant indicators related to corporate activities and the Sustainability Programme for 2017 and 2018 appear on pages 65 to 72. The qualitative information in the report refers primarily to fiscal year 2016; previous fiscal years were also included where necessary.

As far as current data permits and relevant processes can be clarified, the indicators included in this report represent (at least) a three-year cycle. As a rule, all figures shown are rounded to one decimal place. During the reporting period, there were no significant organisational changes. However, this data can only be compared to the previous sustainability report to a limited extent, because some of the data collection methods used have changed. Deviations from the last report are explained where this seems necessary. The editorial deadline was 31 December 2016. Conversions of greenhouse gas emissions into carbon equivalents is based on the 2015 version of the calculation tool provided by the Association for Environmental Management and Sustainability in Financial Institutions (Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. – VfU).



## BREAKDOWN OF KEY ACTION AREAS AND REPORT CONTENT

Key action areas	Selected initiatives from the Sustainability Programme	GRI aspect	Impact	
			inside L-Bank	outside L-Bank
Corporate culture of responsibility	Participation in UNEP FI, raising awareness of eco-friendly mobility, WIN Charter	Ethics and integrity	x	x
Civic engagement	State Prize for Young Companies 2018, development of JOBLINGE gAG, Stuttgart region	Local communities		x
Transparency and communication of products and services	Update and modernisation of Internet services, setup of expert portal	Economic performance		x
Customer-oriented development finance	BW microfinance	Economic performance		x
Strategic sustainability management	EMAS recertification, review of sustainability guidelines	Materials, management, ethics and integrity	x	x
Sustainable equity investment	Expansion of equity capital provision	Economic performance		x
Corporate environmental protection	Increase in proportion of recycled paper, switch to recycled paper with Blue Angel label, resource conservation	Materials, energy, water, emissions, waste water, waste	x	
Digitisation, knowledge management	Expansion of "Employee Self-Service" portal, analysis of evaluation process for introduction of electronic filing	Economic performance, materials	x	
Sustainable procurement	Procurement guidelines regarding environmental quality	Procurement, supplier assessment	x	x
Health management	Risk assessment of mental stress, restructuring of corporate reintegration management	Employment, occupational health and safety	x	
Equal opportunity	Diversity Charter	Employment, diversity and equal opportunity, equal treatment	x	
Balancing work and family life	Maintenance and expansion of intranet portal	Employment	x	
Employee development	Talent management	Training and education	x	
Business travel – sustainable mobility	Plan for neutralising business travel emissions, increasing use of video conferencing	Environment	x	x

# GRI G4 INDEX

The GRI Index is based on the guidelines of the Global Reporting Initiative and associated industry indicators. Further explanations can be found in the previous chapter, "About the Sustainability Report". A list of abbreviations is included at the end of the table.

GRI aspects and indicators		Pages	Explanations and additional references
<b>GENERAL STANDARD DISCLOSURES</b>			
<b>STRATEGY AND ANALYSIS</b>			
G4-1	Statement from the most senior decision maker	6 f., 48 f.	Sustainability Code, letter to business partners
G4-2	Description of key impacts, risks and opportunities	30 f., 37 f., 93 f.	Materiality analysis, letter to business partners; the framework is defined by the duties assigned to L-Bank by articles and statute: <a href="http://www.l-bank.de/ir">www.l-bank.de/ir</a>
<b>ORGANISATIONAL PROFILE</b>			
G4-3	Name of the organisation	84 f.	Landeskreditbank Baden-Württemberg – Förderbank (L-Bank)
G4-4	Primary brands, products and services	13 f.	Four pillars of development
G4-5	Location of organisation's headquarters	30, 84	Karlsruhe, Germany
G4-6	Business region	30, 115 f.	Development business limited to Baden-Württemberg
G4-7	Nature of ownership and legal form	84 f., 140 f.	Independent public-law institution wholly owned by the State of Baden-Württemberg
G4-8	Markets served	30, 115 f.	Development business limited to Baden-Württemberg; neutral regarding competition
G4-9	Scale of the reporting organisation	3, 70 f.	Economic and social indicators, 70 development programmes according to development navigator at <a href="http://www.l-bank.de">www.l-bank.de</a>
G4-10	Employees by employment contract, gender and region	45, 92 f., 156	
G4-11	Percentage of employees covered by collective bargaining agreements	43 f.	Collective bargaining agreement for the public and private banking industry
G4-12	Description of the supply chain	56, 100, 109	Commercial bank principle; in terms of financing, L-Bank generally operates as the competition-neutral "bank behind the commercial bank"
G4-13	Changes during the reporting period	74	No material changes
G4-14	Whether and how the precautionary principle is addressed by the organisation	30 f., 48 f., 93 f., 97 f.	Sustainability management, sustainability guidelines, Sustainability Code, incorporation of sustainable development in business strategy, EMAS environmental management system, L-Bank risk strategy
G4-15	Support for external initiatives	62 f.	
G4-16	Membership in associations and advocacy organisations	31 f.	Member of Association of German Public Banks (Bundesverband Öffentlicher Banken Deutschlands – VÖB), UNEP FI and VfU; also member of another 26 organisations and associations
<b>IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES</b>			
G4-17	Subsidiaries	17 f.	Subsidiaries for business location development
G4-18	Process for defining the report content	30 f.	Derived from materiality analysis and supplemented by selected aspects relating to customer services
G4-19	All essential aspects	30 f., 75	
G4-20	Material aspects within the company	30 f., 74 f.	
G4-21	Material aspects outside the company	30 f., 74 f.	
G4-22	Restatements of information provided in previous reports	30 f., 74 f.	
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	74 f.	

GRI aspects and indicators		Pages	Explanations and additional references
<b>STAKEHOLDER ENGAGEMENT</b>			
G4-24	Stakeholder groups engaged by the organisation	30f.	
G4-25	Basis for identification and selection of stakeholders with whom to engage	30f.	
G4-26	Approach to stakeholder dialogue and frequency	30f., 74f.	Intensive stakeholder dialogue at various levels on routine and exception basis
G4-27	Key topics and concerns that have been raised through stakeholder engagement	30f., 74f.	Constructive and open dialogue; timely and detailed responses to enquiries by all stakeholder groups
<b>REPORT PROFILE</b>			
G4-28	Reporting period	74	Indicators generally relate to fiscal years 2014–2016, individual indicators are shown from 2012 onwards. Reporting date: 31 December 2016
G4-29	Date of most recent previous report	74f.	
G4-30	Reporting cycle	33	Sustainability Report every three years, WIN Charter report every year, plus annual update of key facts
G4-31	Contact point for questions regarding the report or its contents	Cover U3	nachhaltigkeit@l-bank.de; publication details
G4-32	"In accordance" option chosen, plus related GRI Content Index	–	The L-Bank Sustainability Report 2016 contains standard disclosures from the GRI sustainability reporting guidelines
G4-33	External report assurance	49	The report as a whole was not subject to external assurance; EMAS validation (by an accredited environmental auditor), together with the Environmental Statement for 2016 (relating to reporting year 2015) took place on 5 October 2016
<b>GOVERNANCE STRUCTURE AND COMPOSITION</b>			
G4-34	Governance structure	81f., 158f.	Board of Management, Supervisory Board and committees of the Supervisory Board
G4-38	Composition of the highest governance body and its committees	158f.	
G4-39	Chair of the highest governance body	130, 158f.	
<b>ETHICS AND INTEGRITY</b>			
G4-56	Values, principles, standards and norms of behaviour	37, 81f.	Sustainability Code, sustainability guidelines, code of ethics and conduct
<b>ECONOMY</b>			
<b>ASPECT: ECONOMIC PERFORMANCE – MANAGEMENT APPROACH</b>			
G4-EC1	Direct economic value generated and distributed	136	L-Bank's personnel expenses amounted to EUR 93.4 million in 2016; in addition to wages and salaries (EUR 75.5 million) and social security contributions (EUR 17.9 million), this figure also includes expenses for pensions and other benefits (EUR 5.7 million)
G4-EC2	Financial implications and other risks and opportunities due to climate change	–	Environmentally oriented development programmes, environmental management scheme
G4-EC3	Coverage of defined benefit plan obligations	134, 141f.	
G4-EC4	Financial assistance received from government	n. r.	This indicator is not applicable to L-Bank as the state development bank of the State of Baden-Württemberg
<b>ASPECT: PROCUREMENT PRACTICES – MANAGEMENT APPROACH</b>			
G4-EC9	Spending on local suppliers	56	Sustainability guidelines; preference given to regional suppliers and service providers – based in Baden-Württemberg – where legally permissible
<b>ENVIRONMENTAL</b>			
<b>ASPECT: MATERIALS – MANAGEMENT APPROACH</b>			
G4-EN1	Materials used by weight or volume	51, 55, 73	Environmental indicators in accordance with VfU, mainly paper
G4-EN2	Percentage of materials used that are recycled input materials	55, 73	Use of recycled paper
<b>ASPECT: ENERGY – MANAGEMENT APPROACH</b>			
G4-EN3	Energy consumption within the company	52, 72	
G4-EN5	Energy intensity	72	
G4-EN6	Reduction of energy consumption	52, 68	

GRI aspects and indicators		Pages	Explanations and additional references
<b>SPECIFIC STANDARD DISCLOSURES</b>			
ASPECT: WATER – MANAGEMENT APPROACH			
G4-EN8	Total water withdrawal by source	52	
ASPECT: EMISSIONS – MANAGEMENT APPROACH			
G4-EN15	Direct greenhouse gas emissions (Scope 1)	49, 72	Environmental indicators as per VfU
G4-EN16	Indirect greenhouse gas emissions (Scope 2)	49, 72	Environmental indicators as per VfU
G4-EN17	Other indirect greenhouse gas emissions (Scope 3)	49, 72	Environmental indicators as per VfU
G4-EN18	Greenhouse gas emissions intensity	72	
G4-EN19	Reduction of greenhouse gas emissions	49, 50, 72	
G4-EN21	NO <sub>x</sub> , SO <sub>x</sub> and other significant air emissions	–	See Environmental Statement
ASPECT: EFFLUENTS AND WASTE – MANAGEMENT APPROACH			
G4-EN22	Water discharges by quality and location	n. r.	L-Bank discharges waste water into the public sewage system. Where necessary, there are upstream treatment facilities to ensure that the waste water complies with standard household waste water
G4-EN23	Waste by type and disposal method	56, 73	Environmental indicators as per VfU
G4-EN26	Water bodies significantly affected by discharges of waters	n. r.	All facilities are connected to the public sewage system
ASPECT: PRODUCTS AND SERVICES – MANAGEMENT APPROACH			
G4-EN27	Mitigation of environmental impacts of products and services	53, 55, 57	Environmental policy as part of sustainability guidelines; development initiatives to minimise environmental impacts; BW climate protection law, switch to recycled paper, webinars expanding scope of training courses
ASPECT: COMPLIANCE – MANAGEMENT APPROACH			
G4-EN29	Fines and non-monetary sanctions for non-compliance with environmental regulations	–	No fines and/or sanctions
ASPECT: TRANSPORT – MANAGEMENT APPROACH			
G4-EN30	Environmental impact of transporting goods and materials as well as transporting members of the workforce	–	Environmental policy as part of sustainability guidelines; residential location analysis as basis for decision-making
ASPECT: ENVIRONMENTAL GRIEVANCE MECHANISMS – MANAGEMENT APPROACH			
G4-EN34	Formal grievances about environmental impacts	–	No formal grievances
<b>LABOUR PRACTICES AND DECENT WORK</b>			
ASPECT: EMPLOYMENT – MANAGEMENT APPROACH			
G4-LA1	New employee hires and employee turnover	44	
G4-LA2	Benefits provided only to full-time employees	–	Individual benefits such as L-Bank's occupational pension scheme depend on a list of criteria
G4-LA3	Return to work after parental leave	40 f., 93	Return to work is encouraged by providing financial support for childcare/places in childcare facilities. The Bank does not compile statistics on employees returning to work after parental leave
ASPECT: OCCUPATIONAL HEALTH AND SAFETY – MANAGEMENT APPROACH			
G4-LA5	Percentage of total workforce represented in formal joint management/worker health and safety committees	42	100% of employees represented in management/worker health and safety committees
G4-LA6	Rates of injury, occupational diseases, lost days and absenteeism, and work-related fatalities	71	Absenteeism, accidents commuting to and from work; no work-related fatalities; data collected as part of an annual occupational safety report
ASPECT: TRAINING AND EDUCATION – MANAGEMENT APPROACH			
G4-LA9	Training and education	37 f., 72, 92 f.	Statistics on training and education initiatives; dual education programme; trainee programme
G4-LA10	Programmes for skills management and lifelong learning	21, 37	Goal-oriented, needs-driven continuing education; no rigid curriculum
G4-LA11	Percentage of employees receiving regular performance and career development reviews	–	No routine, explicit performance reviews (exception: civil servants)

GRI aspects and indicators		Pages	Explanations and additional references
<b>ASPECT: DIVERSITY AND EQUAL OPPORTUNITY – MANAGEMENT APPROACH</b>			
G4-LA12	Composition of governance bodies and breakdown of employees according to indicators of diversity	45, 81, 93	Personnel figures; composition of Board of Management and Supervisory Board. It is illegal to collect data on minorities
<b>ASPECT: EQUAL REMUNERATION FOR WOMEN AND MEN</b>			
G4-LA13	Ratio of basic salary and remuneration of women to men	n. r.	Women and men are subject to the same remuneration principles; grouping by pay grade is gender-neutral. Personnel figures; collective bargaining agreement for the banking industry, non-collective employment contracts
<b>HUMAN RIGHTS</b>			
<b>ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING</b>			
G4-HR4	Freedom of assembly and collective bargaining	43	Staff Council in compliance with the State Staff Representation Act (Landespersonalvertretungsgesetz); freedom of assembly and collective bargaining granted in full
<b>SOCIETY</b>			
<b>ASPECT: LOCAL COMMUNITIES – MANAGEMENT APPROACH</b>			
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments and development programmes	–	It is L-Bank's mission to improve the quality of life in Baden-Württemberg
<b>ASPECT: ANTI-CORRUPTION – MANAGEMENT APPROACH</b>			
G4-SO3	Percentage of operations assessed for risks related to corruption and the risks identified	–	Compliance management at all sites
G4-SO4	Communication and training on anti-corruption policies and procedures	–	Binding regulations on compliance, and money-laundering training for every employee
<b>ASPECT: ANTI-COMPETITIVE BEHAVIOUR – MANAGEMENT APPROACH</b>			
G4-SO7	Legal actions for anti-competitive behaviour or anti-trust	–	No lawsuits or sanctions
<b>ASPECT: COMPLIANCE – MANAGEMENT APPROACH</b>			
G4-SO8	Fines and sanctions for non-compliance with laws	–	No lawsuits or sanctions
<b>PRODUCT RESPONSIBILITY</b>			
<b>ASPECT: PRODUCT AND SERVICES LABELLING – MANAGEMENT APPROACH</b>			
G4-PR3	Principles and procedures for product and service labelling and percentage of products and services subject to such information requirements	–	L-Bank meets the legal requirements for the provision of information about financial services. Furthermore, this factor is not relevant
G4-PR4	Incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	–	No lawsuits or sanctions
G4-PR5	Results of surveys measuring customer satisfaction	–	L-Bank consultancy activities on financing advisory days are regularly rated as very successful
<b>ASPECT: CUSTOMER PRIVACY – MANAGEMENT APPROACH</b>			
G4-PR8	Substantiated complaints regarding breaches of customer privacy	–	No complaints resulting in fines or sanctions
<b>ASPECT: COMPLIANCE – MANAGEMENT APPROACH</b>			
G4-PR9	Significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	–	No fines

## Abbreviations

EC	Economic	GRI	Global Reporting Initiative
EN	Environmental	LA	Labour Practices and Decent Work
ESG	Environmental/Social/Governance	PR	Product Responsibility
FS	Financial Sector	SO	Society
HR	Human Rights	n. r.	not relevant

# CORPORATE GOVERNANCE REPORT 2016

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 is a self-evident component of the Bank's approach to these non-commercial activities. L-Bank has enshrined the Public Corporate Governance Code of the State of Baden-Württemberg in the Bank's in-house rule book by resolutions of both the Board of Management and Supervisory Board, and observes all the terms of the Code. This Corporate Governance Report covers fiscal year 2016; the following declaration applies in full as at the reporting date, 31 December 2016.

## 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 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 in 2016. In early 2017, the Supervisory Board revoked the above-mentioned policy decision such that with effect from the start of fiscal year 2017, all additional assignments commissioned from the auditor will require the separate approval of the Supervisory Board.

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

As at 31 December 2016, no women were represented on the two-strong Board of Management. As at the reporting date, five of the 17 members of the Supervisory Board (29.4%) and 76 of the 222 employees in managerial positions (34.2%) were women.

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

### REMUNERATION PAID TO MEMBERS OF THE BOARD OF MANAGEMENT FOR 2016 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	24	9	714
Dr. Ulrich Theileis Vice-Chairman	500	19	6	525
<b>Total</b>	<b>1,181</b>	<b>43</b>	<b>15</b>	<b>1,240</b>

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 2016** in EURk

Name	Membership of Supervisory Board	Membership of committees	Attendance fees	Total
Edith Sitzmann <sup>1,4</sup> Chairman	7.4	1.6	1.1	10.0
Thomas Strobl <sup>1,3</sup> 1st Vice-Chairman	3.3	1.7	0.9	5.8
Dr. Nicole Hoffmeister-Kraut <sup>1,3</sup> 2nd Vice-Chairman	3.3	1.0	0.5	4.7
Katrin Altpeter <sup>1,2</sup>	2.2	–	–	2.2
Alexander Bonde <sup>1,2</sup>	2.8	1.4	0.2	4.3
Leni Breymaier <sup>6</sup>	5.5	–	0.5	6.0
Dr. Jürgen Bufka <sup>3</sup>	2.6	–	0.3	2.9
Dr. Maximilian Dietzsch-Doertenbach	6.0	3.9	1.2	11.1
Reinhold Gall <sup>1,2</sup>	2.8	1.4	–	4.2
Roger Kehle	6.0	–	0.6	6.6
Gabriele Kellermann	6.0	3.1	0.9	10.0
Dr. Peter Kulitz	6.0	1.0	0.3	7.3
Andrea Lindlohr <sup>5</sup>	2.4	–	0.5	2.9
Klaus-Peter Murawski <sup>1</sup>	6.0	1.0	0.6	7.6
Dr. Dieter Salomon	6.0	–	0.3	6.3
Dr. Nils Schmid <sup>1,2</sup>	3.3	1.4	0.5	5.2
Claus Schmiedel	6.0	–	0.5	6.5
Franz Untersteller <sup>1</sup>	6.0	2.4	0.2	8.6
Joachim Wohlfeil	6.0	–	0.6	6.6
Clemens Meister	6.0	–	0.6	6.6
Tatjana Aster	6.0	–	0.5	6.5
Thomas Dörflinger	6.0	–	0.5	6.5
<b>Total</b>	<b>107.4</b>	<b>20.0</b>	<b>10.8</b>	<b>138.2</b>

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

2 Resigned from the Supervisory Board with effect from 12 May 2016.

3 Appointed to the Supervisory Board with effect from 26 July 2016.

4 Appointed Chairman of the Supervisory Board with effect from 26 July 2016.

5 Appointed to the Supervisory Board with effect from 8 August 2016.

6 Resigned from the Supervisory Board with effect from 30 November 2016.



# MANAGEMENT REPORT – REPORT OF THE BOARD OF L-BANK FOR FISCAL YEAR 2016

## BACKGROUND

Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) is the development bank of the German federal state of Baden-Württemberg. Its 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 European Union (EU) rules on state aid.

L-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).

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

In 2016, the German economy continued the robust growth trend that started in 2013. An economically strong first half was followed by a slowdown in the third quarter. However, the last three months of the year saw renewed growth as incoming orders rose and industrial production increased. According to estimates by the Federal Statistical Office, Germany's real gross domestic product (GDP) for the year as a whole grew by 1.9% over the previous year (as at February 2017). The German export industry had to cope with a challenging environment over the reporting period: 2016 began with an economic crisis in China, followed by the UK vote to leave the EU and the election of Donald Trump as US President. The associated uncertainties meant that exports only showed moderate growth, meaning that attention shifted to the domestic economy as the mainstay of the economy as a whole – expansive private and government spending contributed significantly to the growth in GDP. Thanks to this good economic performance, employment figures on the German labour market also continued to improve during 2016, although this improvement tailed off distinctly over the second half of the year. According to the Federal Employment Agency, the unemployment rate for 2016 averaged 6.1%, 0.3 percentage points down on the previous year.

Looking back over the past year, the performance of Baden-Württemberg's economy presented a mixed picture. While the industrial sector only showed moderate growth – especially in the first half of the year – the construction industry and service sector acted as the engines driving the domestic economy. Some significant declines in levels of foreign trade with major trading partners such as the USA and China meant that the export industry accounted for a lower proportion of GDP growth than in previous years. The construction industry, by contrast, benefited from continuing high demand for housing and increased public-sector investment in infrastructure. Consumer spending also made a key contribution to the acceleration of the domestic economy, driven by private households' positive income situation. According to the L-Bank/GfK consumer survey, for example, average income levels in 2016 reached a historic high. The above-mentioned conditions meant that Baden-Württemberg's economy expanded by 1.5% over the full 12-month period (Statistical Office of Baden-Württemberg, as at February 2017), growing less strongly than the German economy as a whole due to the federal state's greater concentration on exports. The Baden-Württemberg labour market remained stable over the year. According to the Federal Employment Agency, the average unemployment figure for the year was 3.8%, falling to 3.6% in December 2016 (as at January 2017).

## BUSINESS PERFORMANCE

L-Bank's business operations in 2016 were affected by persistently low market interest rates. A trend towards consolidation in the demand for development finance became evident from mid-year onwards. Nevertheless, the continuing high levels of development finance reflect the robust investment activity of Baden-Württemberg's small and medium-sized enterprises (SMEs) and the consistently high demand for real-estate finance resulting from strong demand for housing construction.

The main focus of L-Bank's development activities in the past reporting year was enterprise development; compared to the previous year, the volume of new business, while still high, showed a slight decline. Similarly, funding volumes in housing development remained high, but also fell slightly. The programmes with the highest volume of funding in 2016 were the "Resource Efficiency Finance" programmes (both for SMEs and in the housing sector), the "Start-up Finance" programme and the "Investment Finance" programme. The infrastructure development segment also showed very positive performance. Overall, L-Bank achieved a consistently high level of new business across all lines of business, exceeding last year's expectations.

## Enterprise development

L-Bank supports continuing economic growth and thus the creation and safeguarding of jobs in Baden-Württemberg with development products for 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. In the reporting year, the slowdown of economic growth and the various geopolitical risks had a tangible impact on new business levels in the enterprise development sector. Companies were less willing to invest, resulting in lower demand for the various development programmes. Even so, L-Bank still achieved a high volume of new enterprise development business in 2016, at EUR 3,190.9 million versus EUR 3,547.4 million in the previous year.

As in the previous year, L-Bank supported start-ups and fledgling businesses with the "Start-up Finance" programme in particular. The latter helps businesses to become autonomous, expand and eventually acquire existing companies. At EUR 598.5 million, the volume of new business was – as expected, and in contrast to the falling national trend – more or less unchanged from the previous year (EUR 609.1 million).

The volume of funding provided to established SMEs in Baden-Württemberg showed a decline, albeit in line with expectations following the record figures for 2015. In 2016, a wide variety of programmes provided funding to SMEs for a total of EUR 2,193.8 million (2015: EUR 2,458.8 million). The total volume of loans awarded under the "Growth Finance" programme, which is used to fund corporate investments of all kinds, came to EUR 405.5 million (2015: EUR 693.3 million), while lending commitments under the "Liquidity Facility" programme fell to EUR 83.5 million (2015: EUR 94.9 million). By contrast, the volume of new business under the "Resource Efficiency Finance" development programme improved considerably. The volume of commitments rose significantly to EUR 671.3 million (2015: EUR 496.1 million). The programme funds investments that result in the more efficient use of energy and materials as companies seek to add value. New business figures for the "Investment Finance" development programme also increased significantly to EUR 592.4 million (2015: EUR 473.3 million); the programme funds business investments in rural areas in Baden-Württemberg. As expected, the "Innovation Finance" development programme launched in the previous year has become well established in the SME marketplace, with commitments totalling EUR 82.3 million (2015: EUR 10.7 million). SMEs are awarded low-interest loans and grants for developing new products and production processes. In addition to the developments mentioned above, L-Bank has also introduced a new programme for continuing professional development (CPD), under which the Bank issues low-interest loans for financing CPD requirements associated with, among other things, Industry 4.0.

The volume of new business in agricultural programmes decreased to EUR 145.4 million (2015: EUR 171.5 million). Although demand for the "Agri-Food Industry" programme rose again, boosting the lending volume from EUR 67.8 million in 2015 to EUR 71.3 million, this growth could not compensate for the decline in the "Agriculture – Growth" programme in particular

(from EUR 85.5 million to EUR 60.4 million). This programme supports agricultural investment projects that aim to cut production costs or improve production and working conditions, hence help to increase the sector's competitiveness. This decline in new business is the result of the industry's growing reluctance to invest due to tangible uncertainty in the marketplace caused by risks associated with farm-gate price rises in the dairy industry in particular.

### Housing development

With the aid of low-interest loans and grants, L-Bank helps private individuals and companies in Baden-Württemberg to build, buy and renovate residential property for rental or owner occupation. The Bank also contributes to conversion projects that improve physical access to existing properties. As expected, the volume of new business decreased to EUR 2,023.9 million (2015: EUR 2,168.0 million). This downturn in new business is largely due to the expiry of development programmes for energy-efficiency finance on 31 August 2016.

In terms of financial assistance for home ownership, commitments fell from EUR 1,486.3 million to EUR 1,257.5 million. At EUR 208.3 million, new business figures for the federal state's housing assistance programme were significantly down on the previous year (EUR 261.7 million), due above all to terms and conditions that were not always attractive compared to the general level of market interest rates. Furthermore, the continuing supply shortage on Baden-Württemberg's housing market caused a decline in funding applications. Development programmes for financing energy efficiency were discontinued during the reporting year in the light of the now significantly improved products offered by federally owned development bank KfW. Nevertheless, loans totalling EUR 403.2 million (2015: EUR 529.4 million) were issued under the "Energy Efficiency Finance – Construction" programme,

which supports the building and acquisition of energy-saving housing and condominiums. Under the “Energy Efficiency Finance – Renovation” programme variant for improving energy efficiency, the Bank approved EUR 217.9 million (2015: EUR 228.2 million). At EUR 312.9 million, the volume of commitments under the “Living with Children” programme remained at a high level, albeit below the level achieved in the previous year (EUR 333.0 million). Under this programme, low-interest loans are made to families with children to help them build or buy their own homes. Demand for the “Living for the Future: Renewable Energies” programme, which provides finance for installing heating systems as well as hot-water systems using renewable energy, also fell to EUR 31.3 million (2015: EUR 36.7 million).

In addition to financial assistance for home ownership, L-Bank also supports the construction and modernisation of rental housing. In line with expectations, the volume of new business rose to EUR 653.4 million (2015: EUR 629.3 million). The upward trend in the federal state’s housing assistance programme was especially positive, with new business volumes increasing by EUR 91.9 million to EUR 204.6 million. Funding for new construction projects (up from EUR 90.8 million to EUR 157.5 million) and modernisation projects (up from EUR 16.2 million to EUR 35.8 million) both increased significantly for two reasons: the substantial need for affordable housing coupled with the vigorous appreciation of property prices. Furthermore, many investors responded positively to the higher limits for permissible returns on equity under state support rules. Commitments under the Bank’s own development programmes declined slightly to EUR 448.9 million (2015: EUR 456.1 million). Once again, finance for apartment owners’ associations aiming to enhance the energy efficiency of residential buildings or modernise them for improved physical access showed very positive development, with funding commitments rising to EUR 32.9 million (2015: EUR 23.9 million).

There was also a very good level of demand for the “Housing for Refugees” development programme first launched in 2015. State subsidies provided for long-term refugee accommodation more than doubled to EUR 80.0 million (2015: EUR 28.5 million).

### Other developments

L-Bank strengthens Baden-Württemberg’s position as a business hub with solutions for financing municipal and social infrastructure projects. The Bank also helps the state to implement public infrastructure projects by providing loans or other financing instruments. The Bank is involved in financing public-private partnerships among other ventures, and also funds licensing and rental models. Demand in the public sector has risen sharply. In the reporting year, the volume of new business rose to a total of EUR 6,432.9 million (2015: EUR 3,652.4 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. The Bank distributes funds from the State of Baden-Württemberg, the German federal government and the European Union. In the reporting year, the Bank processed a total of 8,056 new approvals (2015: 7,989 new approvals) with a volume of EUR 1,231.3 million (2015: EUR 1,224.3 million). The introduction of new programmes and increases under established programmes pushed the total volume above the previous year’s level. As before, the most significant programmes involved finance for hospitals (EUR 440.8 million; 2015: EUR 400.3 million) and projects relating to water, waste water, flood protection, contaminated sites and hydropower (EUR 116.1 million; 2015: EUR 132.7 million). The redesigned programme for the broadband initiative reached a volume of EUR 102.2 million. Funding of EUR 100.4 million (2015: EUR 25.9 million) was approved on behalf of the European Regional Development Fund (ERDF).

Approved funding for technology and enterprise development totalled EUR 79.2 million (2015: EUR 115.2 million). L-Bank also supported families on behalf of the federal and state governments, in particular by paying out family allowances. At EUR 912.4 million, approved funding for family allowances was slightly higher than in the previous year (EUR 856.5 million). Due to the ruling by 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 after 21 July 2015 (2015: EUR 116.0 million).

As at the balance-sheet date, L-Bank's shareholdings in companies had a book value of EUR 237.8 million (2015: EUR 231.0 million). L-Bank's investment portfolio primarily includes strategic and credit-equivalent shareholdings, as well as shareholdings in subsidiaries involved in the regional development of Baden-Württemberg.

The book value of the strategic investments held by L-Bank on behalf of the State of Baden-Württemberg totalled EUR 121.8 million at year-end 2016 (2015: EUR 117.8 million). The increase in the book value compared to the previous year is due to an allocation to an associate company's capital reserve.

L-Bank invests in SMEs based in Baden-Württemberg as a co-investor. In early 2016, L-Bank also invested in an external SME fund (L-Bank's stake: up to EUR 50.0 million). In particular, the fund helps established companies deal with the challenges posed by the increasing digitisation of products and value chains (commonly referred to as Industry 4.0). L-Bank has earmarked up to EUR 100.0 million 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 portfolio). Due to the increase in new business, the book value of the shareholdings in the Venture Capital portfolio rose to EUR 55.2 million (2015: EUR 34.6 million). In total, the book value of the Bank's credit-equivalent shareholdings came to EUR 99.6 million (2015: EUR 92.3 million). L-Bank operates technology and business parks at locations close to higher-education and research institutions through subsidiary companies. It thus pursues the aim of facilitating technology transfers from academia to industry through a real-estate medium. 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. Technologiepark Mannheim GmbH was founded in the reporting year. As at 31 December 2016, the book value of the regional development companies was EUR 16.3 million (2015: EUR 21.0 million). The change compared with the previous year is mainly due to a repayment from a subsidiary's capital reserve.

As scheduled, L-Bank further decreased its portfolio of development loans in Saxony in the reporting year. With effect from 30 June 2016, another sub-portfolio of loans to housing companies in Saxony with a total nominal value of EUR 107.6 million was sold to Sächsische Aufbaubank – Förderbank – in 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 remained almost unchanged in comparison to the previous year. The anticipated decrease – due to the persistently low interest-rate level – was almost offset by the positive, one-off effect of a statutory change in the discount rate for pension provisions. Net interest income remains L-Bank's largest source of income.

Once again, net commission income, at EUR 40.9 million (2015: 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 (especially family allowances) 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, fell by 3.4% year on year to EUR 165.3 million (2015: EUR 171.2 million). The anticipated increases in IT expenditure were more than compensated for by lower expenses for buildings and other cost savings.

The net result from other operating income/expenses decreased (2016: EUR 1.1 million, 2015: EUR 4.7 mil-

lion), primarily due to one-off income in the previous year. The operating result before risk provisions/valuations improved to EUR 245.6 million (2015: EUR 241.3 million).

Net income from asset revaluation increased from the previous year's figure of EUR 42.6 million to EUR 92.9 million and thus remained very positive. This was primarily due to unexpectedly high reversals of risk provisions resulting from the reduction of problem loans. L-Bank's operating result thus totalled EUR 338.5 million (2015: EUR 283.9 million). The Bank's distributable income totalled EUR 337.0 million (2015: EUR 279.2 million).

In the context of L-Bank's 2016 development activities, EUR 113.6 million (2015: EUR 114.5 million) was spent on interest subsidies and grants. The Bank's contribution to Baden-Württemberg's road construction programme remained unchanged at EUR 14.1 million.

As at 1 January 2017, L-Bank introduced a new development contribution system. The core element is that any development contributions made by L-Bank should be paid from income already earned. A total of EUR 160.0 million was transferred to the newly created development funds (as a provision) to cover development contributions for fiscal years 2017 and 2018.

Net profit for the year totalled EUR 49.3 million (2015: EUR 50.6 million). Taking into account the profit carried forward from the previous year, net profit amounted to EUR 50.2 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 0.2 million.

**BREAKDOWN OF OPERATING INCOME** in EUR millions

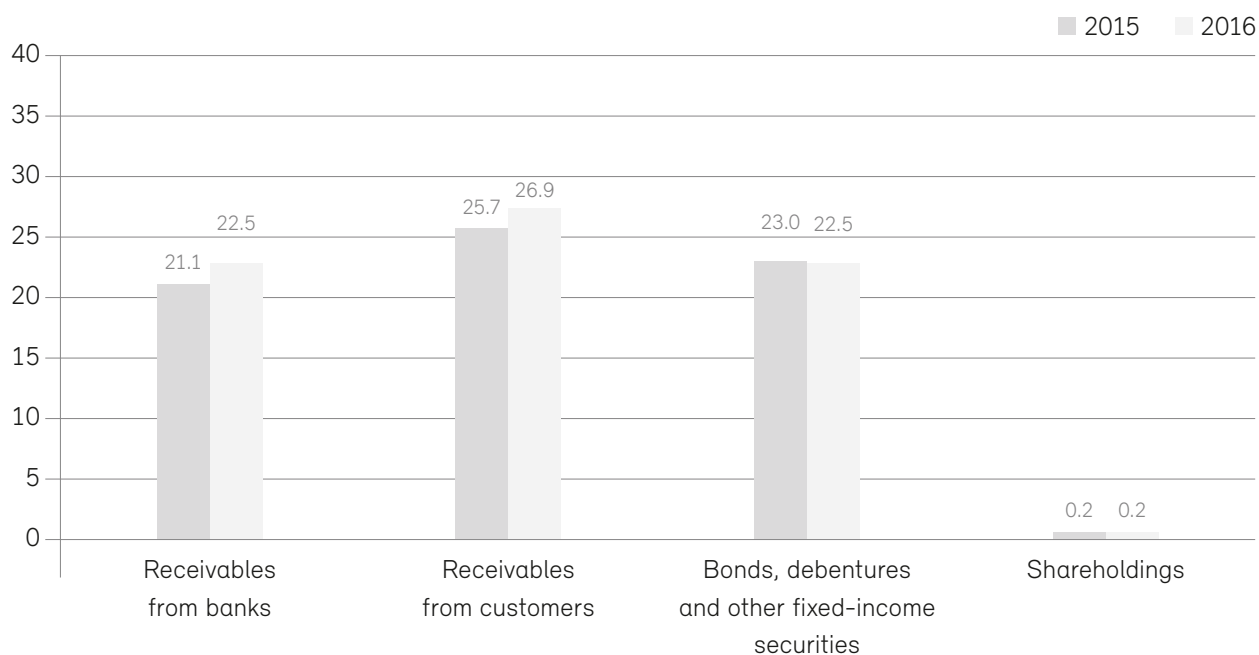
	01.01.2016 to 31.12.2016	01.01.2015 to 31.12.2015	Change	Change in %
Net interest income	368.9	365.4	3.5	1.0
Net commission income	40.9	42.4	-1.5	-3.5
Net result from other income/expenses	1.1	4.7	-3.6	-76.6
Administrative expenses	165.3	171.2	-5.9	-3.4
<b>Operating result before risk provisions/ valuations</b>	<b>245.6</b>	<b>241.3</b>	<b>4.3</b>	<b>1.8</b>
Net income from asset revaluation	92.9	42.6	50.3	>100.0
<b>Operating result</b>	<b>338.5</b>	<b>283.9</b>	<b>54.6</b>	<b>19.2</b>
Taxes on income	1.5	4.7	-3.2	-68.1
<b>Distributable income</b>	<b>337.0</b>	<b>279.2</b>	<b>57.8</b>	<b>20.7</b>
Expenses for interest subsidies and other subsidies	113.6	114.5	-0.9	-0.8
Contribution to road construction programme	14.1	14.1	0.0	0.0
Addition to development funds (provision)	160.0	-	160.0	-
Addition to fund for general banking risks	-	100.0	-100.0	-100.0
<b>Net income</b>	<b>49.3</b>	<b>50.6</b>	<b>-1.3</b>	<b>-2.6</b>

**Assets and liabilities**

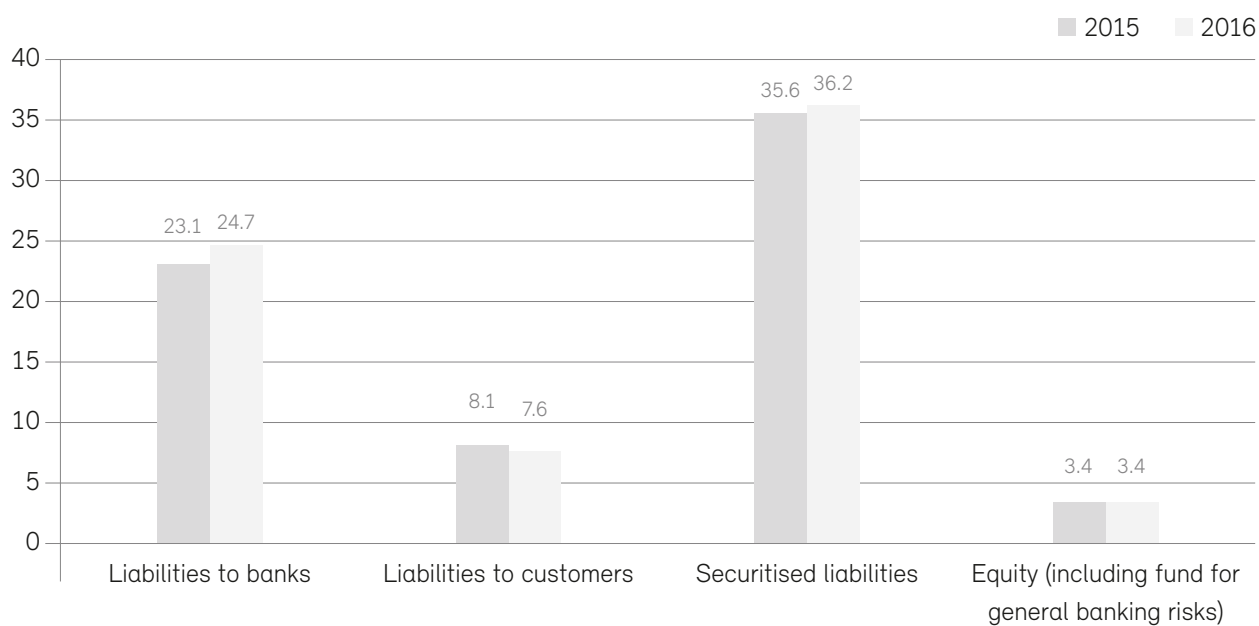
In line with expectations, L-Bank's total assets remained more or less unchanged, totalling EUR 75,075.4 million at the balance-sheet date (2015: EUR 73,294.9 million). The slight increase was mainly due to higher receivables from banks and customers. On the liabilities side, liabilities to banks were generally higher.

The business volume, which also encompasses contingent liabilities and irrevocable lending commitments, was up by 1.0% to EUR 82,118.2 million at the balance-sheet date (2015: EUR 81,320.5 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 benefits from 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. The Bank focused on maturities in the two, five and ten-year ranges. 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 23,144.7 million was utilised as at 31 December 2016 (2015: EUR 21,890.6 million). The total volume of medium and long-term refinancing through borrowings on the capital markets, including some swap operations carried out at the request of investors, reached a volume of EUR 9,960.5 million (2015: EUR 5,158.6 million). As at the year-end, utilisation of the Commercial Paper Programme, which has an upper funding limit of EUR 15,000.0 million and is used for short-term refinancing, amounted to EUR 8,306.4 million (2015: EUR 9,187.9 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 2016, 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	3,384.2
Additional Tier I capital after deductions	0.0
Supplementary capital after deductions	430.3
Total equity instruments	3,814.5

## SUMMARY OF THE BANK'S BUSINESS DEVELOPMENT AND POSITION

L-Bank's business development and its financial position, cash flows and financial performance were satisfactory in the year under review.

## PERSONNEL

As at the balance-sheet date, the number of staff employed by L-Bank totalled 1,232 (2015: 1,236). L-Bank pursues the strategy – supported by in-house professional development and personnel initiatives such as on-the-job training – of filling jobs that become vacant from internal resources wherever possible. For specialist functions, however, the Bank continues to resort to the external labour market. At 1.79% (2015: 3.82%), L-Bank's staff turnover rate is very low.

Personnel changes mainly related to modernisation and digitisation projects and associated demands on

employees. The establishment of a collateral special unit for housing construction commitments and the merger of certain departments all involved transfers of job responsibilities.

While always taking suitability, skills and performance into consideration, L-Bank strives to achieve an appropriate gender balance when filling executive positions. This generally means that male and female candidates are considered in equal proportions. 34.2% of the Bank's managers are women (2015: 33.8%). At the level of senior management reporting directly to the Board, the ratio of female managers was 32.0% (2015: 32.1%). Overall, L-Bank employs more women than men, with female employees accounting for 57.9% of all staff as at the balance-sheet date (2015: 58.2%).

L-Bank revised its approach to supporting work-life balance during the reporting year. The Bank's collaborative arrangements with local childcare facilities are gradually being reduced. Instead, parents of preschool children will in future be entitled to claim a financial allowance if their children attend a childcare facility. L-Bank also takes employees' individual working time preferences into consideration when agreeing part-time conditions. As at the balance-sheet date, 26.3% (2015: 24.8%) of the Bank's staff worked part-time. As a general rule, job vacancies at the Bank are always advertised as also being available on a part-time basis.

Demographic change and the associated ageing of the population are also posing challenges for L-Bank. Some 541 employees (2015: 530) have been with L-Bank for 20 years or longer, and the average age of L-Bank employees is 46.5 (2015: 46.2). Consequently, measures to support and develop the next generation of employees are especially 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. 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. By basing its business operations on sustainability criteria, and by providing targeted development products, L-Bank acts as a positive example of ongoing economic and social development. One of the priorities of L-Bank's sustainability management strategy is to raise employee awareness of the various sustainability issues. Thus L-Bank is helping to make sustainable business activities more visible, as well as easier to understand and experience, and shape the Bank's corporate culture according to the guiding principles of sustainable development.

A detailed sustainability report was published for the first time at the start of 2014. The report focuses on the non-financial impact of L-Bank's business operations. The Bank's second sustainability report appears as part of this 2016 annual report, thereby meeting the Bank's goal of producing sustainability reports every three years.

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 the Bank's progress towards meeting these targets. This report also sets new targets for the coming reporting period, thereby initiating a continuous improvement process.

One component of sustainability management is environmental management. The amendment to the Energy Services Act (EDL-G) of 15 April 2015 means that L-Bank is required to perform an energy audit every four years. The Act stipulated that the first energy audit had to be performed by 5 December 2015. The Bank has recognised that the introduction of an environmental management system that complies with the European EMAS directive by the end of 2016 would be an acceptable substitution for this legal requirement. The Eco-Management and Audit Scheme (EMAS) is a voluntary instrument devised by the European Union for enabling organisations and companies to continuously improve their environmental performance. The EMAS certificate awarded under the scheme is a seal of approval indicating exemplary environmental management. The Bank made use of this option by setting up and validating an environmental management system that complies with EMAS specifications. The Bank was entered in the EMAS register on 19 December 2016. By validating the Bank's environmental management as compliant with EMAS and obtaining simultaneous certification under the DIN EN ISO 14001 standard, L-Bank documents its responsible use of natural resources and its efforts to protect the environment and mitigate the effects of climate change.

## OUTLOOK

The development of the German national economy at the start of 2017 is, on the one hand, subject to numerous uncertainties associated with geopolitics and trade policies. On the other hand, permanently low interest rates and the continuing low value of the euro against other currencies are stimulating the export-oriented German economy. The strong uptrend in international orders in the last quarter of 2016 points to a buoyant start to the year. Looking at 2017 as a whole, the robust upward tendency in the German economy is expected to

continue, albeit without increasing momentum. During the year, subdued global trade is likely to continue to prevent Germany's international business from growing more dramatically. Not least because of this, the domestic economy will continue to play an important role as a mainstay of the growth of the German economy as a whole throughout 2017. The strong labour market, continuing increases in real wages and pensions, and persistently low interest rates are all stimulating private consumption. However, a renewed rise in inflation rates, due not least to increasing energy and commodity prices, indicate a probable end to consumer enthusiasm during the second half of 2017. Domestic demand will receive an additional boost – albeit to a lesser extent than in 2016 – from continuing efforts to integrate refugees, which benefit the construction industry and service sector in particular. Overall, L-Bank expects to see stable growth of Germany's real gross domestic product in 2017, ranging from 1.4% to 1.6%. This growth is expected to create new jobs. Despite this, however, unemployment figures are set to increase as asylum seekers gradually enter the labour market. The joint economic forecast published by German economic research institutes in autumn 2016 predicts a constant unemployment rate of 6.1% for 2017.

Aside from the ongoing lack of clarity in the USA's trade policy, the greatest risks to growth are to be found primarily within the European Union, which is still by far the most important foreign market for German goods and services. The strengthening of anti-European trends is putting the stability of the EU to the test, especially in view of upcoming 2017 elections in the core countries: France, the Netherlands and Germany. The economic situation of the southern peripheral countries, as exemplified by the Italian banking sector, is also inducing economic uncertainty. UK negotiations to leave the EU, due to start in the spring, combined with uncertainty over the precise terms of Brexit, are likely to create persistent background noise.

Baden-Württemberg's moderate growth in 2016 compared to other German federal states is due to the southwest German state's strong focus on exports. In the challenging global economic environment of the past year, this dependency has tended to have a dampening effect. The signs for 2017 are positive. For example, incoming orders from abroad increased significantly in the last quarter of 2016 – especially in mechanical and automotive engineering, the federal state's key industries. In addition, stronger fiscal stimulus in the form of increasing infrastructure investment is expected in the USA and the UK, respectively the largest and sixth-largest export markets for Baden-Württemberg businesses. During the year, however, the outcome of the elections in France and the Netherlands – two of the federal state's most important trading partners – are likely to impact Baden-Württemberg's international trade. Overall, however, Baden-Württemberg's exports are expected to make a stronger contribution to the region's gross domestic product in 2017 – provided that the USA does not impose overly strict protectionist measures. The Statistical Office of Baden-Württemberg is consequently predicting real GDP growth of 1.75% for 2017 (as at December 2016). This forecast is supported by, among other things, the extremely positive business and export expectations of Baden-Württemberg companies responding to the monthly L-Bank-ifo economic survey. L-Bank expects a slightly higher growth margin compared to the German economy as a whole, ranging from 1.5% to 1.7%. In the new year, the domestic economy will continue to act as an important mainstay of local economic growth. The dynamic labour market and significant real-wage increases in 2016 are likely to boost private consumption, while government investment will stimulate the construction industry in particular. In the coming year, L-Bank expects – based on overwhelmingly positive prognoses by employers – that the working population in Baden-Württemberg will continue to grow, albeit at the more moderate rate of 0.5% compared to 2016 due to the fact that the state already enjoys almost full employment.

For L-Bank, the ongoing development of business start-ups, established SMEs and residential accommodation will continue to take high priority in the coming year. Essentially, this will involve continuing the Bank's development activities under existing programmes. In light of the economic forecasts described above, the Bank is expecting to see a moderate improvement in overall demand.

The total volume of new business in the start-up and SME finance segments is expected to decline slightly. As from July 2017, L-Bank will establish a new focus with the modified innovation and digitisation programmes. Furthermore, the Bank is currently optimising its start-up and management succession financing by improving the conditions of the "Seed Finance 80" and follow-on financing programmes. In addition, the Bank intends to expand the range of financing options available to start-ups in 2017 by incorporating microfinance. One of the focuses of the Bank's direct investment activities will be the technology sector, especially IT and the Internet. It is expected that the number of subscribers to the external SME fund launched in 2016 with L-Bank's participation will increase significantly. In particular, the fund will help established companies deal with the challenges posed by the increasing digitisation of products and value chains (Industry 4.0). In 2017, L-Bank is also planning to initiate the formation of an external venture capital fund focusing on technology-oriented growth companies. Through these initiatives, L-Bank and its partners are acknowledging the importance of Baden-Württemberg as a technology hub. The Bank also intends to further expand its regional development activities by adding new locations for technology parks. The sale of properties in the parks remains part of the Bank's overall strategy.

Volumes of new housing development business in 2017 are expected to rise above 2016 levels. With respect to funding for private home ownership under the federal state's housing assistance programme, the

number of applications and approvals should also show a significant increase over the previous year's levels. Thanks to optimised funding conditions (income limits, interest subsidies), the target group is expected to expand. The Bank expects the demand for the "Living with Children" and "Living for the Future" programmes to remain constant. Once again, the federal state will also be able to increase funding for rental accommodation programmes in 2017. There are two reasons for this: first, an increase in funds for subsidies available to the federal state, and second, improved financing terms. In addition, more and more local authorities are making use of the option to stipulate that a certain proportion of all new building sites should be earmarked for social housing for rental. With the launch of the federal state's new housing assistance programme in the second quarter of 2017, Baden-Württemberg's existing special programme for subsidising refugee accommodation will come to an end. The new programme will give refugees with a social housing eligibility certificate (WBS) equal entitlement to occupy subsidised accommodation. The Bank's own rental accommodation development programmes will continue to draw the same high level of interest as in 2016. Finance for apartment owners' associations is expected to reach at least the same level as 2016; in metropolitan areas in particular, there is still an enormous need for affordable housing.

Despite the relatively stable economic environment overall, L-Bank is predicting a significant fall in the 2017 operating result before risk provisions/valuations. 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 there is no likelihood of compensating one-off effects. 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 legal regulations and modernise the Bank's IT systems. Because L-Bank cannot expect a repeat of the substantial risk provision reversals made during the year

under review, the positive contribution made by income from asset revaluation will also decrease significantly.

Total assets in 2017 are likely to be comparable to the previous year's 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 slight decline in new business over 2017 as a whole compared with 2016. No significant impairments of the Bank's financial performance, cash flows and 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, assess, communicate and control material individual risks, and
- identify risk-related developments combined with possible responses.

The Bank's risk management model 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:

- the 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,

- the 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 financial performance, cash flows or financial position,
- full documentation in writing of the Bank's corporate structure and all business processes involving risks,
- the creation and continuous updating of risk management and risk control processes, and
- the 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 strategies – 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 banking supervisory authorities assess L-Bank's internal risk-bearing capacity on the basis of the 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 guidelines of the German Federal Financial Supervisory Authority (BaFin) 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, the 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, operational and reputational 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. It also approves the portfolio limits proposed by the Board of Management.

The Audit Committee is primarily 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 remit of the Personnel Committee covers the responsibilities of an appointments committee and a remuneration control committee. The Personnel Committee is also responsible for preparing Supervisory Board resolutions on the remuneration paid to senior management, on matters relating to their employment contracts, and on other contractual issues. 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. Operational risks resulting from unlawful actions to the detriment of the Bank are assessed by means of a threat analysis. Risks arising from services by third parties that fail to comply with contractual terms are taken into account in the materiality analysis of outsourced contracts. 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 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. the 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 acts as the back office and casts the back-office vote on business decisions involving risk.

In order to comprehensively assess risk exposure, the Stress Testing 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 by or arising from the latter could have a long-term negative impact on the Bank's financial position, cash flows or financial performance.

## BUSINESS AND RISK STRATEGIES

In the Bank's business strategy, the Board of Management sets a target for the Tier I capital ratio and the cost-income ratio, and decides which products should be used to meet the Bank's public-service mandate through development programmes and other development business. The Bank's statutory public-service mandate results in concentrations of counterparty default risks (cluster risks) in particular industries, types of collateral and regions. In order to achieve a balanced aggregate

risk profile, the Board of Management defines quality requirements for the portfolio structure as a whole in the Bank's business strategy. 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 strategies are derived from its business strategy. In these risk strategies, 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 defines the Bank's risk appetite in the risk strategies by specifying the scope of risk coverage capital that should be set aside as cover for losses.

For this purpose, based on a regularly updated risk inventory and the new product process, the risks to which the bank is exposed are identified and, in a further step, categorised in terms of their materiality. The quantitative assessment of the Bank's risk-bearing capacity is supplemented by stress analyses, with a particular emphasis on risk concentrations.

With respect to managing credit risk, the risk strategy includes policies specifying borrowers' minimum credit ratings and risk margins, and obliges business units to secure loans against 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 development aid business is primarily determined by the refinancing options available. Any investments made for this purpose must meet exceptionally high standards of creditworthiness. In conformance with the Bank's risk-bearing capacity, 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 12 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 the investment of equity capital in longer-term securities.

The Bank uses the national and international capital markets to obtain refinancing on favourable structural and cost terms. 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 permanently classified as negligible.

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 INVENTORY

The risk inventory is used to identify risks, types of risk and risk factors. This process involves analysing – in particular – any impacts on the Bank's financial position (including capital adequacy), financial performance and liquidity situation. The materiality of the risks identified is evaluated for the purposes of risk management. Due to a lack of valid, quantitative risk measurement procedures, the impact on the Bank's financial position, financial performance and cash flows of risks that are not defined as material by MaRisk are generally analysed on the basis of qualitative assessments (expert workshops). The parameters used as the basis for this analysis and evaluated by means of a scoring system are: total assets (for financial position), risk coverage capability (for capital resources), operating result (for income) and cash flows (for liquidity).

The risk management system takes account of all identified risks. During reviews of the Bank's risk-bearing capacity, potential losses are calculated and loss limits specified for all material risks as a matter of course. Where these potential losses cannot be meaningfully assessed against the value at risk, or where the performance of a value-at-risk assessment would not be economically feasible in view of the risk profile, the potential losses are evaluated using a simplified method. Total potential losses assessed using the simplified method must not exceed 2% of the sum total of all value-at-risk limits (aggregate loss ceiling). The suitability of the simplified method, as well as the assumptions made and calculation methods used are reviewed as required, but at the very least as part of the regular risk inventory. It is not possible to assess potential losses arising from insolvency risk classified as material. This material risk is managed via other policies.

Immaterial risks are accounted for by applying appropriate risk management policies. These risks are generally not taken into account when reviewing the Bank's

risk-bearing capacity. If, however, these risks cannot be managed in a sensible way, they are accounted for by general write-downs on the Bank's risk coverage capability.

## MODEL VALIDATION

Part of the risk inventory involves performing an analysis of the limits and restrictions of the models used to evaluate "material risks" to ensure that they deliver sufficiently reliable forecasts of loss distributions and thus of value-at-risk figures.

Regular validation exercises are also carried out on models and methods for evaluating material risks. The validation methods, scope of the individual validation actions, responsibilities for these methods and the regular intervals at which they should be carried out are all specified for each type of risk. The Bank uses standard methods to assess risks. In the case of counterparty default risk, the validation criteria are especially high, because the quality of the assessment results depends first on the number of simulations and second on the quality of each model's parameters for probability of default, correlation and recovery rate. The suitability of the model parameters applied is reviewed as part of the regular quantitative parameter validation cycle.

If the findings of these validation exercises result in adjustments of measurement procedures or their underlying assumptions, all such adjustments must first be approved by the Board of Management.

## RISK-BEARING CAPACITY

Risk-bearing capacity represents the highest and most comprehensive level at which the Bank's risk exposure is analysed at L-Bank. It is the basis for the operational implementation of the Bank's risk strat-

egy, because when the risk strategies for all material risks are formulated, risk tolerances are explicitly specified in the form of VaR limits. As part of establishing these limits, a conscious decision is made regarding the scope of potential future risks. And because planned new business activities can only be implemented if the resulting risks are covered by the Bank's risk coverage capability, the analysis of risk-bearing capacity effectively determines the maximum scope of potential new business (especially development aid business) and indicates any capital increase that may be required in good time. The review of the Bank's risk-bearing capacity is supplemented by analyses of the expected shortfall, as well as stress scenarios focusing on risk concentrations and scenarios that could threaten the Bank's business model.

### 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 (going-concern approach). In parallel, the Bank also calculates its risk-bearing capacity using a net-present-value analysis. The results are reported to the Board of Management on a monthly basis. The competent supervisory body is informed of the Bank's risk-bearing capacity in the quarterly risk report.

#### Going-concern approach

Calculations of the relevant risk coverage capability are based on profit and loss considerations. Initially, only Common Equity Tier I capital that is not required to satisfy the minimum capital adequacy requirements of the CRR (including combined capital buffer) is taken into account. Given that the risks are calculated on the basis of a one-year holding period, 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 minimum total capital ratio (including combined capital buffer) by 0.5 percentage points. In a second step, the Bank supplements this disposable Tier I capital with any reserves that, in terms of their loss-bearing 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 capability will develop over the next 12 months, ignoring any income from new business, but including any potential losses not included in the respective value-at-risk figures. Value-at-risk limits are specified for all material types of risk, based on a uniform confidence level of 99.0%. The Bank’s risk management takes the following types of risks and sub-risks into account:

Risk type	Sub-risk	Material to going-concern approach?	Managed via VaR limit?	Comments
Counterparty default risk	Default risk	yes	yes	–
	Migration risk	no	no	Taken into account in net-present-value review
	Credit-spread risk	no	no	Taken into account in net-present-value review; using going-concern approach, reduces capital available for risks
	Country risk	yes	yes	–
	Sovereign risk	yes	yes	–
	Issuer risk	yes	yes	–
	Securitisation risk	yes	yes	–
Market price risk	Shareholding risk	yes	yes	–
	IRRBB euros	yes	yes	Includes income risk from the investment of equity capital
	FX bank book	yes	yes	–

Risk type	Sub-risk	Material to going-concern approach?	Managed via VaR limit?	Comments
Liquidity risk	Insolvency risk	yes	not possible to calculate VaR	Managed via key indicators
	Market liquidity risk	no	–	–
	Funding liquidity risk	yes	yes	Includes income risk from decrease in refinancing spread
Operational risks	Human error	yes	yes	–
	Technical failure	yes	yes	–
	Failure of procedures	yes	yes	–
	Fraud	yes	yes	–
	Legal risk	yes	yes	–
	IT risk	yes	yes	–
	Compliance risk	yes	yes	–
	Transfer risk	no	–	Managed via country limits
Conversion risk	no	–	Managed via country list	
Real estate risk		no	–	Managed via reporting lines
Reputational risk		no	–	Managed via complaint management
Pension risk	Market price risk effect	yes	yes	–
	Liquidity risk effect	yes	yes	–
	Income risk effect	no	–	Accounted for by write-down on risk coverage capability
Model risk		no	yes	–
Option risk	Market price risk effect	yes	yes	–
	Income risk effect	no	–	Accounted for by write-down on risk coverage capability
	Liquidity risk effect	yes	yes	–
Risk concentrations	In counterparty default risk	yes	yes	–

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 investment of equity capital 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.

When setting the 2017 aggregate loss ceiling and 2017 risk tolerances, the Bank also took account of credit spread losses under the going-concern approach by reducing the risk coverage capability accordingly. Furthermore, the Bank checked whether the risk coverage capability for covering potential losses is also sufficient if the risk coverage capital has previously

been reduced by stress losses arising from risks specific to L-Bank (e.g. market price risk from an income perspective, sector concentrations on central and regional governments, collateral concentration risks in counterparty default risk). To do so, the Bank used the calculation tools specified for stress-test purposes by the ECB in 2016. The review revealed that under the going-concern approach, the Bank's risk-bearing capacity is preserved even if credit-spread and stress losses for the years reviewed in the strategy planning process are taken into account.

These comparisons of loss limits with risk coverage capital (reviews 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 sum total of the risk exposure to counterparty default risks, market price risks and operational risks. 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	31.03.2016	30.06.2016	30.09.2016	31.12.2016
Risk exposure in EUR millions	19,768.9	20,063.6	19,745.9	18,797.4
Liable Tier I capital in EUR millions	3,231.5	3,385.8	3,385.0	3,384.2
Equity in EUR millions	3,724.0	3,855.2	3,832.6	3,814.5
Tier I capital ratio in %	16.35	16.88	17.14	18.00
Total capital ratio in %	18.84	19.21	19.41	20.29

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 for the purposes of risk-bearing capacity is calculated as follows:

	31.03.2016	30.06.2016	30.09.2016	31.12.2016
Disposable Tier I capital in EUR millions	1,426.4	1,538.5	1,561.3	1,651.9

As at the balance-sheet date, with disposable Tier I capital amounting to EUR 1,651.9 million, accumulated profit of EUR 50.2 million and eligible contingency reserves totalling around EUR 110.5 million, the Bank's P&L-based risk coverage capability amounted to EUR 1,812.6 million. This risk coverage capability is consistent with the aggregate loss ceiling of EUR 940.0 million, as set by the Board of Management in line with the Bank's business strategy and risk strategies. As at the balance-sheet date, this limit was distributed as follows:

#### AGGREGATE LOSS CEILING AND INDIVIDUAL LOSS CEILINGS AS AT 31.12.2016

in EUR millions

	Limit
Aggregate loss ceiling	940.0
Counterparty default risks	460.0
Market price risks	150.0
Liquidity risks	300.0
Operational risks	10.0
Loss buffer for transactions evaluated using simplified method	10.0
Loss buffer	10.0
Proportion of risk coverage capital taken up by aggregate loss ceiling	51.9%

Thus the aggregate loss ceiling accounted for 51.9% of the Bank's risk coverage capability as at the balance-sheet date. Over the past fiscal year, this proportion has varied between 51.8% and 55.3%.

#### Net-present-value approach

In a further calculation, the value of the Bank as a whole is expressed as risk coverage capability, 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 capability is then assessed relative to net-present-value 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 value due to borrowers' 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 5,560.4 million. This is offset by net-present-value administrative expenses totalling EUR 276.3 million, plus imputed

risk provisioning costs of EUR 343.9 million and hidden liabilities from CDS of EUR 0.1 million, resulting in a value-based risk coverage capability of EUR 4,940.1 million. As at the balance-sheet date, 77.9% of this was taken up by value at risk totalling EUR 3,846.9 million, based on a confidence level of 99.98% using the liquidation approach. Utilisation of net-present-value risk coverage capital in 2016 ranged between 77.9% and 96.6%.

### Capital planning

The Bank has installed an integrated capital-planning and strategy process. Analysing risk-bearing capacity over several years ensures that any risks resulting from planned new business activities are covered by the Bank's risk coverage capability and will not lead to capital shortages. The process uses the same calculation routines that are used to measure market price risk, counterparty default risk, liquidity risk and operational risk, thereby ensuring that capital planning and risk assessment – or determination of risk appetite – are kept consistent.

### 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 per-

forming stress-scenario analyses, the Bank identifies clusters of risk factors that may have a major impact on the Bank's financial position, cash flows and financial performance.

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 (inverse stress tests). Stress analyses performed for purposes of recovery planning are now used as inverse stress tests, such that the results of recovery planning analysis are incorporated 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 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, based either on standardised interest-rate changes such as parallel shifts or twists in the yield curve, or on historical interest-rate changes 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.

## 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

- assessment of the borrower's credit rating (including a review of the borrower's capacity to meet principal repayments),
- adherence to the country risk limit,
- the possible use of collateral,
- the calculation of a risk margin based on probability of default, and
- a review of the need for a back-office 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)	1 and 2, no new business
Interest-rate derivatives without collateral	1 to 3
Interest-rate derivatives with collateral	1 to 5
Credit derivatives	1 to 5, no new business
Countries (transfer risk)	1 to 12, but no new business in the peripheral eurozone countries Development aid business: focusing on risk categories 1 to 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 use of collateral, the value of the collateral 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 issued in the context of development programmes. With respect to development aid business, 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.

With respect to the Bank's lending business, the front-office and back-office areas at L-Bank are strictly separated at all levels, up to and including Board of Management level. Division I is the front-office area and division II is the back-office area. 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 2016:

**LOAN PORTFOLIO AS AT 31.12.2016** in EUR millions

	Private clients	Companies and self-employed persons	Companies in the financial sector	Public sector	L-Bank total	Allocation in %
Loans	6,307.2	7,311.4	19,511.3	3,726.8	36,856.8	47.3
Borrowers' notes	0.0	0.0	1,805.3	11,807.8	13,613.1	17.5
Securities (bearer bonds)	0.0	776.4	7,998.6	13,919.3	22,694.3	29.1
Securities (ABS)	0.0	0.0	37.6	55.5	93.1	0.1
Securities (CLN)	0.0	0.0	250.0	0.0	250.0	0.3
Total securities	0.0	776.4	8,286.2	13,974.8	23,037.4	29.6
CDS	0.0	0.0	115.0	1,754.4	1,869.4	2.4
Sureties	0.0	409.3	235.9	0.0	645.2	0.8
Financial derivatives	0.0	16.9	1,306.0	0.0	1,322.9	1.7
Time deposits	0.0	0.0	0.5	0.0	0.5	0.0
Shareholdings	0.0	127.0	12.3	98.4	237.8	0.3
Current accounts, cash	0.0	0.0	349.3	9.5	358.8	0.5
Lending	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>6,307.2</b>	<b>8,641.0</b>	<b>31,621.9</b>	<b>31,371.6</b>	<b>77,941.8</b>	<b>100.0</b>

**QUANTITATIVE ASSESSMENT BASED ON VALUE-AT-RISK CALCULATIONS**

Risks from 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 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 and recovery rates 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 or loans granted to end-borrowers in accordance with the "borrower's bank" principle is taken into account. For the remaining unsecured portion, the regulatory (IRBA)

recovery rate of 55% is applied to “Companies in the financial sector”. A recovery rate of 78% is assumed for “Public sector” business lines, based on the results of a benchmark survey. For borrowers in the “Other companies” category, no representative loss history is available, which is why, pursuant to an expert opinion, a recovery rate of 30% is applied.

The value at risk for counterparty default risks is calculated on the basis of a Monte Carlo simulation that takes account of borrower correlations through which

individual borrower concentration risks are incorporated into the assessment. In addition, sub-portfolio-specific concentration risks are calculated by making value-at-risk assessments for the individual sub-portfolios and using the sum of these individual values as the total value at risk in risk management.

The following table provides an overview of the proportion of the aggregate loss ceiling taken up by counterparty default risks in the course of 2016:

#### VALUE AT RISK FOR COUNTERPARTY DEFAULT RISKS IN 2016 in EUR millions

	01.01.2016		31.03.2016		30.06.2016		30.09.2016		31.12.2016	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	374.4	940.0	503.4	940.0	512.6	940.0	458.4	940.0	408.6
Share of counterparty default risks in %	42.6	49.4	42.6	44.9	42.6	46.1	48.9	35.1	48.9	41.6
Counterparty default risks	400.0	185.0	400.0	226.3	400.0	236.5	460.0	161.1	460.0	170.1
Private clients	60.0	0.0	60.0	0.0	60.0	0.0	60.0	0.0	60.0	0.0
Companies in the financial sector	140.0	77.8	140.0	119.0	140.0	131.3	200.0	69.6	200.0	59.7
Other companies	150.0	107.2	150.0	107.3	150.0	105.2	150.0	91.5	150.0	110.3
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 the corresponding risk portfolios. It includes valuation allowances that are deducted from the outstanding loans to determine net positions when calculating the

capital required pursuant to the CRR. Any valuation allowances 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 31.12.2016 in EUR millions

	Private clients		Corporate clients		Companies in the financial sector		Public sector		Total		Ratio %
	Adjustment	Portfolio	Adjustment	Portfolio	Adjustment	Portfolio	Adjustment	Portfolio	Adjustment	Portfolio	
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
31.12.2015	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
31.03.2016	87.3	5,812.0	250.5	9,123.3	15.0	32,921.4	35.8	26,639.3	388.6	74,495.9	0.5
30.06.2016	86.1	5,937.5	230.4	9,658.6	15.0	38,377.6	38.7	28,641.0	370.2	82,614.7	0.4
30.09.2016	83.6	5,878.0	222.0	9,286.3	15.0	41,044.6	38.7	31,259.7	359.3	87,468.6	0.4
31.12.2016	95.6	6,307.2	202.1	8,641.0	15.0	31,621.9	0.0	31,371.6	312.7	77,941.8	0.4

**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 of 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 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.

#### RISK STRUCTURE OF THE LOAN PORTFOLIO AS AT 31.12.2016 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	3,771.4	3,950.6	6,951.5	25,724.1	40,397.5	51.8
2	10.8	282.1	2,519.4	5,360.9	8,173.3	10.5
3	1.2	835.9	6,920.1	9.0	7,766.2	10.0
4	1,933.6	1,619.1	11,923.5	0.0	15,476.2	19.9
5	136.5	963.4	2,588.4	20.0	3,708.4	4.8
6	280.7	337.1	382.6	255.7	1,256.1	1.6
7	82.1	192.4	17.0		291.4	0.4
8	1.3	149.4	261.3	1.9	413.8	0.5
9	10.5	53.8	47.3	0.0	111.6	0.1
10	1.9	18.8		0.0	20.6	0.0
11	35.5	26.8	10.8		73.1	0.1
12	12.9	72.2			85.1	0.1
13	2.1	53.9			56.0	0.1
14	26.9	85.5			112.4	0.1
<b>Total</b>	<b>6,307.2</b>	<b>8,641.0</b>	<b>31,621.9</b>	<b>31,371.6</b>	<b>77,941.8</b>	<b>100.0</b>

The total exposure shown above, amounting to EUR 77,941.8 million, includes securities and CDS totalling EUR 24,906.8 million. L-Bank aims to hold securities and CDS to final maturity. With the exception of buy-backs 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 15.0 million on the uncollateralised securities portfolio of the peripheral eurozone nations remained in place in 2016. 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 31.12.2016** in EUR millions

Risk category	Portfolio	Hidden liabilities	Spread risks
1	17,691.2	16.9	852.2
2	4,455.4	2.1	87.8
3	442.5	1.0	9.9
4	1,056.9	0.5	33.5
5	953.1	3.9	20.5
6	250.3	0.0	8.4
7	10.0	0.0	0.0
8	0.0	0.0	0.0
9	47.3	11.4	7.7
10	0.0	0.0	0.0
11	0.0	0.0	0.0
12	0.0	0.0	0.0
13	0.0	0.0	0.0
14	0.0	0.0	0.0
<b>Total</b>	<b>24,906.8</b>	<b>35.8</b>	<b>1,020.0</b>

**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 in the meaning of Art. 19 KWG (i.e. including off-balance-sheet and derivative transactions) are classified as loans at the problem-loan processing stage if 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 2016, the Bank's portfolio of loans at the problem-loan processing stage amounted to EUR 550.1 million. This was distributed across the Bank's business units as shown below.

**LOANS BEING PROCESSED AS PROBLEM LOANS AS AT 31.12.2016** in EUR millions

	Risk portfolio Total	Problem loan portfolio		Restructuring Total	Workout Total	Workout ratio In %	Value adjustments Total
		Total	in %				
Private clients	6,307.2	232.1	3.7	188.8	43.2	0.7	95.6
Companies in the financial sector	31,621.9	47.8	0.2	47.8	0.0	0.0	15.0
Other companies	8,653.1	270.2	3.1	188.0	82.2	0.9	202.1
Public sector	31,371.6	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>77,953.8</b>	<b>550.1</b>	<b>0.7</b>	<b>424.6</b>	<b>125.4</b>	<b>0.2</b>	<b>312.7</b>

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
- Forbearance measures during forbearance period

As at the year-end, non-performing loans amounted to EUR 327.7 million. These are covered in full by recoverable collateral and risk provisions.

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, repayment 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 191.8 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 25.5% 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 proceeds 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 59.0% 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 9,156.1 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 1,099.1 million is associated with sureties/guarantees provided by other local authorities in Germany. A total of EUR 551.3 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 28,265.2 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. The Bank's exposure to these borrowers' bank loans amounted to EUR 17,145.6 million as at 31 December 2016. These lendings to banks are secured by the assignment to L-Bank of the claims on end clients. Another EUR 213.3 million is attributable to the fact that L-Bank has underwritten the commercial banks' exposure to end-client risk. EUR 10,906.4 million of the Bank's total lending commitment relates to transactions that supplement the Bank's development business, whereby L-Bank invests low-cost funds from refinancing in low-risk or risk-free issuers. Of this amount of EUR 10,906.4 million, EUR 6,869.1 million is secured by public guarantee/maintenance obligation, and EUR 341.5 million against Pfandbriefe. After deducting receivables from central banks and multilateral development banks, the remaining unsecured volume is EUR 2,460.2 million. Roughly 75.6% of this is assigned to risk categories 1 to 4 and approximately 24.4% 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 90.7% of the risk portfolio is assignable to Germany, of which 66.4% relates to the State of Baden-Württemberg.

## REGIONAL STRUCTURE OF THE LOAN PORTFOLIO AS AT 31.12.2016 in EUR millions

	Private clients	Companies and self-employed persons	Companies in the financial sector	Public sector	L-Bank total	Allocation in %
<b>Germany total</b>	<b>6,307.0</b>	<b>8,260.4</b>	<b>26,994.5</b>	<b>29,117.9</b>	<b>70,679.8</b>	<b>90.7</b>
Austria		67.5	164.0	628.5	860.0	1.1
Belgium		0.0	6.0	25.0	31.0	0.0
Finland			5.3	120.0	125.3	0.2
France	0.2	27.5	452.7	700.0	1,180.4	1.5
Greece						0.0
Ireland			256.0		256.0	0.3
Italy			31.6	250.3	281.9	0.4
Luxembourg		10.0	44.7		54.7	0.1
The Netherlands		38.8	851.2	210.0	1,100.0	1.4
Portugal		7.9			7.9	0.0
Spain			44.6		44.6	0.1
Other eurozone countries	0.0	0.0	0.0	0.0	0.0	0.0
<b>Eurozone total</b>	<b>0.2</b>	<b>151.7</b>	<b>1,856.1</b>	<b>1,933.8</b>	<b>3,941.7</b>	<b>5.1</b>
Denmark			132.7	70.0	202.7	0.3
Great Britain*		9.7	261.4	100.0	371.1	0.5
Switzerland	0.0	78.5	297.2		375.7	0.5
Rest of Europe			36.9	150.0	186.9	0.2
<b>Non-eurozone total</b>	<b>0.0</b>	<b>88.2</b>	<b>728.2</b>	<b>320.0</b>	<b>1,136.4</b>	<b>1.5</b>
<b>Europe total</b>	<b>0.2</b>	<b>239.9</b>	<b>2,584.3</b>	<b>2,253.8</b>	<b>5,078.1</b>	<b>6.5</b>
USA		134.8	436.6		571.4	0.7
Canada	0.0	0.0	320.6	0.0	320.6	0.4
International organisations **	0.0	0.0	1,197.3	0.0	1,197.3	1.5
Other countries		6.0	88.5		94.5	0.1
<b>Overseas total</b>	<b>0.2</b>	<b>380.6</b>	<b>4,627.4</b>	<b>2,253.8</b>	<b>7,262.0</b>	<b>9.3</b>
<b>Total</b>	<b>6,307.2</b>	<b>8,641.0</b>	<b>31,621.9</b>	<b>31,371.6</b>	<b>77,941.8</b>	<b>100.0</b>

\* 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 590.4 million as at 31 December 2016. Of this, some EUR 10.0 million (1.7%) is secured against public-sector Pfandbriefe, Pfandbriefe or covered bonds. Roughly EUR 250.3 million (42.4%) is payable by national governments. Around 48.7% or EUR 287.6 million is associated with uncollateralised securitised loans.

#### 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 strategies. 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 development aid business, 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 the recovery rates of 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, computed market price risk relates to the investment of the Bank's 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 2016, the portfolio of interest-rate swaps (including swaptions) had a nominal value of EUR 81,555.4 million. Cross-currency interest-rate swaps had a nominal value of EUR 19,550.4 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 IDW RS 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. As interest rates are still very low, only absolute (not relative) changes in interest rates are taken into account when calculating the VaR. The calculation is based on historical interest-rate changes within 10 or 25 working days from an observation period of 1,250 days. Accordingly, 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

In the going-concern approach, the Bank also checks whether the negative impact of a parallel shift in the yield curve by  $\pm 200$  basis points on annual net interest income exceeds the period-specific present-value VaR. The higher value is imputed when reviewing the Bank's risk-bearing capacity for market price risks in the euro bank book.

The following table provides an overview of the proportion of the aggregate loss ceiling taken up by market price risks in the course of 2016:

## VALUE AT RISK FOR MARKET PRICE RISK IN 2016 in EUR millions

	01.01.2016		31.03.2016		30.06.2016		30.09.2016		31.12.2016	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	374.4	940.0	503.4	940.0	512.6	940.0	458.4	940.0	408.6
Share of market price exposure in %	26.6	17.5	16.0	11.3	16.0	13.4	16.0	11.9	16.0	13.1
Market price risks	250.0	65.4	150.0	56.7	150.0	68.5	150.0	54.6	150.0	53.4

### 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 31.12.2016	Maximum 2016	Minimum 2016	Average 2016
Loss of net present value in EUR millions	317.4	453.0	260.6	336.5
Proportion of equity in %	8.3	12.1	6.8	8.9
Loss of net present value with repayment of equity in EUR millions	45.9	55.1	14.2	30.9
Proportion of equity in %	1.2	1.5	0.4	0.8

## MANAGING MARKET PRICE RISKS

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

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

The 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 (funding liquidity 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.

### Quantitative assessment using value at risk

Funding liquidity 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 FUNDING LIQUIDITY RISK IN 2016 in EUR millions

	01.01.2016		31.03.2016		30.06.2016		30.09.2016		31.12.2016	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	374.4	940.0	503.4	940.0	512.6	940.0	458.4	940.0	408.6
Share of liquidity risks in %	16.0	29.8	31.9	41.4	31.9	38.2	31.9	50.3	31.9	42.4
Liquidity risks	150.0	111.6	300.0	208.6	300.0	195.6	300.0	230.8	300.0	173.3

### 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 were required to achieve an LCR compliance level of 0.7 in 2016.

### 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

#### LIQUIDITY RATIO IN 2016 PURSUANT TO THE LIQUIDITY REGULATION AND LIQUIDITY COVERAGE RATIO AS DEFINED IN THE CRR IN CONJUNCTION WITH DELEGATED REGULATION (EU) 2015/61

Month	Liquidity ratio	Liquidity coverage ratio (LCR)
January	3.02	2.60
February	3.46	3.58
March	2.19	1.82
April	3.81	2.98
May	3.64	2.73
June	2.27	1.77
July	4.34	3.24
August	4.04	4.08
September	2.57	2.43
October	4.49	3.66
November	4.13	4.30
December	3.34	3.08
<b>Average ratio</b>	<b>3.44</b>	<b>3.02</b>



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

For the liquidity forecast, when reviewing the liquidity buffer that equates to the liquidity required over days 8 to 30, the Bank assumes – for reasons of prudence – that the maximum permissible monthly liquidity threshold of EUR 10,500.0 million (less the liquidity requirement for days 1 to 7) will be applied, 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 applied.

#### LIQUIDITY BUFFER SUBJECTED TO STRESS SCENARIOS AS AT 31.12.2016 in EUR millions

	Liquidity forecast	Stress scenario In-house causes	Stress scenario Market causes	Stress scenario In-house and market causes combined
<b>Day 1 to day 7</b>				
Liquidity buffer	15,468.3	15,468.3	14,591.7	14,591.7
Liquidity requirement	145.2	145.2	177.7	177.7
Disposable liquidity buffer	15,323.1	15,323.1	14,414.0	14,414.0
<b>Day 8 to day 30</b>				
Liquidity buffer	16,797.3	16,797.3	15,657.0	15,657.0
Liquidity requirement	10,354.8	10,361.8	10,354.8	10,361.8
Disposable liquidity buffer	6,442.5	6,435.5	5,302.2	5,295.2

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. In addition to limiting the maximum liquidity requirements for a single month, funding liquidity risk is also limited 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. In light of the ECB's covered bond purchasing programme, the Bank's own refinancing spreads improved once again. Opportunities continue to arise for the Bank as a result of the predicted international demand for 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 (for transactions in foreign currency) arising in the course of transactions with business partners abroad 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 loss events.

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 impact on L-Bank's financial position of a potential risk were it to materialise, and also the anticipated frequency of such an occurrence.

#### VALUE AT RISK FOR OPERATIONAL RISK IN 2016 in EUR millions

	01.01.2016		31.03.2016		30.06.2016		30.09.2016		31.12.2016	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	940.0	374.4	940.0	503.4	940.0	512.6	940.0	458.4	940.0	408.6
Share of operational risk in %	1.1	0.8	1.1	0.6	1.1	0.6	1.1	0.6	1.1	0.7
Operational risk	10.0	3.0	10.0	2.8	10.0	2.9	10.0	2.8	10.0	2.8

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; procedural requirements in the case of changes to operating processes or structures; 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 model depicting all the staffing, organisational, IT-related, accounting-law 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). 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. Compliance with the latter is assured by means of appropriate organisational measures and the ongoing monitoring of relevant business transactions.

Given the portfolio structure, transfer and conversion 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 convertibility as a result of statutory interventions in or against the countries involved is 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 prepares L-Bank's recovery plan and is responsible for updating it. 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. The Bank's recovery governance and thresholds were established by the Board of Management and Supervisory Board.

### 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 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 sub-ledgers for loans, securities, and debt and equity accounting. The data is automatically transferred by an interface to the general ledger. The Accounting department is responsible for managing the general ledger, laying down rules for assigning items to accounts, operating the bookkeeping and ledger management system and administering 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.

At the same time, these measures 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, 7 March 2017

Dr. Axel Nawrath

Dr. Ulrich Theileis

# REPORT OF THE SUPERVISORY BOARD



The Supervisory Board and its committees have discharged the duties assigned to them by law and by the Bank's articles of association and standard operating procedures. The Supervisory Board discussed and made decisions on matters falling within the scope of its responsibilities and any

business transactions that required its approval, while also deliberating on business policy and strategy with the Board of Management. The Supervisory Board met three times during 2016, convening its committees on a total of seven occasions; urgent decisions were taken between meetings by means of written circular.

The fundamental discussion, initiated in the second half of 2015, on the future performance of the Risk Committee's tasks and how the committee should function in the future was concluded in spring 2016. With effect from 1 July 2016, the Audit Committee was separated from the Risk Committee and established as an independent committee. In addition, the Risk Committee's responsibilities in respect of the Bank's lending business were reorganised. The Risk Committee now performs the statutory tasks of the Risk Committee and also holds certain powers in the lending business. The Audit Committee performs the statutory tasks of the Audit Committee. The statutory remit of the Nomination and Remuneration Supervisory Committee and specific powers relating to personnel issues have been transferred to the Personnel Committee.

Throughout 2016, 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 the meetings of the Supervisory Board and its committees, this information was also provided in the form of written reports.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, carried out the statutory annual audit for fiscal year 2016, issuing an unqualified auditor's opinion. The auditor provided the Audit Committee with progress reports on the audit, and also took part in discussions of the 2016 financial statements by the Supervisory Board and 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 Audit Committee discussed the auditor's report.

In accordance with the final outcome of the audit, the Supervisory Board has concluded that the annual financial statements for 2016 prepared by the Board of Management do not give rise to any objections. Accordingly, at its meeting on 28 April 2017, the Supervisory Board took note of and approved the Bank's annual financial statements for 2016.

The Supervisory Board also approved the Board of Management's proposal to allocate EUR 50,000,000.00 of the distributable net profit for fiscal year 2016 (totalling EUR 50,212,713.71) to other retained earnings and to carry forward the remaining amount of EUR 212,713.71.

Stuttgart, 28 April 2017

Chairman of the Supervisory Board

Edith Sitzmann Mdl

Minister of Finance for the State of Baden-Württemberg

Balance sheet	130
Statement of income	134
L-Bank cash flow statement	136
Statement of changes in equity	137
Notes to the financial statements for L-Bank	138
Events after the balance sheet date	158
Proposal by the Board of Management for the distribution of distributable net profit	158
Declaration of the Board of Management regarding the financial statements for L-Bank	159
Auditor's report	159



## L-BANK BALANCE SHEET AS AT 31 DECEMBER 2016

ASSETS	31.12.2016 EUR	31.12.2016 EUR	31.12.2016 EUR	31.12.2015 EUR
1. CASH RESERVE				
a) cash in hand		27,970.82		39,455.82
b) current balances with central banks thereof: with Deutsche Bundesbank EUR 46,856,500.84 (EUR 32,320,320.54)		46,856,500.84		32,320,320.54
			<b>46,884,471.66</b>	<b>32,359,776.36</b>
2. RECEIVABLES FROM BANKS				
a) due on demand		384,069,106.67		368,847,667.81
b) other claims		22,069,857,423.40		20,695,478,116.90
			<b>22,453,926,530.07</b>	<b>21,064,325,784.71</b>
3. RECEIVABLES FROM CUSTOMERS thereof: secured through real-estate liens EUR 4,982,907,109.62 (EUR 5,353,665,229.24) municipal loans EUR 12,761,595,162.08 (EUR 11,298,518,454.68)			<b>26,894,345,770.11</b>	<b>25,669,571,644.27</b>
4. BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES				
a) bonds and debentures				
aa) from public issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 5,786,324,889.55 (EUR 5,848,015,104.70)	5.893.472.291.72			5,954,799,744.86
ab) from other issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 14,698,284,615.38 (EUR 14,693,484,559.44)	16.532.024.414.91			16,990,812,870.59
		22,425,496,706.63		22,945,612,615.45
b) own notes nominal value EUR 79,050,000.00 (EUR 73,050,000.00)		79,738,704.49		73,442,097.76
			<b>22,505,235,411.12</b>	<b>23,019,054,713.21</b>
Carried forward			71,900,392,182.96	69,785,311,918.55

ASSETS	31.12.2016 EUR	31.12.2016 EUR	31.12.2016 EUR	31.12.2015 EUR
Carried forward			71,900,392,182.96	69,785,311,918.55
5. SHAREHOLDINGS thereof: in financial institutions EUR 1,986,360.52 (EUR 1,986,360.52)			221,455,800.85	211,740,120.37
6. HOLDINGS IN AFFILIATED COMPANIES			16,309,201.95	19,309,201.92
7. FIDUCIARY ASSETS thereof: fiduciary loans EUR 38,807,798.39 (EUR 53,869,892.53)			38,849,427.91	53,914,588.89
8. INTANGIBLE ASSETS a) purchased licences, industrial property rights and similar rights and assets, and licences to such rights and assets			6,095,694.30	8,282,744.16
9. TANGIBLE ASSETS			102,722,064.27	105,981,183.25
10. OTHER ASSETS			1,770,342,001.62	1,963,902,510.16
11. ACCRUED ITEMS			1,019,220,721.03	1,146,475,855.35
TOTAL ASSETS			75,075,387,094.89	73,294,918,122.65

## L-BANK BALANCE SHEET AS AT 31 DECEMBER 2016

LIABILITIES	31.12.2016 EUR	31.12.2016 EUR	31.12.2016 EUR	31.12.2015 EUR
1. LIABILITIES TO BANKS				
a) due on demand		6,099,407.39		5,659,507.64
b) with agreed term or notice period		24,711,546,521.67		23,057,126,272.64
			<b>24,717,645,929.06</b>	<b>23,062,785,780.28</b>
2. LIABILITIES TO CUSTOMERS				
a) other liabilities				
aa) due on demand	132,164,214.76			152,100,922.17
ab) with agreed term or notice period	7,490,811,806.84			7,944,940,021.29
		7,622,976,021.60	7,622,976,021.60	8,097,040,943.46
3. SECURITISED LIABILITIES				
a) notes issued			36,226,328,455.12	35,583,686,436.34
4. FIDUCIARY LIABILITIES			38,849,427.91	53,914,588.89
thereof: fiduciary loans				
EUR 38,807,798.39 (EUR 53,869,892.53)				
5. OTHER LIABILITIES			26,054,759.67	23,897,144.78
6. DEFERRED ITEMS			1,829,016,337.04	1,924,394,108.11
7. PROVISIONS				
a) provisions for pensions and similar obligations		236,852,308.00		231,869,397.00
b) other provisions		376,409,570.64		191,357,289.10
			<b>613,261,878.64</b>	<b>423,226,686.10</b>
8. SUBORDINATED LIABILITIES			200,084,982.45	374,137,287.12
Carried forward			71,074,132,809.04	69,168,945,687.96

LIABILITIES	31.12.2016 EUR	31.12.2016 EUR	31.12.2016 EUR	31.12.2015 EUR
Carried forward			71,074,132,809.04	69,168,945,687.96
9. PROFIT-SHARING RIGHTS OUTSTANDING			<b>356,529,800.00</b>	<b>356,529,800.00</b>
10. FUND FOR GENERAL BANKING RISKS			<b>630,000,000.00</b>	<b>630,000,000.00</b>
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	1,515,000,000.00			1,465,000,000.00
d) net profit	50,212,713.71			50,878,557.88
			<b>2,814,639,503.40</b>	<b>2,765,305,347.57</b>
<b>TOTAL LIABILITIES</b>			<b>75,075,387,094.89</b>	<b>73,294,918,122.65</b>
1. CONTINGENT LIABILITIES				
a) liabilities from sureties and guarantee contracts			<b>2,673,645,686.11</b>	<b>5,138,636,750.51</b>
2. OTHER COMMITMENTS				
a) irrevocable lending commitments			<b>4,369,142,069.73</b>	<b>2,886,925,669.03</b>

## L-BANK STATEMENT OF INCOME FOR THE FISCAL YEAR 1 JANUARY 2016 TO 31 DECEMBER 2016

	2016 EUR	2016 EUR	2016 EUR	2015 EUR
1. INTEREST INCOME FROM				
a) lending and money market transactions	1,050,334,274.52			1,145,123,794.54
b) fixed-interest and book-entry securities	551,846,316.01			600,266,618.27
		1,602,180,590.53		1,745,390,412.81
2. INTEREST EXPENSES		1,462,851,661.39		1,513,983,031.34
thereof: from interest subsidies on loans EUR 93,396,056.11 (EUR 103,727,727.67)				
			<b>139,328,929.14</b>	<b>231,407,381.47</b>
3. CURRENT INCOME FROM				
a) shareholdings			5,714,148.42	30,298,638.49
4. COMMISSION INCOME			43,602,359.49	46,263,568.12
5. COMMISSION EXPENSES			15,160,822.15	3,843,440.44
6. OTHER OPERATING INCOME			11,123,366.35	14,252,453.37
7. GENERAL ADMINISTRATIVE EXPENSES				
a) personnel expenses				
aa) wages and salaries	75,490,051.83			76,767,283.75
ab) social security contributions and expenses for pensions and other benefits thereof: for pension provision EUR 5,740,270.45 (EUR 7,370,619.96)	17,931,290.43			19,583,016.59
		93,421,342.26		96,350,300.34
b) other administrative expenses		61,082,193.50		63,878,431.62
			<b>154,503,535.76</b>	<b>160,228,731.96</b>
8. WRITE-DOWNS AND VALUATION ADJUSTMENTS ON INTANGIBLE ASSETS AND TANGIBLE ASSETS			10,868,204.69	10,907,726.69
Carried forward			19,236,240.80	147,242,142.36

	2016 EUR	2015 EUR
Carried forward	19,236,240.80	147,242,142.36
9. OTHER OPERATING EXPENSES	<b>61,104,929.50</b>	<b>34,309,624.80</b>
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 0.00 (EUR 100,000,000.00)	0.00	<b>64,392,567.88</b>
11. INCOME FROM REVALUATION OF RECEIVABLES AND CERTAIN SECURITIES AS WELL AS FROM REVERSALS OF PROVISIONS FOR LOAN LOSSES	<b>90,858,032.37</b>	0.00
12. INCOME FROM REVALUATION OF SHAREHOLDINGS, SHARES IN AFFILIATED COMPANIES AND SECURITIES TREATED AS FIXED ASSETS	2,007,533.02	<b>6,953,810.25</b>
13. INCOME FROM NORMAL BUSINESS ACTIVITIES	<b>50,996,876.69</b>	<b>55,493,759.93</b>
14. TAXES ON INCOME AND EARNINGS	<b>1,482,580.73</b>	<b>4,681,511.87</b>
15. OTHER TAXES NOT STATED UNDER ITEM 9	<b>180,140.13</b>	<b>184,230.59</b>
16. NET INCOME	<b>49,334,155.83</b>	<b>50,628,017.47</b>
17. PROFIT CARRIED FORWARD FROM THE PREVIOUS YEAR	878,557.88	250,540.41
	<b>50,212,713.71</b>	<b>50,878,557.88</b>
18. NET PROFIT	<b>50,212,713.71</b>	<b>50,878,557.88</b>

## L-BANK CASH FLOW STATEMENT AS AT 31 DECEMBER 2016

	01.01.-31.12.2016 EURk	01.01.-31.12.2015 EURk
Net profit/loss for the period	49,334	50,628
Depreciation, value adjustments and write-ups on receivables including contingent liabilities and securities	-78,083	38,069
Depreciation, value adjustments and write-ups on tangible assets and intangible assets	10,868	10,808
Depreciation, value adjustments and write-ups on financial assets (excluding securities)	15,796	7,755
Change in provisions (excluding loan-loss provisioning)	211,917	14,489
Profit/loss on the sale of tangible assets and intangible assets	-436	-2
Profit/loss on the sale of financial assets	-16,441	-7,560
Other adjustments (net)	-294,779	-640,118
Change in receivables from banks	-1,387,248	-290,121
Change in receivables from customers	-1,147,573	-2,240,048
Change in securities	511,281	-459,180
Change in other assets from operating activities	335,200	-525,596
Change in liabilities to banks	1,654,860	1,950,192
Change in liabilities to customers	-474,065	1,001,292
Change in securitised liabilities	642,642	-399,669
Change in other liabilities from operating activities	-303,152	486,762
Net interest income	-139,329	-231,407
Income taxes paid	1,483	4,682
Interest payments and dividend payments received	1,680,248	2,615,223
Interest paid	-1,246,140	-1,743,698
Income tax payments	-1,483	-4,682
<b>Cash flow from operating activities</b>	<b>24,900</b>	<b>-362,181</b>
Proceeds from sales of financial assets	39,976	379,776
Disbursements for investments in financial assets	-46,047	-16,913
Proceeds from sales of tangible assets	846	858
Disbursements for investments in tangible assets	-3,192	-4,966
Proceeds from sales of intangible assets	7	0
Disbursements for investments in intangible assets	-1,966	-2,661
Cash flow from investment activities	-10,376	356,094
<b>Cash flow from investment activities</b>	<b>0</b>	<b>0</b>
Cash and cash equivalents at start of period	32,360	38,447
Cash flow from operating activities	24,900	-362,181
Cash flow from investment activities	-10,376	356,094
Cash flow from financing activities	0	0
<b>Cash and cash equivalents at end of period</b>	<b>46,884</b>	<b>32,360</b>

## L-BANK STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2016

	Subscribed capital EURk	Reserves			Net profit EURk	Equity EURk
		Capital reserve pursuant to Art. 272 (2) section 4 HGB EURk	Other retained earnings EURk	Total EURk		
<b>Balance as at 31.12.2014</b>	<b>250,000</b>	<b>999,427</b>	<b>1,415,000</b>	<b>2,414,427</b>	<b>50,251</b>	<b>2,714,678</b>
Transfer to reserves			50,000		-50,000	0
Net income for the year					<b>50,628</b>	<b>50,628</b>
<b>Balance as at 31.12.2015</b>	<b>250,000</b>	<b>999,427</b>	<b>1,465,000</b>	<b>2,464,427</b>	<b>50,879</b>	<b>2,765,306</b>
Transfer to reserves			50,000		-50,000	0
Net income for the year					<b>49,334</b>	<b>49,334</b>
<b>Balance as at 31.12.2016</b>	<b>250,000</b>	<b>999,427</b>	<b>1,515,000</b>	<b>2,514,427</b>	<b>50,213</b>	<b>2,814,640</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2016

## GENERAL PRINCIPLES

L-Bank (Landeskreditbank Baden-Württemberg – Förderbank) was established by a law passed on 11 November 1998, effective as from 1 December 1998. It 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 duties, especially in terms of structural, economic and social policy, by implementing development programmes that comply with European Union regulations governing state aid.

The Bank has its head office in Karlsruhe, with a branch office in Stuttgart. It is entered in the commercial register of the City of Mannheim under number HRA 104441. Article 2, para. 1, sentence 1 of the above-mentioned law sets 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, sentence 2 of the German Banking Act (KWG) (country-by-

country reporting) are provided in these notes 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.

## 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).

## FINANCIAL ASSETS AND LIABILITIES

Receivables from banks 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 temporis 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 income, 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 loan-loss allowances have been set up for latent lending risks. Specific 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 amortised cost, 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. If the reasons for a permanent loss of value no longer exist, the depreciation is reversed accordingly. 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 permanent loss of value, at the lower fair value as at the balance-sheet date, analogous to the rules governing fixed assets. If the reasons for a permanent loss of value no longer exist, the depreciation is reversed accordingly.

### TANGIBLE AND INTANGIBLE ASSETS

Intangible assets and tangible assets are valued at acquisition or production cost, less scheduled depreciation and amortisation. 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%. Pursuant to the changed specifications of Art. 253 para. 2 sentence 1 HGB, provisions are discounted at the average market interest rate over the past ten fiscal years (2015: at the average market interest rate over the past seven fiscal years), assuming a residual term of 15 years.

The rate of interest applied is 4.01% (2015: 3.89%). The difference between the recognition of provisions based on the average market interest rate over the past ten fiscal years and their recognition based on the equivalent average market interest rate over the past seven fiscal years came to EUR 28 million as at 31 December 2016. This amount is barred from distribution.

The remaining provisions are stated at the required repayment amount, and take into consideration all identifiable risks from doubtful liabilities and anticipated losses from pending transactions. Provisions with a time to maturity 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, sentence 3, para. 2 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 6 million (2015: EUR 31 million) is stated under net interest income.

## DEVELOPMENT FUNDS

As at 1 January 2017, L-Bank introduced a new development contribution system. The core element is that any development contributions which L-Bank pays out of its own income to subsidise development activities under the Bank's statutory public-service mandate should be paid from income already earned. On 31 December 2016, to cover its obligation to pay out development contributions in fiscal years 2017 and 2018, L-Bank made a provision of EUR 80 million for each of the two years (development funds).

Allocations to these provisions are recognised in the statement of income as follows, taking into account the type of

development activity envisaged (interest rate reductions, subsidised services, sureties or grants):

	EURK
Interest expenses	130,489
Commission expenses	12,100
Other operating expenses	17,411
<b>Total</b>	<b>160,000</b>

## CURRENCY TRANSLATION

Currency translation 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 translated at the mean spot rate on 30 December 2016. In the case of forward currency contracts, the forward rate is separated out into cash and interest portions.

For currency translation 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 translation 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".

## 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 translated into EUR at the mean spot rate on 30 December 2016.

#### HEDGED TRANSACTION IN MACRO HEDGE

	Book value in EURk	of which interest-rate risk	of which currency risk	of which price risk
Assets	433,399	–	–	433,399
Liabilities	1,259,373	949,000	310,373	–
<b>Total</b>	<b>1,692,772</b>	<b>949,000</b>	<b>310,373</b>	<b>433,399</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2016

BREAKDOWN OF SELECTED ITEMS UNDER ASSETS AND LIABILITIES BY TIME TO MATURITY OR CALL	31.12.2016 EURk	31.12.2015 EURk
<b>RECEIVABLES FROM BANKS</b>		
due on demand	384,069	368,848
up to three months	989,698	1,189,789
more than three months and up to one year	3,629,676	2,939,216
more than one year and up to five years	6,701,271	6,622,132
more than five years	10,749,212	9,944,341
<b>RECEIVABLES FROM CUSTOMERS</b>		
up to three months	625,691	806,838
more than three months and up to one year	3,827,790	1,940,115
more than one year and up to five years	4,838,198	6,733,451
more than five years	17,602,667	16,189,168
<b>BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES</b>		
maturing in the following year	2,944,989	1,640,372
<b>LIABILITIES TO BANKS</b>		
due on demand	6,099	5,659
up to three months	1,198,652	1,214,102
more than three months and up to one year	1,736,534	1,662,598
more than one year and up to five years	7,173,807	6,633,436
more than five years	14,602,554	13,546,991
<b>LIABILITIES TO CUSTOMERS</b>		
due on demand	132,164	152,101
up to three months	721,258	1,249,238
more than three months and up to one year	22,459	43,721
more than one year and up to five years	522,409	422,663
more than five years	6,224,685	6,229,318
<b>SECURITISED LIABILITIES</b>		
maturing in the following year	17,679,450	17,096,091

EXPLANATIONS OF INDIVIDUAL BALANCE-SHEET ITEMS	31.12.2016 EURk	31.12.2015 EURk
<b>RECEIVABLES FROM BANKS</b>		
This item comprises:		
– receivables from companies in which an equity interest is held	75,652	–
<b>RECEIVABLES FROM CUSTOMERS</b>		
This item comprises:		
– receivables from affiliated companies	53,169	53,864
– receivables from companies in which an equity interest is held	79,269	615,561
– subordinated claims	1,739	17,545
<b>BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES</b>		
This item comprises:		
– receivables from companies in which an equity interest is held	2,134,371	1,661,834
The securities in this item eligible for listing break down as follows:		
– listed	22,086,154	22,623,091
– not listed	434,081	410,963
Securities with a book value (excluding prorated interest accrued) of EUR 22,009,829,000 are assigned to investment assets. Of these, securities with a book value of EUR 1,060,078,000 have a market value of EUR 1,024,360,000. 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.		
<b>SHAREHOLDINGS</b>		
The shareholdings in this item eligible for listing break down as follows:		
– listed	–	231
<b>FIDUCIARY ASSETS</b>		
This item comprises:		
– receivables from banks	34,978	46,952
– receivables from customers	3,830	6,918
– other assets	42	45
<b>TANGIBLE ASSETS</b>		
This item comprises:		
– plots and buildings used for the Bank's own activities	83,476	86,419
– plant and office equipment	7,258	6,580

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2016

EXPLANATIONS OF INDIVIDUAL BALANCE-SHEET ITEMS	31.12.2016 EURk	31.12.2015 EURk
<b>OTHER ASSETS</b>		
of which subordinated	7,520	7,522
<b>ACCRUED ITEMS – ASSETS</b>		
– Difference between disbursement amount or acquisition cost and lower nominal value of receivables	798,503	878,328
– Difference between issue price and higher repayable amount of liabilities	60,782	47,851
<b>FIDUCIARY LIABILITIES</b>		
Fiduciary liabilities comprise		
– liabilities to banks	1,592	2,327
– liabilities to customers	37,215	51,543
– other liabilities	42	45
<b>DEFERRED ITEMS – LIABILITIES</b>		
– Difference between disbursement amount or acquisition cost and higher nominal value of receivables	2,040	3,030
– Difference between issue price and lower repayable amount of liabilities	12,702	15,654
<b>SUBORDINATED LIABILITIES AND PROFIT-SHARING RIGHTS</b>		
– Interest expenses on subordinated liabilities	9,244	10,785
– Interest expenses on profit-sharing rights	17,563	21,749

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

CURRENCY	Amount in EURk	Interest rate in %	Maturity date
JPY	81,037	2.14	24.08.2018
EUR	40,000	2.27	14.11.2023

---

## EXPLANATIONS OF INDIVIDUAL BALANCE-SHEET ITEMS

---

Profit-sharing rights consist of profit-sharing certificates and break down as follows:

Amount in EURk	Interest rate in %	Maturity date	Number
20,000	5.000	01.07.2017	1
10,000	5.000	01.07.2017	2
5,000	5.000	01.07.2017	5
3,000	5.000	01.07.2017	1
2,000	5.000	01.07.2017	1
10,000	5.020	01.07.2017	2
1,000	5.020	01.07.2017	1
10,000	5.000	01.07.2020	2
25,000	5.125	01.07.2020	1
25,000	5.140	01.07.2020	2
5,000	5.160	01.07.2020	2
25,000	5.170	01.07.2020	1
10,000	5.170	01.07.2020	1
3,000	5.170	01.07.2020	1
50,000	5.375	01.07.2025	1
10,000	5.375	01.07.2025	4
5,000	5.375	01.07.2025	3

Under the terms and conditions of the profit-sharing certificates, the servicing of distribution and repayment claims is linked to the result of the Bank's normal business activities.

Subordinated liabilities and profit-sharing rights 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 these cases 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 2016

INDIVIDUAL AMOUNTS THAT ARE MATERIAL IN ASSESSING THE ANNUAL FINANCIAL STATEMENTS	31.12.2016 EURk	31.12.2015 EURk
<b>OTHER ASSETS</b>		
– Balancing item from currency translation	1,678,159	1,855,519
– Receivables from swaps	61,964	76,715
– Works of art	14,001	14,682
– Participation certificates	7,520	7,522
<b>PREPAYMENTS AND ACCRUED ITEMS</b>		
– Single payments made in advance for swaps	154,055	213,743
<b>OTHER LIABILITIES</b>		
– Single (bullet) repayments on swaps	14,316	12,164
<b>DEFERRED ITEMS</b>		
– Single payments received in advance for swaps	1,814,105	1,905,656
<b>PROVISIONS</b>		
Among other provisions:		
– provisions for development funds	160,000	–
– provisions for interest-subsidised loans	111,100	82,943
<b>CONTINGENT LIABILITIES AND OTHER COMMITMENTS</b>		
Liabilities from sureties and guarantee contracts include:		
– loan guarantees to financial institutions	166,569	376,569
– credit default swaps	1,869,354	3,752,787
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 94.8% 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 IDW RS BFA Opinion 1. The intention is to hold the credit default swaps until maturity or until the credit event occurs.		
<b>INTEREST INCOME</b>		
– Negative interest from financial investments	24,575	3,610
<b>INTEREST EXPENSES</b>		
– Negative interest from borrowing	18,586	5,198
<b>COMMISSION INCOME</b>		
– Income from other services	35,760	37,333
<b>OTHER OPERATING INCOME</b>		
– Rental income	4,841	4,794

INDIVIDUAL AMOUNTS THAT ARE MATERIAL IN ASSESSING THE ANNUAL FINANCIAL STATEMENTS	31.12.2016 EURk	31.12.2015 EURk
<b>GENERAL ADMINISTRATIVE EXPENSES</b>		
Other administrative expenses include auditor's fees (excluding sales tax):		
– for auditing services	383	383
– for other certification services	14	30
– for other services	24	–
<b>OTHER OPERATING EXPENSES</b>		
– Expenses for subsidies granted in the course of processing development programmes for the State of Baden-Württemberg	33,919	24,929
– Addition to the provision for development funds	17,411	–
<b>TOTAL VALUE OF ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES</b>		
– Assets	4,298,448	4,531,326
– Liabilities	24,610,878	25,679,878
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	15	235

### PROVISION OF COLLATERAL

For refinancing purposes, securities in the amount of EUR 3,773 million (2015: EUR 3,366 million) were deposited with Deutsche Bundesbank. Securities in the amount of EUR 294 million (2015: EUR – million) were deposited for participation in EUREX (the electronic derivatives exchange).

As collateral for OTC transactions, the Bank posted cash surety bonds totalling EUR 3,124 million (2015: EUR 2,629 million), reported under receivables from banks.

### TRANSACTIONS WITH RELATED PARTIES

As at 31 December 2016, transactions with closely associated companies and persons on the basis of conditions that do not conform with market conditions had a reported value of EUR 18 million (2015: EUR 17 million). These transactions consisted of a shareholder loan.

### 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. Even after withdrawing from its role as LBBW guarantor with effect from midnight on 28 December 2015, L-Bank remains liable to third parties for all LBBW liabilities incurred prior to 18 July 2001. However, in the event of claims against L-Bank, the Bank is entitled to hold any guarantors with inter partes liability 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 for the assessment of the Bank's financial position.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2016

### DERIVATIVE TRANSACTIONS

As at the balance-sheet date, L-Bank had concluded the derivative transactions (forward transactions within the meaning of Art. 36 RechKredV) listed below. 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 31.12.2016	Nominal values 31.12.2015	Market values positive 31.12.2016	Market values negative 31.12.2016	Market values positive 31.12.2015	Market values negative 31.12.2015
<b>INTEREST-RATE RISKS</b>						
Interest-rate swaps	81,556	76,206	2,723	-6,311	2,919	-5,961
Other forward transactions	1,160	0	0	-37	0	0
<b>Interest-rate risks – total</b>	<b>82,716</b>	<b>76,206</b>	<b>2,723</b>	<b>-6,348</b>	<b>2,919</b>	<b>-5,961</b>
<b>CURRENCY RISKS</b>						
- Forward currency contracts/ swaps	7,567	9,331	342	-1	179	-24
- Currency swaps/cross-currency interest-rate swaps	19,550	18,566	1,413	-1,217	2,309	-1,464
<b>Currency risks – total</b>	<b>27,117</b>	<b>27,897</b>	<b>1,755</b>	<b>-1,218</b>	<b>2,488</b>	<b>-1,488</b>

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 1,678 million are due to changes in spot exchange rates. A balancing item from currency translation 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 3,588 million as at year-end 2016. These interest-rate swaps are not valued in the balance sheet, because both assets and liabilities contain interest-related 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	Nominal values	Market values positive	Market values negative	Market values positive	Market values negative
	31.12.2016	31.12.2015	31.12.2016	31.12.2016	31.12.2015	31.12.2015
Banks in the OECD	91,468	89,739	3,738	-6,102	4,804	-5,841
Other counterparties (including stock-exchange transactions)	18,365	14,364	740	-1,464	603	-1,608
<b>Total</b>	<b>109,833</b>	<b>104,103</b>	<b>4,478</b>	<b>-7,566</b>	<b>5,407</b>	<b>-7,449</b>

### DERIVATIVE TRANSACTIONS – BY TERM

Nominal values in EUR millions	Interest-rate risks	Interest-rate risks	Currency risks	Currency risks
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
<b>RESIDUAL MATURITIES</b>				
– up to three months	7,526	1,352	10,548	10,531
– more than three months and up to one year	7,707	5,844	4,590	4,827
– more than one year and up to five years	24,080	31,596	7,848	7,979
– more than five years	43,403	37,414	4,131	4,560
<b>Total</b>	<b>82,716</b>	<b>76,206</b>	<b>27,117</b>	<b>27,897</b>

There are no trading activities.

### VALUING DERIVATIVE FINANCIAL INSTRUMENTS

The market valuation of derivatives is based on market data as at 31 December 2016, 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)

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2016

### 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.

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

All disclosures in the Annual Financial Statements within the meaning of Art. 26a, para. 1, sentence 2 KWG apply exclusively to the Federal Republic of Germany.

L-Bank's turnover for the fiscal year from 1 January to 31 December 2016 breaks down as follows:

in EUR millions	2016	2015
Net interest income (including current income)	145	262
Net commission income	28	42
Other operating income	11	14
<b>Turnover</b>	<b>184</b>	<b>318</b>

During 2016, L-Bank employed the equivalent of 1,059 full-time salaried employees on average (2015: 1,071).

The Bank's pre-tax profit for fiscal year 2016 was EUR 51 million (2015: EUR 55 million).

Taxes on income during fiscal year 2016 totalled EUR 1 million (2015: EUR 5 million). These consisted exclusively of non-reimbursable taxes on capital, plus the solidarity surcharge.

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

---

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


---

No.	NAME/REGISTERED OFFICE	Direct shareholding in %	Equity* in EURk	Result* in EURk
1	21sportsgroup GmbH, Mannheim	15.76	-9,366	-8,910
2	Austria Beteiligungsgesellschaft mbH, Stuttgart	33.34	35,823	182
3	Baden-Württemberg International – Gesellschaft für internationale wirtschaftliche und wissenschaftliche Zusammenarbeit mbH, Stuttgart	24.00	3,366	-5,082
4	BrandMaker GmbH, Karlsruhe	32.54	2,433	-5,858
5	BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart	10.00	298,086	52,290
6	CONTTEK Holding GmbH, Pforzheim	44.75	11,831	5,104
7	CureVac AG, Tübingen	0.83	120,370	-32,031
8	DBAG Expansion Capital Fund GmbH & Co. KG, Frankfurt/Main	21.77	31,591	627
9	DBAG Fund V GmbH & Co. KG, Frankfurt/Main	4.00	65,471	1,024
10	Digital Commerce Network GmbH, Karlsruhe	42.33	-941	-136
11	European Investment Fund, Luxembourg	0.18	1,854,259	97,360
12	Flaregames Holding GmbH, Karlsruhe	6.43	26,929	-116
13	iQuest Holding GmbH, Frankfurt/Main	27.50	2,159	625
14	JobRouter AG, Mannheim	35.00	1,097	435
15	Landesbeteiligungen Baden-Württemberg GmbH, Stuttgart	12.14	408,513	-30,304
16	LEA Mittelstandspartner GmbH & Co. KG, Karlsruhe	33.33	***	
17	MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH, Stuttgart	26.80	60,881	4,452
18	Micropelt Abwicklungsgesellschaft GmbH, Freiburg	20.10	**	
19	OnSee Holding GmbH, Bruchsal	47.71	10,090	-20
20	ONVENTIS GmbH, Stuttgart	48.91	1,913	-502
21	PACE Telematics GmbH, Karlsruhe	14.13	875	-150
22	PT German Centre Indonesia II, Tangerang/Indonesia	98.42	274	-69
23	Selbca Holding GmbH, Berlin	36.55	8,687	8,772
24	Staufen.AG Beratung Akademie Beteiligung, Köngen	25.10	7,079	3,758
25	StEP Stuttgarter EngineeringPark GmbH, Stuttgart	100.00	9,224	5,142
26	Strohheker Holding GmbH, Pforzheim	49.50	196	-1,049
27	SYMPORE GmbH, Tübingen	34.98	**	
28	Technologiepark Karlsruhe GmbH, Karlsruhe	96.00	14,405	2,170
29	Technologiepark Mannheim GmbH, Mannheim	100.00	***	
30	Technologieparks Tübingen-Reutlingen GmbH, Tübingen	100.00	8,216	1,899
31	Wessel-Werk Beteiligungsverwaltung GmbH, Karlsruhe	35.00	**	

\* As at the last fiscal year for which annual financial statements are available in each case.

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

\*\*\* Newly established, so no annual statements are available as yet.

Amounts of foreign-currency shareholdings are translated at the exchange rate prevailing on 30 December 2015. The Bank opted to apply Art. 286, para. 3, sentence 1 HGB.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2016

### STATEMENT OF CHANGES IN FIXED ASSETS

Fixed assets Balance-sheet items	Acquisition costs 01.01.2016 EURk	Additions EURk	Retire- ments EURk	Transfers EURk	Write-ups, cumulative EURk	Depreciation/ amortisation, cumulative EURk	Book value 31.12.2016 EURk	Depreciation/ amortisation for the year 2016 EURk
Bonds, debentures and other fixed- interest securities	22,568,308						22,009,829	-
Shareholdings	292,602						221,456	-16,152
Holdings in affiliated companies	25,534						16,309	-
Intangible assets	33,237	1,966	-40	-	-	-29,067	6,096	-4,146
Tangible assets	227,888	3,192	-1,386	682	-	-127,654	102,722	-6,722
Other assets	14,704	41	-40	-682	-	-22	14,001	-

Depreciation/amortisation	01.01.2016	Addition	Write-up	Transfer	Retirement	31.12.2016
Intangible assets	24,955	4,145	-	-	33	29,067
Tangible assets	121,907	6,722	-	0	975	127,654
Other assets	22	-	-	0	-	22

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

Remuneration paid to members of the Board of Management for 2016 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	24	9	714
Dr. Ulrich Theileis Vice-Chairman	500	19	6	525
<b>Total</b>	<b>1,181</b>	<b>43</b>	<b>15</b>	<b>1,240</b>

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 2016 in EURk

Name	Membership of Supervisory Board	Membership of committees	Attendance fees	Total
Edith Sitzmann <sup>1) 4)</sup> Chairman	7.4	1.6	1.1	10.0
Thomas Strobl <sup>1) 3)</sup> 1st Vice-Chairman	3.3	1.7	0.9	5.8
Dr. Nicole Hoffmeister-Kraut <sup>1) 3)</sup> 2nd Vice-Chairman	3.3	1.0	0.5	4.7
Katrin Altpeter <sup>1) 2)</sup>	2.2	–	–	2.2
Alexander Bonde <sup>1) 2)</sup>	2.8	1.4	0.2	4.3
Leni Breymaier <sup>6)</sup>	5.5	–	0.5	6.0
Dr. Jürgen Bufka <sup>3)</sup>	2.6	–	0.3	2.9
Dr. Maximilian Dietzsch-Doertenbach	6.0	3.9	1.2	11.1
Reinhold Gall <sup>1) 2)</sup>	2.8	1.4	–	4.2
Roger Kehle	6.0	–	0.6	6.6
Gabriele Kellermann	6.0	3.1	0.9	10.0
Dr. Peter Kulitz	6.0	1.0	0.3	7.3
Andrea Lindlohr <sup>5)</sup>	2.4	–	0.5	2.9
Klaus-Peter Murawski <sup>1)</sup>	6.0	1.0	0.6	7.6
Dr. Dieter Salomon	6.0	–	0.3	6.3
Dr. Nils Schmid <sup>1) 2)</sup>	3.3	1.4	0.5	5.2
Claus Schmiedel	6.0	–	0.5	6.5
Franz Untersteller <sup>1)</sup>	6.0	2.4	0.2	8.6
Joachim Wohlfeil	6.0	–	0.6	6.6
Clemens Meister	6.0	–	0.6	6.6
Tatjana Aster	6.0	–	0.5	6.5
Thomas Dörflinger	6.0	–	0.5	6.5
<b>Total</b>	<b>107.4</b>	<b>20.0</b>	<b>10.8</b>	<b>138.2</b>

<sup>1)</sup> Subject to a duty of surrender to the State of Baden-Württemberg.

<sup>2)</sup> Resigned from the Supervisory Board with effect from 12 May 2016.

<sup>3)</sup> Appointed to the Supervisory Board with effect from 26 July 2016.

<sup>4)</sup> Appointed Chairman of the Supervisory Board with effect from 26 July 2016.

<sup>5)</sup> Appointed to the Supervisory Board with effect from 8 August 2016.

<sup>6)</sup> Resigned from the Supervisory Board with effect from 30 November 2016.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2016

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

	31.12.2016 EURk	31.12.2015 EURk
– Payments to former members of the Board of Management or their surviving dependants	1,689	1,463
– Advisory Board remuneration (including travel costs)	130	145
– Pension provisions for former members of the Board of Management and their surviving dependants	25,307	25,895

### AVERAGE NUMBER OF EMPLOYEES IN 2016

	Male	Female	Total
Employees*	494	661	1,155
of whom: full-time employees	469	376	845
part-time employees	25	285	310

\* Headcount; 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

---

## BOARDS OF L-BANK

BOARD OF  
MANAGEMENT

**Dr. Axel Nawrath**  
Chairman

**Dr. Ulrich Theileis**  
Vice-Chairman

## SUPERVISORY BOARD MEMBERS

## Regular members

**Edith Sitzmann MdL\***  
Minister of Finance  
Chairman

**Thomas Strobl**  
Deputy State Premier and  
Minister of the Interior,  
Digitisation and Migration  
1st Vice-Chairman  
since 26.07.2016

**Dr. Nicole  
Hoffmeister-Kraut MdL\***  
Minister of Economic Affairs,  
Labour and Housing  
2nd Vice-Chairman  
since 26.07.2016

**Katrin Altpeter**  
former Minister of Labour  
and Social Affairs, Family,  
Women and Senior Citizens  
until 12.05.2016

**Alexander Bonde**  
former Minister of Rural Affairs  
and Consumer Protection  
until 12.05.2016

**Leni Breymaier**  
former Regional Manager,  
VER.DI Baden-Württemberg  
until 30.11.2016

**Dr. Jürgen Bufka**  
Managing Director,  
Amber Infrastructure GmbH  
since 26.07.2016

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

**Reinhold Gall MdL\***  
former Minister of the Interior  
until 12.05.2016

**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

**Andrea Lindlohr MdL\***  
Vice-Chair, Alliance 90/The  
Greens parliamentary group  
since 08.08.2016

**Klaus-Peter Murawski**  
State Secretary, Baden-  
Württemberg Ministry of State

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

**Dr. Nils Schmid MdL\***  
former Minister of  
Finance and Economic Affairs  
until 12.05.2016

**Claus Schmiedel**  
former Chairman,  
SPD parliamentary group  
until 31.12.2016

**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

\* Member of the federal state parliament.

## SUPERVISORY BOARD MEMBERS

## Alternate members

<b>Helmut Althammer</b> Managing Director, Althammer GmbH & Co. KG
<b>Catharina Clay</b> Regional Manager, IG BCE Baden-Württemberg
<b>Dr. Roman Glaser</b> President, Baden-Württembergischer Genossenschaftsverband e.V.
<b>Jürgen Lämmle</b> former Permanent Secretary, Baden-Württemberg Ministry of Labour and Social Affairs, Family, Women and Senior Citizens until 31.05.2016
<b>Andrea Lindlohr MdL*</b> Vice-Chair, Alliance 90/The Greens parliamentary group until 07.08.2016
<b>Klaus Maier</b> former federal state parliament representative until 06.08.2016
<b>Helmfried Meinel</b> Permanent Secretary, Baden-Württemberg Ministry of the Environment, Climate and Energy

<b>Rainer Reichhold</b> President, Chamber of Trades and Crafts, Stuttgart region
<b>Wolfgang Reimer</b> former Permanent Secretary, Baden-Württemberg Ministry of Rural Affairs and Consumer Protection until 31.05.2016
<b>Rolf Schumacher</b> former Permanent Secretary, Baden-Württemberg Ministry of Finance and Economic Affairs until 31.05.2016
<b>Dr. Florian Stegmann</b> Assistant Secretary, Baden-Württemberg Ministry of State
<b>Joachim Walter</b> President, Baden-Württemberg Association of District Councils
<b>Dr. Herbert O. Zinell</b> former Permanent Secretary, Baden-Württemberg Ministry of the Interior until 31.05.2016

## Other alternate members

<b>Matthias Bross</b> former Senior Civil Servant, Baden-Württemberg Ministry of State until 31.10.2016	<b>Walter Leibold</b> Assistant Secretary, Baden-Württemberg Ministry of Finance
<b>Joachim Hauck</b> Assistant Secretary, Baden-Württemberg Ministry of Rural Affairs and Consumer Protection until 26.07.2016	<b>Jutta Lück</b> Assistant Secretary, Baden-Württemberg Ministry of the Environment, Climate and Energy
<b>Volker Jochimsen</b> Assistant Secretary, Baden-Württemberg Ministry of the Interior, Digitisation and Migration	
<b>Johann-Christoph Kleinschmidt</b> former Undersecretary, Baden-Württemberg Ministry of Labour and Social Affairs, Family, Women and Senior Citizens until 26.07.2016	

\* Member of the federal state parliament.

## EVENTS AFTER THE BALANCE SHEET DATE

No incidents or events of particular significance occurred after the fiscal year-end on 31 December 2016.

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

The Board of Management hereby proposes to the Supervisory Board that out of the net profit for fiscal year 2016 totalling EUR 50,212,713.71, an amount of EUR 50,000,000.00 should be allocated to other retained earnings and the remaining amount of EUR 212,713.71 carried forward to the current fiscal year.

Karlsruhe, 7 March 2017

L-Bank

Dr. Axel Nawrath

Dr. Ulrich Theileis

## DECLARATION OF THE BOARD OF MANAGEMENT REGARDING THE FINANCIAL STATEMENTS FOR L-BANK AS AT 31 DECEMBER 2016

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 financial position, cash flows and financial performance, 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, 7 March 2017

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 to 31 December 2016. 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 corporation's financial position, cash flows and financial performance 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 corporation's business activities and economic and legal environment, as well as expectations of possible accounting errors, are taken into account. Within the scope of the audit, the effectiveness of the accounting-related internal control

system 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 financial position, cash flows and financial performance in accordance with generally accepted accounting principles. The Management Report is consistent with the financial statements and, as a whole, provides a fair view of the corporation's position, and accurately portrays the opportunities and risks of future development.

Stuttgart, 7 March 2017

PricewaterhouseCoopers  
Wirtschaftsprüfungsgesellschaft

Stefan Palm  
Auditor

ppa. Ralf Steffan  
Auditor

Published by:  
L-Bank

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

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

Federal Republic of Germany  
[www.l-bank.de](http://www.l-bank.de)