LfA FÖRDERBANK BAYERN
Beratung. Finanzierung. Erfolg.

ANNUAL REPORT
2015

PROMOTING

Growth & Stability

(EUR MILLION)

	2015	2014
BALANCE SHEET FIGURES		
Total assets / total equity and liabilities	22,016	22,138
Loans and advances to banks	14,230	14,619
Loans and advances to customers	2,254	2,022
Fixed-income securities	4,819	4,830
Liabilities (incl. issues)	19,735	19,907
Equity (excluding net retained profit)	1,019	1,004
Tier 1 capital ratio (%)	22.3	20.9
Business volume	23,151	23,344
INCOME STATEMENT FIGURES		
Net interest income and net fee and commission income	142	160
Operating result before allowances, provisions and write-downs	88	113
Net reversal of allowances, provisions and write-downs	32	16
Addition to fund for general banking risks (section 340g HGB)	70	70
Net income for the year	50	59
EMPLOYEES		
- Average for the year	333	322
- Full-time equivalents	299	290

	2015	2014
COMMITMENTS		
Loans	**2,108**	**1,978**
by origin		
- Subsidised-interest loans	442	605
- Low-interest loans	1,177	1,136
- Syndicated loans – commercial	314	153
- Syndicated loans – infrastructure	125	49
- Intermediated loans	50	35
by business segment (subsidised-interest and low-interest loans)		
- Start-ups	259	218
- Growth	1,411	1,370
- Innovation	20	23
- Energy and environment	62	164
- Stabilisation	80	43
- Infrastructure	269	149
- Other	7	11
Assumption of risk*	**245**	**280**
- Exemptions from liability	116	128
- Specific guarantees	30	36
- Order guarantees	38	42
- Other assumption of risk	38	58
- General and specific counter-guarantees	23	16
TOTAL DEVELOPMENT VOLUME	**2,353**	**2,258**

*Recognised

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Annual Financial Statement

1.1 Management report

Legal basis, mandate and areas of activity

BUSINESS MODEL

Landesanstalt für Aufbaufinanzierung is a regional development bank operated by the Free State of Bavaria. It trades under the name "LfA Förderbank Bayern" (LfA). The bank is structured as a public-sector agency with legal capacity to hold rights and duties. It has a head office in Munich, a representative office in Nuremberg and support centre in Hof. Its guarantor is the Free State of Bavaria. The LfA Act (the act establishing the Landesanstalt für Aufbaufinanzierung in Bavaria) specifies that the bank is subject to legal supervision by the Bavarian State Ministry of Finance, State Development and Home Affairs.

LfA is a specialist bank dedicated to promoting regional economic development. Its mandate is to safeguard the future success of Bavaria as a location for business and help to generate a positive impact on the labour market. In specific terms, the bank provides financial support for projects initiated by commercial enterprises and for other activities to improve and strengthen the infrastructure and economic, transport and environmental structure of Bavaria. The bank implements its mandate in line with the political objectives set by Bavaria's regional government and in compliance with the regulations on financial assistance laid down by the European Union (EU). The bank's activities are focused on small and medium-sized enterprises (SMEs). The support that LfA provides for these businesses primarily comprises funding for capital investment and for operating resources. This helps to offset the competitive disadvantages suffered by these businesses by virtue of their size.

The critical element in LfA's operating policy is the long-term promotion of the Bavarian economy, implemented by means of an optimum range of development aid products. LfA offers tried and tested development mechanisms, such as loans, risk relief and equity capital, to help provide low-cost funding for as many Bavarian businesses as possible. The bank also offers instruments such as syndicated loans, intermediated loans, general guarantees (Garantien) and specific guarantees (Bürgschaften) for the entire SME sector. In addition, LfA acts as a funding channel for the range of development aid available at federal level from Germany's KfW banking group. This provides businesses with access to particularly favourable terms based on subsidised interest rates. Equity finance completes the range of products available from the bank, although in this case most of the processing is carried out by BayBG Bayerische Beteiligungsgesellschaft mbH, Bayern Kapital GmbH and LfA Gesellschaft für Vermögensverwaltung mbH. The bank's funding activities are complemented by other development activities such as free, comprehensive advisory services for end customers and support services for funding partners and other key players.

The bank generally provides its services through a commercial bank acting as an intermediary. In other words, a business normally applies for the financial assistance, and receives the disbursed funds, through the principal commercial bank generally used by the business for its other banking transactions. This ensures that there is non-competitive collaboration between the commercial bank and LfA in the interests of the SME customer concerned.

In order to meet its mandate, the bank makes use of all standard bank funding instruments. In addition, it holds a portfolio of securities for the purposes of enhancing its development services, investing its own funds and temporarily investing grant and subsidy amounts. The bank's portfolio of long-term equity investments comprises strategic investments in Bavarian companies and holdings in subsidiaries, the purpose of which is to promote the growth of Bavaria as an economic centre.

As the Free State of Bavaria acts as a guarantor, LfA is accorded the same credit rating as the state government. Rating agency Moody's Investors Service gives the bank an Aaa rating (with stable outlook). This investment-grade rating ensures that LfA is a highly sought-after partner in both investment and funding sectors in a challenging market environment.

At European level, the bank has entered into partnerships in the form of funding and general guarantee agreements with the European Investment Bank (EIB) and the European Investment Fund (EIF) with the aim of offering SMEs the best possible financing options.

As in prior years, the bank has decided to make use of the option available under section 290 (5) in conjunction with section 296 (2) German Commercial Code (HGB) and not prepare consolidated financial statements because all its subsidiaries are of minor significance.

NEW PRODUCTS AND PROCESSES

None of the new development programmes launched in 2015 were new products as defined by MaRisk. The nature, design and risk structure of the programmes already formed (and remained) part of the LfA product range. The programmes were placed in existing markets.

During the course of 2015, LfA undertook or initiated significant changes to its operational processes and structures:

- At the end of 2014 and beginning of 2015, SAP modules covering FI/CO, BP and CML were integrated into LfA's system landscape and put into live operation. The launch and production problems associated with the migration – which are altogether normal for a changeover of this nature – have now been overcome with a focus on customers and appropriate solutions. A stable production system has thus been established across the board. Alongside this upgrade, processes have also been gradually modified in line with the technical IT requirements, although these changes have not yet been completed.
- During the course of 2015, various products were optimised and the portfolio streamlined.
- LfA also focused on a series of activities collectively described as "handling implied options". It analysed options for action, investigated their feasibility and then specified and implemented action plans comprising limits on standard business.
- The technical reporting requirements under the German Deposit Protection Act (EinSiG) were implemented.
- LfA continued to press ahead with the gradual implementation of the requirements under the Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR) in 2015, ensuring that it had the capability to meet all the reporting requirements during the course of the year.

Economic Report

ECONOMIC CONDITIONS

In 2015, the German economy showed itself to be robust and on the right path despite the fragile international environment and the associated uncertainty caused by the rising threat from terrorism. Economic growth in the year was modest, but with a steady uptrend. Inflation-adjusted gross domestic product (GDP) increased by 1.7 per cent, a sound rate of expansion. Consumer spending remains the principal growth driver. The service sector, which is focused on the domestic market, is on an upward trajectory. A key factor in these trends in 2015 was the continued strength of the labour market with further improvements in already high levels of employment and significant growth in incomes. At the same time, economic activity was boosted by the low price of oil and the export stimulus generated by the favourable euro exchange rate. The additional government expenditure associated with the substantial migration into the country also gave further impetus to the German economy.

Growth in the global economy was weaker than anticipated in 2015. In particular, the demand from emerging markets proved to be less buoyant, with the economies of those countries dependent on raw material exports also adversely impacted by the low price of oil and other commodities. The eurozone sustained its moderate economic recovery in the year under review. According to indicators, sentiment is becoming noticeably more optimistic and 2016 is viewed with a degree of confidence. The pace of growth is still likely to be muted however. The effects from the influx of refugees will have a bearing on economic trends and represent a source of some uncertainty.

Foreign trade remains subject to significant risks. The main risks to economic growth include a deterioration in geopolitical conflicts and renewed uncertainty about growth in emerging markets, especially China. A sharp and significant rise in the oil price or euro exchange rate could also jeopardise economic expansion in Germany and in the rest of Europe.

The fundamentals in the German economy remain sound. Business competitiveness, strong public finances, the robust labour market, stable prices and low interest rates all indicate that the German economy will benefit from an economic tailwind in 2016. In this environment, consumer spending and domestic government demand in Germany are proving to be the most reliable props for the economy. The sound job market, rising incomes and stable prices are key prerequisites for a beneficial rise in household consumption.

Employment has been rising steadily since 2005. In 2015, employment figures in Germany leapt significantly by approximately 324,000 on average, hitting a record level of around 43 million.

With a population of 12.7 million, Bavaria remains a dynamic centre of economic activity at the heart of Europe. Based on economic performance, Bavaria is the top-ranking state in Germany. This leading position is a result of Bavaria's highly competitive economy, enormous innovative strength, energetic workforce, an environment conducive to business start-ups and the consistent policy aimed at promoting the location's economic appeal.

The Free State of Bavaria is by some distance the economic leader among all of Germany's federal states and is the engine of growth in the German economy. Between 2008 and 2014, the State achieved growth of 9.7 per cent in real GDP.

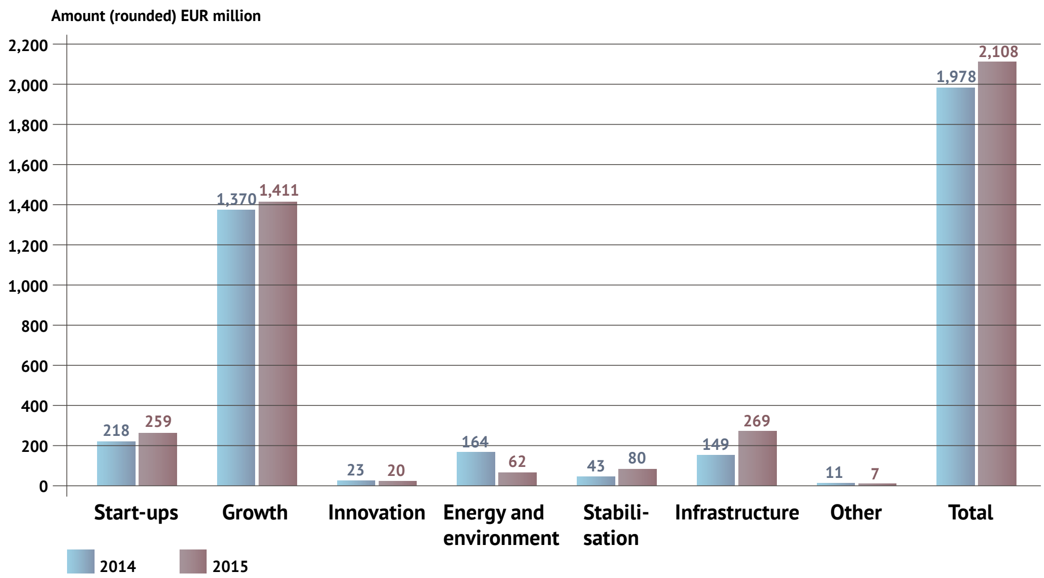
In terms of the labour market, Bavaria is out in front compared with the other states in Germany. Since 2005, unemployment has more than halved and employment is now at a record level. Nowhere else in Germany has created as many new jobs (within the scope of national insurance) as Bavaria. The Bavarian unemployment rate of 3.4 per cent at the end of 2015 indicates that the aim of achieving full employment throughout the whole of Bavaria by 2018 appears to be within reach. In fact, around one third of all towns and districts have an unemployment rate of less than 3 per cent and thus have already achieved full employment to all intents and purposes.

BUSINESS PERFORMANCE

LENDING BUSINESS

Despite the persistently low interest rates on capital markets, the year under review saw a rise in the demand for financing compared with 2014. Overall, new loan commitments amounted to EUR 2.11 billion, slightly higher than the 2014 level of EUR 1.98 billion. Subsidised-interest and low-interest programme loans continued to account for the largest proportion of the commitment volume at EUR 1.62 billion.

The bank offers SMEs financing solutions for projects in a number of segments, notably start-ups, growth, innovation, stabilisation, energy and environment. In the same way, it also supports infrastructure projects undertaken by local authorities. The following diagram shows the breakdown of the loan commitments by area of business:



The interest-rate subsidies are funded by the bank with grants from the state government budget and some of these grants are derived from profits transferred from the bank. LfA also provides loans with favourable interest rates at the lower end of the scale for market terms.

With these low-interest development loans, LfA helped more than 4,300 SMEs and 181 towns, cities and other local authorities to invest in their activities to improve competitiveness. Loan commitments were made to businesses in industry and the skilled trades, to retailers and service businesses, hotel and catering businesses, and to the liberal professions. Businesses were investing predominantly in premises extensions, business takeovers, state-of-the-art plant and machinery and in energy efficiency. The development loans were used to help fund a capital investment volume of EUR 2.05 billion.

Syndicated loan commitments increased year on year by 117.5 per cent to EUR 438.9 million. LfA participates in this type of business at the invitation of commercial banks. In the case of intermediated loans, commitments increased from EUR 35.0 million to EUR 50.0 million.

With a small increase in volume of EUR 14.4 million, loan disbursements remained almost at the same level in 2015 at EUR 2.05 billion (2014: EUR 2.04 billion), the breakdown of which was as follows:

- subsidised-interest and low-interest loans of EUR 1.60 billion (2014: EUR 1.77 billion)
- syndicated loans of EUR 409.7 million (2014: EUR 245.1 million) and
- intermediated loans of EUR 41.2 million (2014: EUR 27.0 million).

The overall volume of lending business declined by EUR 473.5 million over the year under review to EUR 11.48 billion as at 31 December 2015 as a result of maturing loans and early redemptions. Of the total volume of lending business, subsidised-interest and low-interest loans accounted for 64.2 per cent, syndicated and other loans 18.6 per cent, and intermediated loans 17.2 per cent.

ASSUMPTION OF RISK

The demand for LfA to assume risk fell by 12.4 per cent in 2015 to EUR 245.4 million.

The largest proportion of this risk (equating to EUR 115.6 million) was attributable to exemptions from liability (Haftungsfreistellungen), under which LfA arranged to indemnify commercial banks for the credit risk associated with passing through low-interest loans to corporate clients. The bank also assumed risk with a value of EUR 30.5 million as part of its programme of specific guarantees for SMEs.

LfA assumed further risk with a value of EUR 99.3 million. Of this total, EUR 38.2 million was accounted for by short-term general guarantees in domestic and international guarantee business and by general guarantees for order-related or contract-related loans for operating resources; EUR 37.8 million was accounted for by sub-holding liabilities in connection with syndicated loans; the remaining EUR 23.3 million related to the assumption of liability for performance obligations of the Free State of Bavaria.

As at 31 December 2015, the volume of guarantees had decreased by EUR 101.6 million to EUR 1.23 billion.

EQUITY FINANCING

The SME equity financing business is primarily conducted by two companies: Bayern Kapital GmbH (LfA shareholding 100.0 per cent) and BayBG Bayerische Beteiligungsgesellschaft mbH (LfA shareholding 23.5 per cent). LfA itself and its subsidiary LfA Gesellschaft für Vermögensverwaltung mbH (LfA shareholding 100.0 per cent) use equity investments as an instrument only in special cases, primarily to support structural development and safeguard jobs in Bavaria.

Bayern Kapital specialises in funding start-up teams and young technology enterprises in Bavaria in the early stages of development. In 2015, Bayern Kapital committed to 37 (2014: 25) new long-term equity investments with a volume of EUR 14.5 million (2014: EUR 6.5 million), mainly providing seed or start-up capital for small enterprises. LfA's involvement with this subsidiary is primarily as a service provider for the Free State of Bavaria. Some of the venture capital funds provided by LfA to Bayern Kapital and the 11 associated funds amounting to a total of EUR 101.6 million (cost at 31 December 2015) and the venture capital funds still to be provided amounting to a total of EUR 119.7 million (outstanding capital contributions at 31 December 2015) is obtained from the Free State of Bavaria. The remainder is or will be covered by funding raised by LfA on the capital market. Regardless of the origin of these funds, financing agreements between LfA and the Free State of Bavaria mean that, in connection with LfA's long-term equity investments in Bayern Kapital and the associated VC funds, LfA only has its own risk exposure in relation to two VC funds. This exposure amounts to a maximum of EUR 3.6 million (including outstanding contributions of EUR 2.3 million) for a VC fund launched in 2004. In respect of a further VC fund issued in 2015 together with Bayern Kapital, around 25.0 per cent of the default risk for the funds of EUR 88.2 million to be contributed by LfA is covered by a guarantee amount created from budgetary resources for this purpose.

At the end of the financial year, Bayern Kapital held investments in 65 (31 December 2014: 65) businesses, the total volume being EUR 66.8 million (31 December 2014: EUR 60.2 million).

BayBG deals predominantly with established SMEs and start-ups that have generated some initial sales revenue. In the 2014/15 financial year (balance sheet date 30 September), 59 businesses made use of equity finance amounting to EUR 46.2 million for the joint financing of their capital investment projects, thereby reinforcing their business equity at the same time. BayBG was unable to escape the downward trend in the equity financing market, generating a somewhat lower level of new business compared with 2014.

At the end of 2015, the BayBG portfolio comprised 487 SMEs involving total equity finance of EUR 317.0 million. The losses borne by LfA under general guarantees and counter guarantees as a result of the transfer of performance obligations on behalf of the Free State of Bavaria were in the low single-digit millions, in line with the average for the last few years.

LfA GV only becomes involved in equity investment in individual cases if this is extremely important from the perspective of location development policy and the requirement for funds exceeds the capabilities of BayBG and/or Bayern Kapital. In 2015, as part of cooperation agreements with the European Investment Fund (LfA/EIF facilities), LfA GV provided equity finance amounting to a total of EUR 9.1 million (2014: EUR 8.4 million) to 23 (2014: 21) investment fund companies as well as to one business angel in the context of the Bavaria section of the European Angels Fund, which is integrated into the cooperation agreements. There were no further equity investments outside the LfA/EIF facilities in 2015 (further equity finance of EUR 2.5 million had been provided in 2014).

SALES AND ADVISORY SERVICES

Advisory services represent a further pillar in the range of development services provided by the bank. The advisory and training services offered by LfA are predominantly aimed at corporate client relationship managers in commercial banks, but also at key professionals (such as tax advisers and business consultants) and potential end customers (start-ups, business people, the self-employed and local authorities).

As part of LfA Förderbank Bayern sales activities, employees maintain regular personal contact with commercial bank personnel with the objective of encouraging the banks to pass on more development loans and thereby broaden the impact of SME development in Bavaria. LfA Förderbank Bayern offers corporate client relationship managers at banks special training sessions covering its range of development services.

The bank's general advisory activities similarly cover commercial banks, key professionals and end customers. The range of information services, which includes a large number of events held throughout Bavaria, is tailored to the interests of the target group concerned. These services include the use of mobile branches, which are regularly used for local advisory days. The bank increasingly counts local authorities among its end customers, offering them special capital investment programmes for infrastructure expansion and a range of development services related to energy investment and the expansion of the broadband network.

A particular advisory service is offered by the task force for businesses in financial difficulty. The LfA task force acts as a direct point of contact, provides support in bank meetings and discussions for businesses and the self-employed experiencing difficulties, and helps with applications for development assistance. It also helps firms analyse their current situation, highlight business weaknesses and discuss possible solutions. The assistance is provided quickly, with minimum fuss and free of charge.

FINANCIAL MARKET TRANSACTIONS

Funding

LfA Förderbank Bayern primarily uses the capital markets as its source of funding. For more than 20 years, Moody's Investors Service has rated the bank's long-term liabilities at Aaa. This excellent rating is based on the bank's sound financial position and on the fact that the Free State of Bavaria acts as a guarantor.

LfA's high credit rating means that it can obtain particularly favourable terms for its funding. This low funding cost is a major contributing factor in allowing LfA Förderbank Bayern to offer its loans to Bavaria-based businesses and Bavarian local authorities on attractive terms with the aim of promoting Bavaria as a centre of economic activity.

The expansionary monetary policy pursued by international central banks leading to historically low interest rates shaped the trends in financial markets in 2015. The emergence of new geopolitical tensions and uncertainty about further economic growth in China also had an impact. Low oil and commodity prices resulted in low inflation rates below ECB targets, causing the ECB to loosen its monetary policy still further. Against this backdrop, LfA Förderbank Bayern had no difficulty in covering its short- and long-term funding requirements.

In 2015, the bank obtained funding of EUR 2.20 billion from capital markets (2014: EUR 2.38 billion). Of the total amount raised, EUR 2.03 billion was derived from bearer bonds and EUR 165.0 million from promissory notes and registered bonds issued by the bank.

A further EUR 0.94 billion of LfA's funding in 2015 was programme-related and obtained through Germany's KfW banking group (2014: EUR 1.21 billion). The objective of this partnership is to integrate development funds from the German federal government into the products and services offered by LfA. The added development value accrues to SMEs and local authorities in Bavaria.

Investment business

LfA Förderbank Bayern also undertakes capital markets business as an investor. LfA's objective is to invest its own funds securely and with favourable margins as well as to generate a sustainable, steady flow of additional income that can then be used to support economic development. Its funds are generally invested in fixed-income bearer or registered paper, pfandbriefs (covered bonds) or promissory notes. In order to minimise risk, LfA only enters into transactions with issuers and counterparties with very good credit ratings. Investments were once again broadly diversified in 2015. LfA invested particularly in covered and uncovered bank securities and in domestic and international businesses with good credit ratings. Investments are focused on issuers and counterparties located in countries of the European Monetary Union (EMU) excluding southern and eastern Europe. In the reporting period, the invested funds amounted to EUR 1.49 billion (2014: EUR 1.76 billion), of which EUR 0.96 billion (2014: EUR 1.09 billion) was invested in promissory notes/registered paper and EUR 529.8 million (2014: EUR 673.3 million) in securities.

In these transactions, LfA pursues a strategy of holding the acquired securities to maturity. Some of the securities are classified as fixed assets (EUR 3.63 billion) and fluctuations in the measurement of the securities in the annual financial statements can largely be avoided.

Results of operations, net assets, financial position

RESULTS OF OPERATIONS

LfA Förderbank Bayern generated an overall net income for the year of EUR 49.6 million. The income statement breakdown is as follows:

	2015 EUR million	2014 EUR million	Year-on-year change EUR million	 +/- %
Ordinary income				
Net interest income	121.9	142.7	-20.8	-14.6
Net fee and commission income	19.7	17.4	2.3	13.2
Income from long-term equity investments/affiliated companies	0.8	0.5	0.3	60.0
Other operating income	6.5	4.1	2.4	58.5
	148.9	**164.7**	-15.8	-9.6
Ordinary expenses				
Personnel expenses	30.3	28.0	2.3	8.2
Other administrative expenses	17.3	17.0	0.3	1.8
Depreciation and amortisation	8.7	3.1	5.6	180.6
Other operating expenses	4.4	3.7	0.7	18.9
	60.7	**51.8**	8.9	17.2
Operating result before allowances/provisions/write-downs and net remeasurement gains/losses	**88.2**	**112.9**	-24.7	-21.9
Allowances/provisions/write-downs and net remeasurement gains/losses	31.5	16.4	15.1	92.1
Operating result after allowances/provisions/write-downs and net remeasurement gains/losses	**119.7**	**129.3**	-9.6	-7.4
Other taxes	-0.1	-0.1	0.0	0.0
Addition to (-)/reduction of (+) fund for general banking risks in accordance with section 340g HGB	-70.0	-70.0	0.0	0.0
Net income for the year	**49.6**	**59.2**	-9.6	-16.2
Net retained profit	49.9	59.5	-9.6	-16.1

As anticipated, the 2015 income statement for the first time reflected the persistently low interest rates with a substantial contraction of EUR 20.8 million in net interest income, although the impact was lessened by a one-off income item of EUR 5.6 million; **net interest income** amounted to EUR 121.9 million.

Net fee and commission income rose by EUR 2.3 million year on year to EUR 19.7 million as a consequence of performance-related fees for the pro rata assumption of liability.

Other operating income went up compared with 2014 as a result of one-off items, rising from EUR 4.1 million to EUR 6.5 million.

Personnel expenses rose by EUR 2.3 million year on year to EUR 30.3 million. This increase was largely attributable to an increase in collectively agreed salaries and a rise in the number of employees. **Other administrative expenses** (including depreciation and write-downs on property and equipment) increased by EUR 5.9 million to EUR 26.0 million. The change was mainly attributable to the start of the depreciation recognised in respect of capital investment in IT equipment. Total administrative expenses were therefore up by EUR 8.2 million to EUR 56.3 million.

The changes in net interest income, net fee and commission income and in administrative expenses had an adverse impact on the cost-income ratio (the ratio of administrative expenses (including depreciation and write-downs on property and equipment) to total net interest income and net fee and commission income). The cost-income ratio calculated for 2015 was 39.8 per cent (2014: 30.1 per cent). Given the general economic trends, this figure is likely to mean that LfA is among the leaders in its peer group of regional development banks.

The bank continues to impose strict standards as regards **loan loss allowances and provisions** in its lending business. In 2015, the write-downs and allowances for losses on loans and advances and on securities, including write-downs of long-term equity investments and shares in affiliated companies, and additions to provisions in the lending business, as well as reversals of such write-downs, allowances and provisions, resulted overall in the recognition of a net reversal of EUR 31.5 million in the income statement. The change was mainly attributable to the switch in the method used to calculate the portfolio loan loss allowance in the lending business.

LfA once again made use of the operating profit generated for the year to strengthen its regulatory capital and risk-bearing capacity by adding an amount of EUR 70.0 million to the fund for general banking risks as provided for in section 340g HGB.

The outcome was **net income for the year** of EUR 49.6 million (2014: EUR 59.2 million); the return on capital employed to be disclosed in accordance with section 26a German Banking Act (KWG) was 0.23 per cent. After including the profit carried forward from 2014, the net retained profit amounted to EUR 49.9 million (2014: EUR 59.5 million). Of this amount, a sum of EUR 12.5 million will be appropriated to the legal reserve pursuant to the LfA Act. Approximately 75 per cent of the net retained profit will then be transferred to the Free State of Bavaria in accordance with the Management Board's proposal for the appropriation of profit. From this amount, the regional government will subsequently make available EUR 8.2 million for various development organisations and EUR 14.5 million to be used in support of economic development activities.

NET ASSETS

The net asset position is sound. The following table shows the breakdown as at 31 December 2015:

	31.12.15 EUR million	**31.12.14** EUR million	**Change** EUR million
Total assets/total equity and liabilities	**22,016.4**	**22,138.1**	**-121.7**
Assets			
Loans and advances to banks	14,229.8	14,618.6	-388.8
Loans and advances to customers	2,254.2	2,022.1	232.1
Bonds and fixed-income securities	4,818.8	4,830.4	-11.6
Long-term equity investments, shares in affiliated companies	132.3	119.2	13.1
Other assets	581.3	547.8	33.5
Equity and liabilities			
Liabilities to banks	8,527.1	8,965.6	-438.5
Liabilities to customers	3,000.5	2,958.6	41.9
Debt instruments	8,207.0	7,982.7	224.3
Provisions	130.2	165.9	-35.7
Subordinated liabilities	100.5	100.5	0.0
Equity (including fund for general banking risks)	1,538.8	1,463.4	75.4
Other liabilities	512.3	501.4	10.9
Additional information			
Contingent liabilities	1,134.9	1,205.8	-70.9
Business volume	**23,151.3**	**23,343.9**	**-192.6**

As at 31 December 2015, **total assets** (or total equity and liabilities) had contracted marginally to just under EUR 22.02 billion, a decrease of EUR 121.7 million on the equivalent figure as at 31 December 2014.

In the year under review, **business volume** (total assets and contingent liabilities) declined by 0.8 per cent or EUR 192.6 million to EUR 23.15 billion. The **contingent liabilities** included in this figure amounted to just over EUR 1.13 billion, down by EUR 70.9 million year on year (31 December 2014: EUR 1.21 billion).

The bank issues its loans on a non-competitive basis through other banks. This is reflected in the structure of the assets side of the balance sheet. The proportion of assets accounted for by loans and advances to banks was 64.7 per cent as at 31 December 2015. The equivalent percentages of total assets for loans and advances to customers and for bonds and other fixed-income securities were 10.2 per cent and 21.9 per cent respectively.

Bonds and other fixed-income securities declined by EUR 11.6 million to EUR 4.82 billion.

The carrying amounts of LfA's **long-term equity investments** and **shares in affiliated companies** increased by EUR 13.1 million to EUR 132.3 million.

Intangible assets mainly comprise the capitalised expenses arising from the introduction of SAP and at the end of the year amounted to EUR 28.9 million after amortisation.

Irrevocable loan commitments fell by EUR 30.2 million year on year, the balance at the end of the year being EUR 846.0 million.

The notional amounts of **derivatives** – which are used to hedge the interest-rate risk in connection with individual transactions – fell during the course of the year to an amount of EUR 332.9 million, a decrease of EUR 125.0 million. LfA did not enter into any new transactions in this segment in 2015.

Further details on the individual asset items are set out in the risk report section.

LfA has not issued any letters of comfort for other entities. There was no adverse impact on net assets in 2015 from material agreements with affiliated companies or third parties. Furthermore, there are no pending legal disputes or material agreements that could give rise to a substantial prejudicial impact on the net assets of the bank owing to the subject matter or duration of such disputes or agreements or for any other reason.

FINANCIAL POSITION

CAPITAL STRUCTURE

Most of **LfA's funding** is obtained on a long-term basis through the capital market. As at 31 December 2015, liabilities repayable on demand amounted to EUR 540.5 million (31 December 2014: EUR 317.5 million), of which EUR 166.6 million (31 December 2014: EUR 173.6 million) was due to banks. Capital market funding consisted of issued bonds with a value of EUR 8.21 billion (31 December 2014: EUR 7.98 billion) and promissory notes, registered bonds and fixed-term deposits together amounting to EUR 5.62 billion (31 December 2014: EUR 5.83 billion).

Based primarily on a fall in credit risk, total provisions were reduced from an amount of EUR 165.9 million as at 31 December 2014 to EUR 130.2 million at the end of 2015.

The carrying amount of subordinated liabilities – which will mature during the course of 2016 – remained unchanged at EUR 100.5 million. Intermediated loans from the KfW banking group amounting to EUR 5.60 billion were also used as a source of funding.

The changes in **equity** (including the fund for general banking risks specified by section 340g HGB) were as follows:

	01.01.15 EUR million	**Withdrawals** EUR million	**Appropriations** EUR million	**31.12.15** EUR million
Equity				
Subscribed capital	368.1			368.1
Capital reserves	42.9			42.9
Revenue reserves	592.9		14.9	607.8
Net retained profit	59.5	59.5	49.9	49.9
Fund for general banking risks	400.0		70.0	470.0
	1,463.4	59.5	134.8	1,538.7

Overall, **Tier 1 capital** (including the additions to the fund for general banking risks in accordance with section 340g HGB) had increased to EUR 1.46 billion at the start of the year compared with EUR 1.38 billion as at 1 January 2014. At LfA, the Common Equity Tier (CET) 1 capital ratio is the same as the Tier 1 capital ratio. At the end of the year, this ratio had risen from 20.9 per cent to 22.3 per cent; the total capital ratio was 27.7 per cent (31 December 2014: 27.3 per cent).

As at the reporting date, the leverage ratio – a ratio that is currently still in the monitoring phase – was 5.86 per cent, well above the provisional target ratio of 3.0 per cent.

Capital adequacy is calculated in accordance with the provisions in the CCR. During the year under review, the bank complied with regulatory own funds requirements at all times.

CAPITAL EXPENDITURE

In 2012, the bank launched the SAPHIR project to replace the existing BS2000-based accounting system as well as the business partner management and lending processing system (KRED) with SAP modules. The project also introduced a new correspondence system. The technical migration and live implementation of the SAP modules was successfully carried out with integration into the IT system environment at the end of 2014 and beginning of 2015.

The renovation of one of LfA's buildings scheduled for 2015 was postponed until 2016. This renovation work will also include necessary fire safety improvements.

The net assets, financial position and results of operations are all sound.

LIQUIDITY

LfA generally has adequate sources of funding at its disposal in the marketplace based on its excellent credit rating and its status as a development bank under public law backed by guarantees from a public-sector body that will assume responsibility for the bank's liabilities if required to do so.

One of the features of LfA's cash flows is the significant degree of certainty in terms of maturities. Other factors also mean that the cash flows are only subject to minimal fluctuations, are largely fixed in terms of scheduling and can be reliably planned. These factors include the principle of maturity-matching applied in funding activities, the buy-and-hold strategy applied in investing activities and the funding commitments given by the KfW development bank.

All funding is obtained through money and capital markets. The bank was not involved in any open market operations in 2015. Further potential funding is also available through the operational safe custody account that the bank maintains with the European Central Bank at adequate levels. The bank can use this account at any time to obtain liquidity at short notice. The **liquidity buffer** that publicly listed companies are required to hold is also maintained by the bank. Regular re-deposits ensure that the buffer is kept at an adequate level.

The **liquidity** of the bank was maintained at all times during the entire financial year without limitation. As at 31 December 2015, the regulatory liquidity ratio was 1.35 (the minimum required ratio being 1.0). The breakdown of cash and cash equivalents and payment obligations as specified by the German Liquidity Regulation (LiqV) was as follows as at 31 December 2015:

	Maturity breakdown			
Cash and cash quivalents, payment obligations	**Payable on demand and up to 1 month** EUR thousand	**> 1 month up to 3 months** EUR thousand	**> 3 months up to 6 months** EUR thousand	**> 6 months up to 1 year** EUR thousand
A. Cash and cash equivalents	1,325,645	536,425	865,722	1,554,189
B. Payment obligations	979,389	786,901	570,290	1,610,460
Maturity mismatch	346,256	-250,476	295,432	-56,271
Positive maturity mismatch	346,256			
Adjusted maturity mismatch		882,681	865,722	1,849,621
Liquidity ratio	**1.35**			
Monitoring ratios		1.12	1.52	1.15

As at 31 December 2015, the breakdown of the liquidity coverage ratio (LCR) in accordance with CRD IV/CRR was as follows:

Liquidity coverage ratio	EUR thousand
Liquid assets	2,243,023.6
Liquidity outflows	1,355,292.4
Liquidity inflows	188,144.6
Liquidity coverage ratio	**1.92**

FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

The two main aspects of LfA's operating activities are its statutory development mandate and its direct business as a bank. This two-way orientation largely determines the performance indicators used for managing the bank. However, the critical point is that, although LfA operates in accordance with commercial principles, the priority is not to generate profits and achieve the greatest possible return on equity, but to focus on the bank's special role of promoting Bavaria as a centre of economic activity.

To fulfil its structural policy mandate, the bank creates, refines and provides needs-based products. This applies in particular to the 'Startkredit' and 'Investivkredit' products that form part of the Bavarian SME lending programme, which was optimised in 2015 in close consultation with the Bavarian Ministry of Economic Affairs and Media, Energy and Technology.

LfA generally uses normal banking management strategies and methods in its business management approach. The uppermost principle followed by LfA is meet the requirements of its mandate from the regional government and help the federal state fulfil its structural and economic policy responsibilities. The general parameters specified for the management of the bank require that the bank's intrinsic value be maintained over the long term, as reflected in key performance indicators (KPIs) such as the capital ratios and risk-bearing capacity.

In line with the development mandate, future new business volume (comprising issued loans and the assumption of risk) represents a key management KPI. Other banking KPIs include operating income, administrative expenses and the economic capital forming part of the calculation of risk-bearing capacity. Target values are set for all KPIs. The overall management of the bank includes regular target/actual analyses and assessments of various scenarios and forecasts so that appropriate management action can be determined.

Non-financial performance indicators are becoming increasingly important for the long-term successful performance of the bank, as is the issue of sustainability with all its environmental, economic and social facets. Sustainability is enshrined in the LfA business model, in that the bank finances capital investment over the long term, thereby achieving a sustainable development impact. The development activities are also largely focused on compensating for the structural competitive disadvantages experienced by SMEs and thus ensuring that there is equality of opportunity. The notion of sustainability (with its environmental, economic and social components) forms an integral part of LfA's strategic objectives. It is reflected in the way the bank approaches its commercial operations, from business policy decisions on the design of products and services through to the provision of individual financing deals or advisory services.

Sustainability is a cornerstone of the bank's activities as a responsible employer, both in the structure of internal banking operations and in its corporate social responsibility. LfA's sustainability performance and sustainability-related services are regularly analysed and rated by specialist rating agencies.

A particularly important and established component of LfA's HR policy is to nurture employees, helping them to develop their individual skills and qualifications and make the most of their potential. It is the skills and efforts of employees that enable the bank to be successful. Day-to-day banking work is increasingly being determined by regulatory requirements in addition to the many and varied internal and external challenges. This means that employees must continuously acquire new knowledge and expertise to keep up-to-date from a professional perspective with all the changes. The bank therefore helps its employees to expand their range of skills and expertise within the framework of an annual professional development programme based on the general principle of "develop and demand", offering employees the ideal way to keep their professional capabilities in good shape. Expenditure on training and development amounted to more than EUR 530,000 in 2015, equating to an average investment of almost EUR 1,600 in the abilities of each and every employee. In 2015, more than 87 per cent of employees took part in at least one professional development activity.

The training of the next generation of managers to ensure that they have the requisite skills is another task that the bank considers to be of critical importance. With this in mind, the bank each year offers two banking traineeships as well as two places on a combined study and professional training programme in which the students follow a banking business administration course (resulting in the award of a bachelor of arts degree) in cooperation with the Baden-Württemberg Cooperative State University in Ravensburg. As at 31 December 2015, four people held LfA banking traineeships and five students were enrolled on the combined study and professional training programme.

In addition to using performance indicators reflecting an internal analysis, the bank measures and validates external indicators such as customer satisfaction and brand awareness.

Over and above its specific development mandate, the bank also supports other activities to foster an entrepreneurial spirit and enhance the appeal of Bavaria as a business location. One example is the Junior project, which is run in Bavaria by Bildungswerk der Bayerischen Wirtschaft e. V. (bbw) in conjunction with Cologne Institute for Economic Research. LfA sponsors the project with the aim of improving the environment for business start-ups, communicating the idea of start-ups in schools and presenting LfA to a wider public. It also sponsors business plan competitions, providing start-ups and the people involved with a range of support from individual coaching to the creation of a business plan. This gives young entrepreneurs the tools to approach investors and provides them with the foundation they need to launch themselves into economic independence.

The bank's broadly-based commitment to the arts also aims to enhance the appeal of Bavaria as a location for business. Rather like the bank's support for business start-ups, its arts commitment is aimed at the next generation of artists, focusing on music and the visual arts.

One of the most important performance indicators for 2016 will be how well employees cope with the challenge of accepting the changes in operational and organisational structure arising from the use of the new core banking system in the SAP environment, implementing the changeover in processes and optimising the handling of system components. It is the declared objective of the bank to maintain, and wherever possible improve, the current level of quality and service provided for customers and commercial banks.

SUMMARY OF TARGET/ACTUAL COMPARISON

LfA was able to achieve most of, and in some cases even exceed, its stated forecasts regarding business and earnings performance in 2015. The following table shows a summary of the forecasts together with an indication of the level of target attainment in the form of the year-on-year change or absolute values:

Criterion	Forecast	Target attainment (+/- YOY / Absolute)
Development business - Lending volume I - IV	Stable trend overall Commitment volume > EUR 2.0 billion	6.6 % EUR 2.1 billion
Total assets	No change	-0.8% / EUR -121.7 million
Net interest income and net fee and commission income	Significant fall; target range EUR 130 - 140 million	-11.6% / EUR 141.6 million
Administrative expenses	Increase of up to EUR 20.0 million	EUR 8.2 million
Cost/income ratio	Target: around 50%	39.8 %
Net income for the year/ net retained profit	Around EUR 50.0 million	EUR 49.9 million
Risk-bearing capacity	Addition to fund for gen. banking risk (s. 340g HGB) of EUR 70.0 million	EUR 70.0 million

Some of the variances compared with the forecasts were attributable to the fact that assumptions and expectations in the planning only partially materialised or did not materialise at all.

Overall, the results achieved again enable LfA to report a reasonable level of net retained profits for 2015 and to carry out further reinforcement of its capital adequacy in addition to recognising appropriate loan loss allowances and provisions for all identifiable risks.

Events after the balance sheet date

After the end of the financial year, there were no events of particular significance with an impact on the presentation of the net assets, financial position and results of operations.

Outlook, opportunities and risks

OUTLOOK

The outlook includes forward-looking statements relating to macroeconomic trends, business performance and the net assets, financial position and results of operations of LfA. The statements relate to expectations and assumptions based on the information available as at the date on which the report is prepared. The statements are subject to risks and uncertainties outside the control of the bank. These risks and uncertainties include, in particular, economic trends and developments in financial markets. Changes in interest rates and also in economic conditions play a key role in the demand for development loans.

The predictions made by LfA are largely based on the Annual Economic Report published by the German Council of Economic Experts, the Annual Economic Report published by the German government and on generally available publications and studies relating to economic trends. In the projections for the year published by economic research institutes, the forecasts for economic growth in 2016 are in a narrow band from 1.7 per cent to 1.9 per cent; the German government's Annual Economic Report predicts a growth rate of 1.7 per cent, which is at the lower end of this range.

The steady but muted upturn that the German economy has been experiencing for some time is likely to continue in 2016. The main driver will remain consumer spending, boosted by the fall in the oil price, rising income from employment and transfers, and a net decline in the burden of taxes and levies on households. Further expansionary stimulus is also likely from financial and social policy, not least because of the significant rise in government expenditure and transfers in connection with the influx of refugees into Germany. Alongside the anticipated expansion in construction investment, businesses are also indicating a greater willingness to commit to capital expenditure over the next year, one of the reasons being the availability of favourable financing terms. It is unlikely that there will be much of an impetus from foreign trade because the strength of domestic demand means imports will grow faster than exports. As for trends in interest rates, there is not expected to be any major shift in the yield curve, which is likely to remain at a low level overall.

Key assumptions in these projections are that the financial sector remains stable overall and that there are no negative trends in the eurozone or the global economy that could lead to a marked rise in uncertainty.

Substantial risk is generated by the political tensions in the Middle East and the complex web of interests represented by the parties involved in the numerous conflicts. An escalation in these disputes could unsettle consumers, producers and investors around the globe, significantly undermining economic growth. The tighter monetary policy in the US will also give rise to risks. This policy will enhance the relative appeal of the US as a country for investment and could result in portfolio reallocations at the expense of other regions.

The ECB's decision to increase the volumes in its asset-buying programme could put economic growth at risk, and not just in the eurozone. The ECB's government bond-buying programme is also generating misguided financial policy incentives because a number of European governments are already in a position to issue multi-year bonds with negative coupons. However, the resulting fiscal buffers are not being used to reduce government deficits or even scale back debt. This will impair the future ability of many eurozone countries to use fiscal policy intervention as a means of cushioning adverse shocks and makes them more susceptible to the effects of fluctuating sentiment on international capital markets.

Despite the package of economic support measures already initiated, economic stimulus from the eurozone will probably remain weak over the forecast period. GDP growth of 1.8 per cent is predicted for 2016. Market conditions will continue to be heavily influenced by the activities of the ECB. In 2016, the banks will again have to cope with enhanced regulatory requirements.

However, once again, LfA does not expect to encounter any difficulty in covering its funding and investment needs this year because of its investment-grade credit rating and the manageable extent of its requirements.

For many years, growth rates for Bavaria have been consistently better than the average for Germany as a whole. The local economy – with its significant SME sector – has shown itself to be stable during phases of weak growth, especially as SMEs are well able to exploit growth opportunities effectively. In view of the positive sentiment in the economy, full order books, low interest rates (which stimulate capital investment) and encouraging trends in the labour market (which boost consumer spending), it is reasonable to expect further growth in 2016 and more improvement in employment figures.

LfA – based on its sound business model in conjunction with its triple-A rating – believes that it will be able to continue to strengthen its position as a development bank for Bavaria over the coming years. It also plans to continue to optimise its range of development instruments in view of the structural policy challenges, for example in relation to the switch to renewable energy sources. Particular attention will continue to be focused in 2016 on assistance and support for the state government start-ups initiative using bank funding, for improving the access of technology-based businesses to development loans and for developing sales approaches in the areas of energy efficiency, broadband and digitisation. The issue of digitisation will be a particular focus of development assistance in 2016 because approximately 70 per cent of smaller SMEs have not yet begun this process. In addition, LfA will this year launch a special "digital loan", a product forming part of the bank's forward-looking "Bayern Digital" strategy and aimed at SMEs.

Another area of focus will be the provision of support for innovation-based start-ups because experience has shown that these often turn into sound businesses in the SME sector. In this case, LfA will be working in close cooperation with the European Innovation Fund (EIF) to create the necessary development framework.

Internally, LfA will be focusing over the coming year on digitising its development business, optimising processes in connection with the operation of the SAP system, continuing the implementation of regulatory reporting requirements, modifying products in line with the low interest rates and strengthening sales activities.

In order to forecast the future net assets, financial position and results of operations, the bank prepares annual budgets which are updated on a rolling basis. These budgets include portfolio and income planning, including cost budgets.

In the context of key target planning, LfA has set itself an ambitious target for new development business of EUR 2.5 billion. Overall, this will result in a growing development business with the level of total assets remaining unchanged. The performance of the business in 2016 to date, which has been shaped by the current low level of interest rates and the macroeconomic environment, has been in line with this ambitious approach.

The bank's options for investing and obtaining funding will continue to be affected by the consequences of the sovereign debt crisis in the eurozone. The bank plans to continue with the process of optimising its investment portfolio, the objective being to diversify the risk and stabilise income.

Given the period of persistently low interest rates, LfA expects to see a significant fall in net interest income and net fee and commission income in the coming year to a figure approximately in the range EUR 120.0 million to EUR 130.0 million. Net interest income will continue to be closely linked to changes in the level of interest rates. In contrast, net fee and commission income will be heavily influenced by the pace of economic growth.

According to the planning carried out by the bank, administrative expenses are likely to be subject to an increase of up to EUR 5.0 million because of the necessary investment in IT, the multitude of regulatory changes and the contributions to the resolution financing mechanism for banks (bank levy). At the moment, LfA is assuming that the number of employees will remain unchanged.

The continuation of low interest rates in 2016 and the existing downward pressure on margins will heavily influence trends in net interest income. Both net fee and commission income and the change in administrative expenses will have an adverse impact on the cost-income ratio, a KPI used for business management purposes. The bank predicts that this ratio will therefore be around 50.0 per cent for the 2016 financial year.

Trends in financial markets will be a major feature of 2016. LfA intends to continue with the consolidation of its risk-bearing capacity. In addition to recognising appropriate loan loss allowances and provisions for all identifiable risks (which are expected to continue to diminish), the bank is planning to bolster its capital adequacy by adding further sums to the fund for general banking risks. Despite the substantial contraction in income components and the anticipated rise in administrative expenses, the bank is still forecasting that the outcome will be net income for the year of just under EUR 45.0 million.

RISK REPORT

STRATEGIC GUIDELINES

The two main aspects of LfA's operating activities are its **development mandate** and its **direct business as a bank**.

LfA Förderbank Bayern is a regional development bank operated by the Free State of Bavaria. Its legal structure is that of a public-sector agency and the bank therefore has a special responsibility to the general public. It has a mandate from the regional government – as part of financial, economic, transport, environmental and labour market policy and in compliance with the regulations on financial assistance laid down by the EU – to provide financial support for projects initiated by commercial enterprises and for other activities to improve and strengthen the economic, transport and environmental structure of Bavaria.

LfA operates in accordance with commercial principles; however, its priority is not to generate profits and achieve the greatest possible return on equity, but to focus on its special role of developing Bavaria as a location for business. To this end, LfA provides a considerable number of additional services to the detriment of its net retained profit. These services primarily comprise low-interest lending programmes financed by the bank itself and the assumption of risk by the bank. The critical targets in the management of the bank are a high **level of development funding** and the maintenance of the bank's **risk-bearing capacity**.

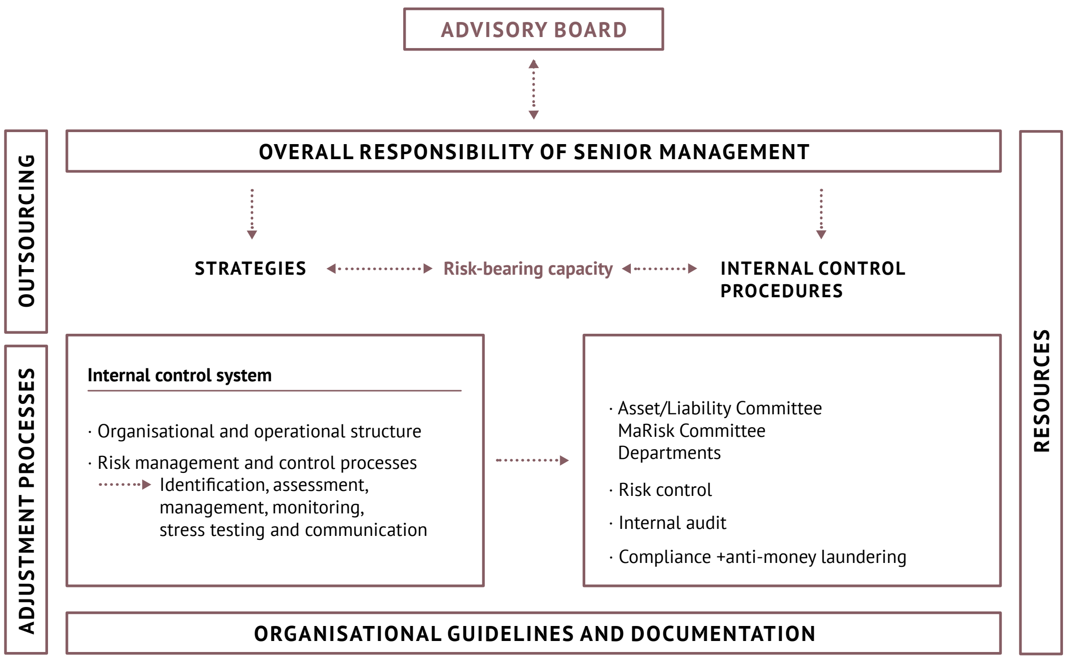
In terms of a long-term framework for the **management of quality and risk**, LfA follows a quality- and risk-based management approach that creates appropriate strategies, flexible structures and effective processes using the same principles.

RISK MANAGEMENT SYSTEM

LfA is a specialist bank backed by an unlimited guarantee from the Free State of Bavaria. As a development bank, LfA is subject to all standards imposed by banking regulators. The standards include, in particular, the **Minimum Requirements for Risk Management (MaRisk)** specified by Germany's Federal Financial Supervisory Authority (BaFin). An interdepartmental committee has been set up to coordinate the bank's activities to implement and comply with MaRisk.

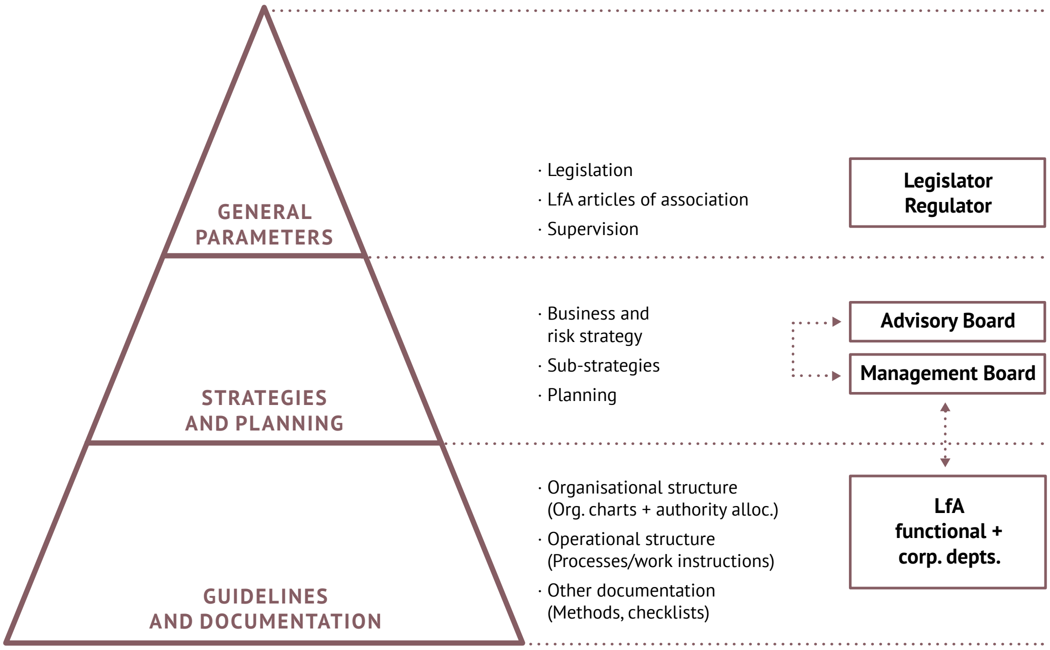
The risk management system encompasses all activities involved in identifying, analysing and assessing business risk and in implementing subsequent action to ensure that corporate objectives are achieved.

The following diagram outlines LfA's risk management system (in accordance with MaRisk):



The bank's **risk policy** is determined by the framework set out by statutory provisions and the bank's articles of association; responsibility for this policy lies with the Management Board. The Management Board specifies a corporate strategy and a consistent risk strategy, which together form the basis for the bank's risk management system. The corporate and risk strategies are updated on an ongoing basis. The updating process includes an annual risk inventory check in which the bank reviews whether, and to what extent, new risks need to be included in the risk management and control process. The corporate and risk strategies are complemented by an IT strategy, which is derived from the corporate objectives. The IT strategy sets out the requirements for designing, organising and optimising IT processes, for using the existing information technology and for introducing new applications.

The following diagram shows the interrelationship between the parties involved in LfA's risk management system in the context of the existing structure:



Given the bank's statutory function as a regional development bank, LfA is not active in all the usual areas of banking business, with the result that many of the risks to which banks are typically exposed are not relevant.

Within the risk management system, risks relevant to the management of the bank are identified and quantified. When a decision is made to take on a particular risk, the risk is limited and continuously monitored. The key principle to be observed in this process is compliance with risk-bearing capacity. Under this principle, the bank's overall risk must be covered at all times by the available potential risk cover in the form of capital and risk provisioning.

The emerging deterioration in the income situation caused, in particular, by the persistently low interest rates combined with the rising expenses resulting from the extensive investment in forward-looking technical capability represents a particular challenge from a risk perspective. This income risk, which is closely associated with the low interest rates, has been declared in the risk inventory check as a relevant and therefore material risk. Given the design of the calculation for risk-bearing capacity, the risk from the deterioration in income is already included in the calculation under the going concern approach.

PROCESSES

The overall profile of the types of risk material to LfA is derived from the process of risk identification (risk inventory check) carried out each year on a standardised basis. In this process, the bank reviews whether, and to what extent, risks need to be included in the risk management and control process.

As a rule, risks other than liquidity risk and operational risk are quantified using portfolio analyses at overall bank level. Value-at-risk approaches are normally used for credit risk, interest-rate risk and spread risk. In these approaches, the maximum expected loss (subject to certain assumptions) is calculated for each of the risks involved. The effects of correlations and/or diversification are not factored into these risk analyses.

Subject to appropriate coverage from the potential risk cover and taking into account the corporate and risk strategies, the Management Board each year specifies and approves a limit for each risk category defined as material and, in aggregate, an overall risk ceiling.

LfA's risk management process at overall bank level falls largely within the remit of the asset/liability management committee (asset/liability committee), which is responsible for managing the risk, and the central services risk control unit, which is responsible for monitoring the risk. The two units are segregated from each other in terms of both organisation and function. In addition, the MaRisk committee coordinates the MaRisk-compliant organisation of workflows and processes that fall within the responsibility of each organisational unit. Among other things, the asset/liability committee addresses the issues as to whether certain risks should be consciously assumed, avoided or restricted. The committee submits proposals to the Management Board for decisions in this regard or comes to its own decisions within the limits of authority specified for the committee.

Risk control is responsible for monitoring the risks on an ongoing basis, backtesting the risk measurement procedures and, in particular, monitoring compliance with the specified limits in the form of the allocated potential coverage for each individual risk category. This unit also carries out a comprehensive analysis of LfA's credit risk, liquidity risk, interest-rate risk and spread risk as part of stress tests. The stress tests include both historical and hypothetical scenarios suitable for this purpose. The risk reports to the Management Board and Advisory Board are the responsibility of risk control. The Management Board appoints an officer from the organisation & administration department to be responsible for monitoring and reporting operational risk.

MANAGEMENT

An **overall risk management approach for the bank** is used to manage risk. At the core of the risk management system is a **risk-bearing capacity** strategy, ensuring that all the material risks relevant to the bank can be absorbed using the bank's own resources. The risks deemed to be material for the bank are credit risk, interest-rate risk and operational risk. Spread risk is also included in the risk-bearing capacity strategy. All the risks included in the risk-bearing capacity calculation, together with liquidity risk, are deemed to be risks relevant to the management of the bank in the analysis below.

The regular **analysis of risk-bearing capacity** and the calculation and **specification of potential risk cover** (PRC) form the basis for the quantitative management and monitoring of the bank's risks.

Overall bank management of credit risk includes an analysis of both the entire portfolio and relevant sub-portfolios. In addition, the bank applies breakdowns based on ratings and size categories in addition to investigating any concentrations. These analyses are also used as the basis for corrective action to manage credit risk.

In addition to management at portfolio level, **case-by-case risk assessment** is a key component of the management system for credit risk. The units responsible for these activities are the three lending departments and, in the case of bank counterparties, the bank commitments team within the business management/accounting department. The level of detail in the risk analysis carried out in connection with lending decisions and lending monitoring depends on the extent of risk involved. Decision-making authority and the group of recipients for monitoring reports are specified at team, departmental, Management Board or Advisory Board levels depending on the risk concerned. Non-performing loans may be subject to workout procedures and the recognition of a specific loan loss allowance depending on changes in the credit quality of the borrower.

A comprehensive risk analysis has been carried out to review risk management at group level. This analysis included the long-term equity investments, the shares in affiliated companies and also the indirect long-term equity investments held by the subsidiary LfA GV. The risk analysis investigated and assessed from the LfA perspective the economic risks, i.e. the risks that the own funds made available might be lost, and also the existence of other risks, such as the risk of an obligation to make further capital payments. A separate analysis of the risk-bearing capacity of LfA GV was also carried out. The analysis demonstrated that the group risk was not material (as in the existing classification in the risk inventory check for LfA) and was comprehensively covered by the inclusion of the long-term equity investments and the shares in affiliated companies in the quantification of credit risk. There is currently no need to carry out a separate, more extensive quantification of the group risk. In the future, this risk analysis will be updated once a year. A "traffic light" system has also been introduced. Based on the extent of the long-term equity investments, this system will be used to continuously monitor whether there is any need for action during the course of the year.

RISK-BEARING CAPACITY

As part of the risk-bearing capacity strategy, LfA has specified the **gone concern approach** as the lead management method. A management method is defined as all the associated management-relevant procedures aimed at ensuring that the risks aggregated at overall bank level are covered by the available potential risk cover (PRC). The aggregate risk cover is currently determined on the basis of the income statement and balance sheet. The potential risk cover (= economic capital) comprises equity and the funds for general banking risks (in accordance with section 340f and section 340g HGB). Hidden charges under long-term securities are deducted in the calculation.

The figures are predominantly measured on the basis of value-at-risk with a confidence level of 99.9 per cent and a uniform risk analysis horizon of one year.

However, this management approach by itself may only illustrate risk-bearing capacity from one particular perspective. In a comprehensive risk management system, it is important to be aware of the limitations of the management method used and apply corrective action, where required. The bank therefore also uses the **going concern approach** as an accompanying method. With this risk management approach, LfA aims to achieve a balance between expected income and the risk of loss.

The calculation of risk-bearing capacity is integrated into the planning process. In the calculation, the tied proportion of cover assets is determined according to LfA's risk appetite and using the gone concern approach.

As in previous years, the bank has prepared medium-term simulations based on the current and forecast risk situation and has taken into account the new regulatory requirements. On the basis of these calculations, the bank has demonstrated that, under both the going concern approach and the gone concern approach, risk-bearing capacity is assured at all times.

STRESS TESTS

Regular stress tests add a further dimension to the risk management and control processes. Typical stress factors in the case of credit risk are a deterioration in ratings (increase in probability of default, PD) and an increase in loss rates (rise in loss given default, LGD). For interest-rate risk, the bank calculates potential interest-rate risk in overall bank cash flows using a variety of stress scenarios. The scenarios assume extreme changes in interest rates with potential for higher losses; the data is derived from historical returns on money and capital markets. The scenario involving a parallel shift of +200/-200 basis points (BaFin interest-rate shock) produced a change of 14.3 per cent in the present value of regulatory own funds based on the liable equity as at the balance sheet date. The bank also complied at all times during the course of the year with BaFin's requirements in relation to extreme changes in interest rates. It can therefore be concluded that LfA is not a bank subject to heightened interest-rate risk. In the case of spread risk, scenarios based on historical data are used. For operational risk, flat-rate assumptions are used in the stress test analyses.

The bank makes a distinction between two types of scenario. In the first type, quantitative analyses are carried out at overall bank level. In these analyses, all types of risk relevant to risk management are subjected to a suitable test. An example of this type of scenario is a historical scenario in which a unique outlier in a sub-portfolio that has occurred in LfA's past experience of credit risk is extrapolated over the entire portfolio.

In the second type of scenario, the bank carries out qualitative investigations into individual cases, in most instances based on ad hoc occurrences and information.

To complement these procedures, the bank also carries out inverse stress tests to investigate whether there are any events that could jeopardise the survival of a bank as a going concern. The scenarios that have been applied are reviewed each year to ensure that they are up to date. This review takes into account a number of factors including the findings from the risk inventory check, new areas of business, changes in the market and other information.

COMPLIANCE FUNCTION AND INTERNAL AUDIT

The task of the compliance function (MaRisk) set up as part of the risk management system is to counter the risks that could arise from non-compliance with legal provisions and requirements and to introduce an effective internal system to avoid problems caused by gaps in provisions, particularly in areas such as banking supervision. The compliance officer (MaRisk) entrusted with this task is a member of the MaRisk committee. In coordination with the relevant departments, the officer determines the legal provisions and requirements that are material to LfA and carries out a risk analysis at regular intervals. LfA has set up a process to monitor, evaluate and implement future legal requirements, particularly those in relation to banking supervision. The compliance function (MaRisk) monitors pending changes, the departments assess the possible implications for LfA, and the MaRisk committee decides on the implementation requirement, the responsibility for implementation and deadlines: the objective is to ensure that all new regulatory and other requirements are implemented by LfA comprehensively and in good time. The responsibility of the Management Board and the departments for compliance with legal requirements is not affected by the tasks of the compliance function (MaRisk).

On behalf of the Management Board, LfA's internal audit department independently and autonomously audits and assesses the effectiveness and appropriateness of the risk management system on a continuous basis.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM IN RELATION TO THE ACCOUNTING PROCESS

The **internal control system (ICS)** supports the effectiveness and efficiency of operating activities, ensures that financial reporting is reliable and that the bank complies with relevant statutory provisions as well as internal management requirements, and helps to protect the assets of the bank.

The **risk management system (RMS)** encompasses all activities involved in identifying, analysing and assessing business risk and in implementing subsequent action to prevent risks from adversely impacting the achievement of corporate objectives. The objectives of the accounting-related ICS/RMS are to ensure that the bank complies with the associated standards and regulations and adheres to generally accepted accounting principles.

The accounting process includes all activities from posting and processing a transaction to preparing the annual financial statements. The design and effective maintenance of an appropriate accounting-related ICS is the responsibility of the Management Board of LfA. Implementation is the responsibility of the business management/accounting department in collaboration with the risk control unit, IT and organisation & administration departments. There is a clear segregation of functions between the main units and departments involved in the accounting process (business management/accounting department, central services risk control unit, IT department and the organisation & administration department) and areas of responsibility are clearly assigned.

Accounting-related transactions are largely processed decentrally. All operations relevant to accounting are initiated using IT systems. The relevant departments/central services units are responsible for ensuring that accounting transactions are recorded in full and accurately and for ensuring that the associated controls are carried out and documented. The business management/accounting department holds functional responsibility throughout the bank for transaction posting rules, bookkeeping systems, accounting treatment and technical accounting issues.

The accounting process is permanently documented in writing with suitable work and procedural instructions based on statutory requirements, in particular those in the German Commercial Code (HGB) and the German Regulation on the Accounts of Banks and Financial Services Institutions (RechKredV). The relevant units carry out regular monitoring and make adjustments in line with statutory and regulatory changes where required. The accounting process is supported by both standard and specially developed software applications. The bank protects systems against unauthorised access by issuing employees with authorisations appropriate to their level of authority. The principle of doublechecking by a second person is applied in all accounting-relevant processes. Automated validation checks within systems, standardised reconciliation routines and target/actual comparisons all help to ensure that accounting records are complete, that errors are discovered or prevented, and at the same time that assets and liabilities are accurately recognised and measured.

The business management/accounting and organisation & administration departments are involved in the new product process so that new products are correctly recognised in accounting systems. There were no content changes affecting the primary accounting process in 2015. However, the introduction of the SAP systems did mean that some process changes were required, mainly relating to operational structure.

The accounting process is documented using a structure that is clear for suitably qualified persons. The corresponding documents are archived for the periods specified in statutory provisions.

The internal audit department carries out regular audits to monitor the accounting-related internal control system/risk management system and ensure that the systems are fully functioning.

Reports are submitted promptly to the Management Board as part of the overall reporting system. The Management Board regularly provides the Advisory Board with the latest information on the performance of the bank.

RISKS

Subject to appropriate coverage from the potential risk cover and taking into account the corporate and risk strategies, the Management Board set an **overall risk ceiling** for 2015 on the basis of which the individual types of risk were also limited. The bank continuously monitors the limits and the adequacy of the assigned cover assets for the risk types described below.

Credit risk

Credit risk is defined as the risk that a business partner will not be able to meet some or all of its contractually agreed obligations to LfA. The following individual risks are aggregated under credit risk.

- Default risk – counterparty does not meet its obligations to repay loans or obligations in relation to securities (issuer risk)
- Counterparty risk – default on the part of counterparties in derivative contracts (swaps)
- Country risk – default on an exposure with a counterparty outside the Federal Republic of Germany
- Equity risk – loss resulting from the provision of equity

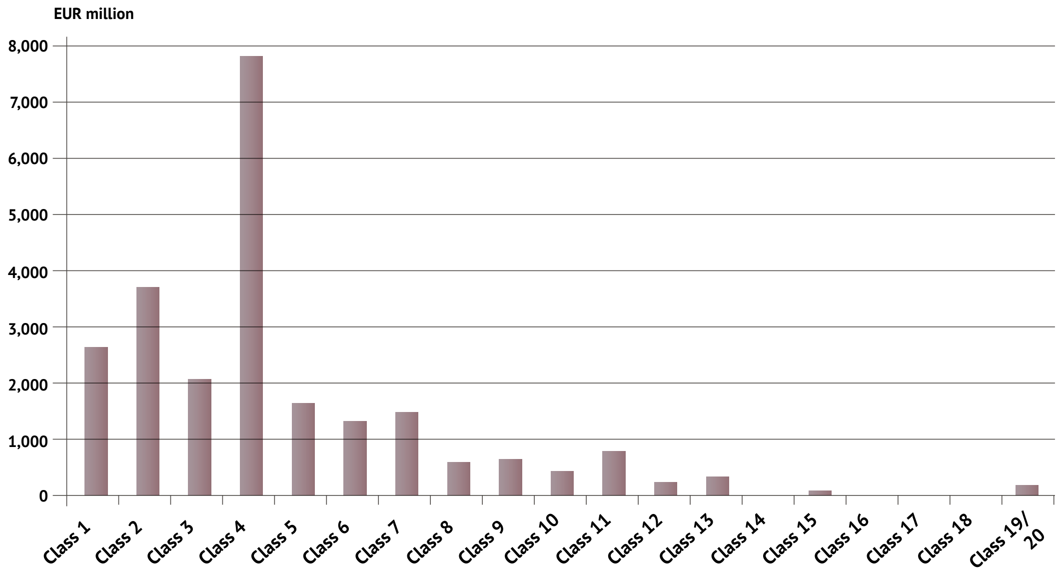
Because of the structure of the business model, credit risk forms the largest group of risks to which LfA is exposed. This risk is measured using a credit portfolio model. This is based on the standard mathematical model, CreditMetrics; risk is quantified in the default mode. The risk measure is credit value at risk (CVaR), which is determined using a Monte Carlo simulation. Risk is quantified based on a confidence level of 99.9 per cent and a risk analysis horizon of one year. A critical determining factor in the model is the size of the exposure in each case. In the case of the lending and guarantee business, the amount at risk includes any binding undrawn commitments; in securities business, the exposure is the nominal amount, and for derivatives, it is the credit equivalent amount. The probability of default for the partner also plays a key role. This can be determined directly from an internal or external rating based on a master rating scale. The loss rate also represents a further factor in the measurement of the risk. This rate reflects the available collateral in each case; alternatively, it can be determined on the basis of rates obtained from external data sources. Hedging structures that are typical in development business are also taken into account, thereby mitigating the risk.

Credit risk arising from long-term equity investments and from shares in affiliated companies is included in the credit portfolio model and therefore forms part of the reported credit risk.

The presentation of probabilities of default in a standard master scale ensures comparability between the individual rating systems. The scale comprises 20 different classes, which can be grouped into investment grade, speculative grade, watch list and default.

The following table shows a breakdown of LfA's overall portfolio by risk class:

Credit risk by risk class



Country risk is a type of credit risk that materialises if, in a particular country, a partner or the country itself is unable to meet payment obligations on time or at all as a result of an act by the country's government or authorities or because there are economic problems within the country concerned. In the annual risk inventory check, there was no change in respect of country risk, which continued to be classified as not material. The main reason for this is that LfA has for the most part invested only in neighbouring countries within the eurozone. A further point with regard to the lending business is that, even in the case of exposures to foreign commercial banks, the ultimate borrowers are German companies. These risk exposures are therefore for the most part related to risk arising from the counterparty credit quality. In addition, the information obtained during country analyses carried out by the bank did not point to any heightened country risks. At the moment, LfA is therefore not exposed to any material country risk. The existing foreign risk exposures are included in the credit risk on the basis of the borrower credit ratings.

Counterparty risk is the risk that a contractually agreed service in a pending trading transaction may not be performed by the counterparty and it may therefore be necessary to enter into a replacement transaction on terms that are worse than in the original transaction. **Issuer risk** on the other hand is the risk of a deterioration in the credit rating, or default, of the issuer of a security or reference entity, whereby repayment of the outstanding amount is jeopardised or cannot take place at all. These risks are managed by issuing a special limit. Compliance with the limit is continuously monitored by the financial markets service team, which is segregated organisationally from the trading units. These risks are also already included in the reported credit risk.

Market risk

The most significant market risks faced by the bank are interest-rate risk and spread risk on securities. Both of these risk types are included in the risk management and monitoring process. The bank is also exposed to other market risks to a minor extent. Currently, the bank is not exposed to any currency risk at all. LfA is a bank without a trading book and it does not undertake any own-account trading as defined by section 1a (1) KWG.

Interest-rate risk is the potential risk of a loss in the fair value of an interest-rate risk exposure if there is an unfavourable change in interest rates. This type of risk is assessed and managed exclusively for the bank as a whole. A value-at-risk (VaR) is determined for this risk on a continuous basis. This VaR is quantified for the total bank cash flows using a modern historical simulation with a confidence level of 99.9 per cent and a holding period and analysis period of 250 days (in the gone concern approach). When investing its own funds, LfA pursues a benchmark strategy focusing on the generation of stable contributions to earnings over the long term. The predictive quality of the VaR model is reviewed at least annually with a backtesting procedure.

LfA believes that **spread risk** is primarily influenced by the credit rating of the borrower and by the impact of the market on the credit spread environment. LfA pursues a buy-and-hold strategy in its investing activities and only buys securities backed by extremely good credit ratings. If a rating is downgraded at a later point below a defined threshold, the bank then decides on a case-by-case basis whether it is going to continue to hold or sell the security with the weaker rating. Historical spread data is used to calculate spread risk. The risk is quantified using the same procedure as that for the modern historical simulation with a confidence level of 99.9 per cent and a holding period of 250 days.

Liquidity risk

Liquidity risk in the actual sense of the term refers to the risk that it may not be possible to satisfy some or all payment obligations in accordance with agreed contractual terms. In a broader sense, it refers to the risk that it may only be possible to obtain funding on terms that are worse than those expected. Detailed financial planning is used to manage the bank's ongoing ability to meet its payment obligations. The main features of the bank's liquidity position are as follows: funding is largely arranged on the basis of matching maturities; the majority of the bank's cash flows have fixed maturities and can therefore be budgeted with a high degree of accuracy; as a result of LfA's excellent credit rating, the bank also has at its disposal extensive money market trading lines with a variety of banks.

LfA has been able to obtain funding from money markets without any restriction. Furthermore, the bank also has on its balance sheet fixed-income securities with a value of EUR 4.8 billion that for the most part could be used as collateral to obtain funding from the European Central Bank if required. The bank would therefore have no problem in turning at any time to the funding facilities provided by the European Central Bank if the need for additional funding arose.

Given the circumstances described above, the bank believes that its liquidity risk is low and can be easily managed despite the fact that it is difficult at the moment to predict how trends on the money and capital markets will develop. As regulatory requirements specify that liquidity risk must be classified as a material risk, and as LfA is deemed to be equivalent to a publicly listed bank, the bank has structured its risk management system for liquidity risk accordingly. LfA generates a funding matrix that aggregates liquidity-relevant cash flows into year segments over an analysis period of ten years and that also breaks down the details for the next two years month by month. The bank also carries out stress tests and produces regular reports. As at 31 December 2015, a measured volume of EUR 1.51 billion had been allocated to the liquidity buffer required by MaRisk. The utilisation of the liquidity buffer was calculated at 27.9 per cent as at the reporting date based on an analysis period of 30 days.

Liquidity continues to be monitored using the liquidity ratio specified by LiqV. For the purposes of determining this ratio, the expected receipts over a 30-day period must be compared against the expected payments over the same period, whereby the receipts in the analysis period must be greater than the payments. Over the course of the year, this ratio fluctuated in the range 1.29 to 3.77 and was thus above the minimum required ratio of 1 at all times. The open lending commitments all resulted from the standard business activities of a development bank.

Operational risk

Operational risk refers to the risk of losses arising as a consequence of the inappropriateness or failure of internal processes, people or systems or as a consequence of external events. This definition includes legal risk, but excludes strategic risk and reputational risk.

The bank assigns responsibility for recording, assessing and monitoring this risk to an officer from the organisation & administration department. All the departments affected are regularly involved in the processes.

A system originally produced by the Association of German Public Sector Banks (VÖB) known as Operational Risk Center is used to record possible risks. The bank carries out an annual risk inventory check in which it analyses all possible risk events and losses incurred to establish the causes of the event or loss concerned. This is carried out regardless of the size of the loss or potential risk to enable the bank to initiate suitable corrective action at an early stage should circumstances with similar characteristics arise.

The individual risks that are identified are broken down into risk classes (I to IV) depending on the possible amount of the loss and the probability that the risk will materialise. Action is initiated for each individual risk in classes I and II. The action is specified by the operational risk officer in consultation with the relevant department. The officer documents the agreed action and monitors its implementation. The risks in classes III and IV are subject to acceptance of the risk. No separate action is documented or taken for these risks other than the normal banking precautionary measures. Regardless of the risk class involved, the bank also takes out insurance policies (taking into account cost-benefit issues) to pass on the risk in conventional areas of risk such as fire, vehicle damage, etc.

Since 2004, LfA has been using a central database to collect information on losses and loss-free risk events. In 2015, the identified losses and loss-free risk events did not highlight any risks that could jeopardise the bank as a going concern. A significant loss event is defined as one in which the gross loss is EUR 15 thousand or more. If this threshold is exceeded, an ad hoc report is submitted to the member of the Management Board responsible for managing operational risk. If a loss exceeds EUR 100 thousand, an ad hoc report is sent by email to all the members of the Management Board. In the year under review, three ad hoc reports were submitted to the member of the Management Board responsible for operational risk and two further ad hoc reports were sent to the entire Management Board. The gross loss arising from loss events in 2015 amounted to EUR 515 thousand.

The risk officer submits regular reports to the Management Board on the overall risk position from an operational perspective. These reports are prepared on the basis of the risk portfolio broken down by risk classes and the data captured in the loss database.

The Basic Indicator Approach in accordance with Basel II is used as the basis for quantifying operational risk within the risk-bearing capacity strategy. This risk measurement is fed into risk reports and used in the calculation of risk-bearing capacity. The economic capital for operational risk is determined annually using a method similar to that in the regulatory Basic Indicator Approach.

Additional components of the risk management system

LfA has also appointed officers with responsibility for specific risk issues. This provides a further dimension to the risk management system to ensure that it is appropriate and effective, and also serves as a precautionary measure to ensure that the bank complies with existing legal requirements. An anti-money laundering officer and a deputy have been appointed to combat money laundering and the financing of terrorism and to prevent other criminal offences. The securities compliance officer monitors the bank's compliance with the legal requirements under the German Securities Trading Act (WpHG) relevant to LfA on the basis of its business activities; in particular, this involves monitoring compliance with the prohibition on insider trading, monitoring employee transactions and ensuring that the bank satisfies the WpHG reporting obligations. The compliance function (MaRisk), which is a mandatory requirement as part of proper business organisation, is the responsibility of the compliance officer (MaRisk). The objective is to counter risks that could arise from non-compliance with statutory, regulatory or voluntary internal requirements and to work towards avoiding gaps in requirements and implementation omissions. On 1 June 2015, LfA brought together the responsibilities under these officer functions in a newly created central services compliance unit, the head of which is responsible for the officer role. The data protection officer monitors compliance with data protection requirements. All officers are answerable directly to the Management Board for their respective areas of responsibility and therefore report directly to the Management Board.

Overall risk position

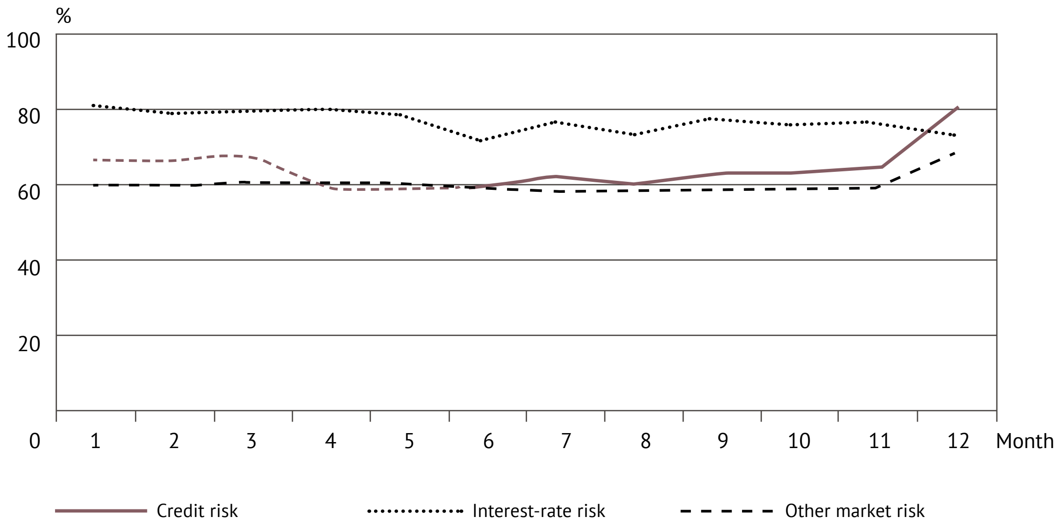
LfA's **overall risk position** continues to be positive.

The following table shows the overall risk ceilings specified by the Management Board for the main types of risk, together with the quantification of the risk and the utilisation of the limits as at 31 December 2015:

Risk-bearing capacity analysis as at 31 December 2015

	Risk EUR million	**Limit** EUR million	**Utilisation** %
Credit risk	803.8	1,000.0	80.4 %
Interest-rate risk	110.3	150.0	73.5 %
Other market risk	165.2	240.0	68.8 %
Operational risk	24.2	30.0	80.7 %
Total	**1,103.5**	**1,420.0**	**77.7 %**

The following chart shows the change in the utilisation of limits (in per cent) for the main types of risk over the course of the year; the risk types were adjusted at the end of the year:



Because of the changes in the IT system landscape, credit risk was determined quarterly in the first half of 2015 and then monthly thereafter.

The calculation for operational risk is carried out once a year. As this value is therefore constant over the year, this type of risk is not included in the chart.

Over the course of 2015, all risk exposures fluctuated within their respective limits.

Alongside the long-term gone concern approach, a short-term earnings-based model (going concern approach) is used to monitor the bank's **compliance with its risk-bearing capacity** at all times.

The bank ensured that its full risk-bearing capacity was in place at all times. It has initiated appropriate action plans to address possible future challenges and the tighter capital requirements resulting from Basel III.

LfA is complying with the regulatory requirements under CRD IV/CRR with a Common Equity Tier 1 (CET1) ratio / Tier 1 ratio of 22.3.

OPPORTUNITIES

LfA takes on risk to a clearly defined extent, limited by general parameters derived from its mandate as a special bank for regional economic development and from the defined corporate and risk strategies. Opportunities for unexpected developments or events that could lead to a positive outcome and variance from targets are therefore also only available to a limited degree. Generally speaking, forecast opportunities associated with future business developments emerging from the business model are included in the annual strategic planning process.

For example, LfA sees potential opportunities in an improvement in the ratings for exposures, which would lead overall to the recognition of a lower level of ratings-based potential credit risk cover.

The objective of asset/liability management is to generate a fixed interest and fee and commission margin. Opportunities in the investment portfolio are therefore limited. The greatest opportunities for profits are therefore in the differing trends in realised cost rates on the assets and liabilities sides and not in additional gains on open interest-rate positions. As a consequence, opportunities for achieving additional income from market risk exposures are not a priority.

LfA continues to enjoy high demand from investors because of its status. This is reflected in a favourable funding environment for the bank. The bank sees additional opportunities in the coverage of short-term liquidity requirements. This funding can be obtained from different money market segments, depending on the financial markets. It is therefore possible to obtain a very low-cost supply of liquidity; in some cases, this could even generate income because of negative interest rates.

There are some potential opportunities from strengthening sales at all levels. An important lever for effectiveness in this regard is ongoing optimisation of the lending process chain to ensure that standardised business transactions are processed as efficiently as possible. From a business management perspective, continuous improvement and streamlining in the processing of transactions with commercial banks can have a beneficial impact on unit costs for both partners. From a sales perspective, it enhances the appeal of products and services, which can ultimately help to create a broader demand base. One of the components that the bank is planning to implement in the medium term in this regard is the development of a web-based system for the submission and processing of applications.

LfA supports the development of the Free State of Bavaria by pursuing its development mandate systematically and on a sustainable basis in a wide variety of ways. Just one example is the bank's support for, and processing of, the growth fund for risk-capital-financed businesses, an arrangement that is unique in the whole of Germany. LfA sees additional potential particularly in this business start-ups segment. Based on optimisation of the range of development products and services offered, particularly in view of the structural policy challenges such as the switch to renewable sources of energy, LfA believes there is further potential for continuing to expand its development mandate in line with future requirements.

This is what LfA Förderbank Bayern stands for; this is what "working for Bavaria" means.

Munich, 21 April 2016

LfA Förderbank Bayern
The Management Board

Dr. Beierl　　Dr. Schleicher　　Göttler　　Stolle

1.2 Balance sheet of LfA Förderbank Bayern, Munich, as at 31 December 2015

Assets	2015			As at 31 December 2014		
	EUR	EUR	EUR	EUR	EUR	EUR
1. Cash reserve						
a) Cash on hand		13,547.99			10,637.08	
b) Balances at central banks		41,738,022.46			19,403,587.92	
of which: at Deutsche Bundesbank EUR 41,738,022.46 (31 Dec. 2014: EUR 19,403,587.92)						
c) Post office bank balances		0.00	41,751,570.45		0.00	19,414,225.00
2. Public-sector debt instruments and bills eligible as collateral for central bank funding						
a) Treasury bills, non-interest-bearing treasury notes and similar public-sector debt instruments		0.00			0.00	
of which: eligible as collateral at Deutsche Bundesbank EUR 0.00 (31 Dec. 2014: EUR 0.00)						
b) Bills of exchange		0.00	0.00		0.00	0.00
3. Loans and advances to banks						
a) Repayable on demand		42,053,814.96			9,883,087.79	
b) Other loans and advances		14,187,787,675.35	14,229,841,490.31		14,608,719,334.50	14,618,602,422.29
4. Loans and advances to customers			2,254,160,324.24			2,022,137,872.03
of which: secured by mortgages EUR 3,845,562.53 (31 Dec. 2014: EUR 4,812,441.07)						
of which: local authority loans EUR 1,134,507,882.63 (31 Dec. 2014: EUR 1,037,660,290.05)						
5. Bonds and other fixed-income securities						
a) Money market instruments						
aa) issued by the public sector	0.00			0.00		
of which: eligible as collateral at Deutsche Bundesbank EUR 0.00 EUR 0.00						
ab) issued by others	0.00	0.00		0.00	0.00	
of which: eligible as collateral at Deutsche Bundesbank EUR 0.00 (31 Dec. 2014: EUR 0.00)						
b) Bonds						
ba) issued by the public sector	663,186,581.01			726,856,631.23		
of which: eligible as collateral at Deutsche Bundesbank EUR 663,186,581.01 (31 Dec. 2014: EUR 726,856,631.23)						
bb) issued by others	4,147,345,339.10	4,810,531,920.11		4,099,754,826.41	4,826,611,457.64	
of which: eligible as collateral at Deutsche Bundesbank EUR 3,973,166,953.76 (31 Dec. 2014: EUR 4,015,730,429.83)						
c) Own bonds		8,258,752.35	4,818,790,672.46		3,766,154.75	4,830,377,612.39
Nominal amount: EUR 8,188,000.00 (31 Dec. 2014: EUR 3,643,000.00)						
			CARRIED FORWARD: 21,344,544,057.46			**CARRIED FORWARD: 21,490,532,131.71**

1.2 Balance sheet of LfA Förderbank Bayern, Munich, as at 31 December 2015

Assets (continued)	2015 EUR	2015 EUR	2015 EUR	As at 31 December 2014 EUR	As at 31 December 2014 EUR	As at 31 December 2014 EUR
			BROUGHT FORWARD: 21,344,544,057.46			BROUGHT FORWARD: 21,490,532,131.71
6. Equities and other variable-yield securities			0.00			3.00
6a. Trading assets			0.00			0.00
7. Long-term equity investments			47,185,131.10			47,195,131.10
of which: in banks EUR 72,850.00 (31 Dec. 2014: EUR 72,850.00) in financial services institutions EUR 0.00 (31 Dec. 2014: EUR 0.00)						
8. Shares in affiliated companies			85,068,879.36			71,991,459.20
of which: in banks EUR 0.00 (31 Dec. 2014: EUR 0.00) in financial services institutions EUR 0.00 (31 Dec. 2014: EUR 0.00)						
9. Trust assets			248,705,580.22			243,591,597.93
of which: trust loans EUR 248,705,580.22 (31 Dec. 2014: EUR 243,591,597.93)						
10. Intangible assets						
a) Internally generated industrial and similar rights and assets		0.00			0.00	
b) Purchased concessions, industrial and similar rights and assets, including licences in such rights and assets		28,065,105.67			662,056.56	
c) Goodwill		0.00			0.00	
d) Prepayments		883,589.12	28,948,694.79		23,758,727.35	24,420,783.91
11. Property and equipment			43,356,683.90			45,303,619.22
12. Unpaid contributions called up			0.00			0.00
13. Other assets			14,845,650.80			12,017,846.95
14. Prepaid expenses			203,723,120.64			203,022,504.29
TOTAL ASSETS			**22,016,377,798.27**			**22,138,075,077.31**

1.2 Balance sheet of LfA Förderbank Bayern, Munich, as at 31 December 2015

Equity and liabilities	2015			As at 31 December 2014		
	EUR	EUR	EUR	EUR	EUR	EUR
1. Liabilities to banks						
a) Repayable on demand		166,609,541.17			173,557,442.80	
b) With agreed term or period of notice		8,360,532,236.35	8,527,141,777.52		8,792,012,266.47	8,965,569,709.27
2. Liabilities to customers						
a) Savings liabilities		0.00			0.00	
b) Other liabilities						
ba) Repayable on demand	373,850,935.15			143,985,008.34		
bb) With agreed term or period of notice	2,626,609,960.64	3,000,460,895.79	3,000,460,895.79	2,814,649,277.94	2,958,634,286.28	2,958,634,286.28
3. Debt instruments						
a) Bonds issued		8,207,049,334.06			7,982,724,735.40	
b) Other debt instruments		0.00	8,207,049,334.06		0.00	7,982,724,735.40
of which: money market instruments EUR 0.00 (31 Dec. 2014: EUR 0.00) own acceptances and promissory notes outstanding EUR 0.00 (31 Dec. 2014: EUR 0.00)						
3a. Trading liabilities			0.00			0.00
4. Trust liabilities			248,705,580.22			243,591,597.93
of which: trust loans EUR 248,705,580.22 (31 Dec. 2014: EUR 243,591,597.93)						
5. Other liabilities			20,668,623.11			11,243,830.59
6. Deferred income			242,806,824.13			246,408,666.28
7. Provisions						
a) Provisions for pensions and similar obligations		22,229,899.00			22,424,358.00	
b) Tax provisions		0.00			0.00	
c) Other provisions		107,996,302.52	130,226,201.52		143,507,529.61	165,931,887.61
8. Subordinated liabilities			100,521,885.25			100,523,315.07
			CARRIED FORWARD: 20,477,581,121.60			**CARRIED FORWARD: 20,674,628,028.43**

1.2 Balance sheet of LfA Förderbank Bayern, Munich, as at 31 December 2015

Equity and liabilities (continued)	2015 EUR	2015 EUR	2015 EUR	As at 31 December 2014 EUR	As at 31 December 2014 EUR	As at 31 December 2014 EUR
			BROUGHT FORWARD: 20,477,581,121.60			**BROUGHT FORWARD: 20,674,628,028.43**
9. Fund for general banking risks			470,000,000.00			400,000,000.00
10. Equity						
a) Capital called up						
Subscribed capital	368,130,154.46			368,130,154.46		
minus unpaid contributions not yet called up	0.00	368,130,154.46		0.00	368,130,154.46	
b) Capital reserves		42,948,518.02			42,948,518.02	
c) Revenue reserves						
ca) Legal reserve	322,600,000.00			307,700,000.00		
cb) Reserve for shares in a controlling company or company holding a majority interest	0.00			0.00		
cc) Reserves provided for by the statutes	0.00			0.00		
cd) Other revenue reserves	285,181,631.55	607,781,631.55		285,181,631.55	592,881,631.55	
d) Net retained profit		49,936,372.64	1,068,796,676.67		59,486,744.85	1,063,447,048.88
TOTAL EQUITY AND LIABILITIES			**22,016,377,798.27**			**22,138,075,077.31**

1. Contingent liabilities						
a) Contingent liabilities from forwarded, negotiated bills of exchange	0.00			0.00		
b) Liabilities from specific guarantees and indemnity agreements	1,134,896,290.31			1,205,829,198.02		
c) Liabilities from assets pledged as collateral for third-party obligations	0.00	1,134,896,290.31		0.00	1,205,829,198.02	
2. Other commitments						
a) Repurchasing obligations under non-genuine repos	0.00			0.00		
b) Placement and underwriting commitments	0.00			0.00		
c) Irrevocable loan commitments	845,975,297.08	845,975,297.08		876,156,390.31	876,156,390.31	

1.3 Income statement of LfA Förderbank Bayern, Munich

FOR THE PERIOD 1 JANUARY 2015 TO 31 DECEMBER 2015

	2015			2014		
	EUR	EUR	EUR	EUR	EUR	EUR
1. Interest income from						
a) loans and money market transactions	362,156,268.47			426,090,398.27		
b) fixed-income securities and book-entry securities	136,131,880.37	498,288,148.84		147,554,946.26	573,645,344.53	
of which: from discounting provisions EUR 1,737,619.73 (2014: EUR 5,053,497.26)						
of which: negative interest from investing funds EUR 13,880.55 (2014: EUR 0.00)						
2. Interest expenses		-376,395,116.20	121,893,032.64		-430,965,106.04	142,680,238.49
of which: from unwinding the discount on provisions EUR 5,003,544.90 (2014: EUR 6,350,222.08)						
of which: positive interest from borrowing EUR 446,863.78 (2014: EUR 44,092.53)						
3. Current income from						
a) equities and other variable-yield securities		0.00			0.00	
b) long-term equity investments		806,196.57			509,744.50	
c) shares in affiliated companies		7,282.63	813,479.20		7,271.25	517,015.75
4. Income from profit pooling, profit transfer or partial profit transfer agreements			0.00			0.00
5. Fee and commission income		21,033,145.04			18,448,327.01	
6. Fee and commission expenses		-1,321,400.33	19,711,744.71		-1,063,878.48	17,384,448.53
7. Net gains or losses on trading activities			0.00			0.00
8. Other operating income			6,546,843.57			4,141,020.49
darunter: from discounting provisions EUR 0.00 (2014: EUR 2,860.91)						
9. General and administrative expenses						
a) Personnel expenses						
aa) Wages and salaries	-22,825,595.35			-20,049,191.62		
ab) Social security, post-employment and other employee benefit costs	-7,499,703.24	-30,325,298.59		-7,928,053.13	-27,977,244.75	
of which: in respect of retirement pensions EUR 3,149,093.50 (2014: EUR 4,191,293.83)						
b) Other administrative expenses		-17,333,261.98	-47,658,560.57		-16,982,572.64	-44,959,817.39
			CARRIED FORWARD: 101,306,539.55			**CARRIED FORWARD: 119,762,905.87**

1.3 Income statement of LfA Förderbank Bayern, Munich

FOR THE PERIOD 1 JANUARY 2015 TO 31 DECEMBER 2015

(continued)	2015 EUR	2015 EUR	2015 EUR	2014 EUR	2014 EUR	2014 EUR
			BROUGHT FORWARD: 101,306,539.55			BROUGHT FORWARD: 119,762,905.87
10. Amortisation and write-downs of intangible assets and depreciation and write-downs of property and equipment			-8,733,441.79			-3,141,110.29
11. Other operating expenses			-4,374,732.89			-3,678,768.22
of which: from unwinding the discount on provisions EUR 1,314,564.15 (2014: EUR 1,374,193.50)						
12. Write-downs and allowances for losses on loans and advances and on specific securities, and additions to provisions in the lending business		0.00			0.00	
13. Income from the reversal of write-downs and allowances for losses on loans and advances and on specific securities and from the reversal of provisions in the lending business		30,592,848.10	30,592,848.10		16,398,752.61	16,398,752.61
14. Write-downs of long-term equity investments, shares in affiliated companies and of securities classified as fixed assets		0.00			0.00	
15. Income from the reversal of write-downs of long-term equity investments, shares in affiliated companies and of securities classified as fixed assets		956,660.42	956,660.42		0.00	0.00
16. Additions to the fund for general banking risk		-70,000,000.00			-70,000,000.00	
17. Reductions in the fund for general banking risks		0.00	-70,000,000.00		0.00	-70,000,000.00
18. Expenses from the transfer of losses			0.00			0.00
19. Result from ordinary activities			49,747,873.39			59,341,779.97
20. Extraordinary income		0.00			0.00	
21. Extraordinary expense		0.00			0.00	
22. Extraordinary result		0.00	0.00		0.00	0.00
			CARRIED FORWARD: 49,747,873.39			CARRIED FORWARD: 59,341,779.97

1.3 Income statement of LfA Förderbank Bayern, Munich

FOR THE PERIOD 1 JANUARY 2015 TO 31 DECEMBER 2015

(continued)	2015			2014		
	EUR	EUR	EUR	EUR	EUR	EUR
			BROUGHT FORWARD: 49,747,873.39			BROUGHT FORWARD: 59,341,779.97
23. Income taxes		0.00			0.00	
24. Other taxes not reported under item 11		-98,245.60	-98,245.60		-96,800.55	-96,800.55
25. Income from transfer of losses			0.00			0.00
26. Profits transferred under profit pooling, profit transfer agreement or partial profit transfer agreement			0.00			0.00
27. Net income for the year			49,649,627.79			59,244,979.42
28. Profit brought forward from 2014			286,744.85			241,765.43
			49,936,372.64			59,486,744.85
29. Withdrawals from capital reserves			0.00			0.00
			49,936,372.64			59,486,744.85
30. Withdrawals from revenue reserves						
a) From legal reserve		0.00			0.00	
b) From reserve for shares in a controlling company or company holding a majority interest		0.00			0.00	
c) From reserves provided for by the statutes		0.00			0.00	
d) From other revenue reserves		0.00	0.00		0.00	0.00
			49,936,372.64			59,486,744.85
31. Appropriations to revenue reserves						
a) To legal reserve		0.00			0.00	
b) To reserve for shares in a controlling company or company holding a majority interest		0.00			0.00	
c) To reserves provided for by the statutes		0.00			0.00	
d) To other revenue reserves		0.00	0.00		0.00	0.00
32. NET RETAINED PROFIT			**49,936,372.64**			**59,486,744.85**

1.4 Notes to the annual financial statements for the year ended 31 December 2015

A. Accounting policies

Assets and liabilities are recognised and measured in accordance with the provisions in section 246 et seq. German Commercial Code (HGB) and the special regulations for banks specified in section 340a et seq. HGB in conjunction with the German Regulation on the Accounts of Banks and Financial Services Institutions (RechKredV).

Loans and advances are carried at their principal amounts. Discounts and premiums are posted under prepaid expenses or deferred income and recognised in the income statement on a pro rata basis over the term of the loan or advance concerned. The measurement of loans and advances is dictated by prudent business practice and specific loan loss allowances in an appropriate amount are recognised for all identifiable credit risks. Portfolio loan loss allowances are recognised to cover latent credit risk. Loans and advances with below-market rates of interest are measured at present value.

Trust assets are measured at the amortised cost of the relevant loan or advance.

Securities in the liquidity reserve are measured strictly at the lower of cost and market. **Long-term securities** are measured at amortised cost, differences between the carrying amount and the repayment amount being recognised in the income statement on a pro rata basis over the maturity of the security concerned. Such securities are only written down to a lower fair value if they are permanently impaired.

Shares in affiliated companies and **other long-term equity investments** are reported at cost but are written down if the fair value is a lower amount.

Property and equipment is carried at cost and reduced by depreciation on a straight-line basis over the useful life determined for the asset concerned; **intangible assets** are carried at cost and reduced by amortisation on a straight-line basis over the useful life determined for the asset concerned. Low-value assets, i.e. assets with a cost value of no more than EUR 900.00, are written off in full in the year of acquisition. Capitalisable expenses incurred in connection with the switch to SAP have been recognised as intangible assets.

Liabilities are carried at the settlement amount. Any difference between the notional amount and settlement amount of a liability is recognised in the income statement on a pro rata basis over the maturity of the liability.

Provisions are recognised in an appropriate amount for all identifiable credit risks in relation to specific guarantees and issued exemptions from liability. Provisions are measured in the amount required to settle the obligation. The same also applies to the 'Other provisions' item, which is used to recognise amounts covering other identifiable risks. Provisions with a residual maturity of more than one year are discounted using a maturity-matched average market discount rate over the past seven years in accordance with the requirements of section 253 (2) HGB and the German Provisions

Discounting Rate Regulation (RückAbzinsV). LfA has not made use of the option for early application of an adjusted discount rate for retirement pension provisions as permitted in section 75 (7) sentence 4 Introductory Act to the German Commercial Code (EGHGB)

Effects from changes in the discount rate for provisions that relate to the lending business are recognised under net interest income. Effects from changes in the discount rate for other provisions are recognised in other net operating income.

In 2015, a change was made to the method used to measure the portfolio loan loss allowance. The output from the credit portfolio model is now used as the basis for determining the portfolio loan loss allowance. The statistical risk values calculated using the expected one-year probability of default relate to the entire portfolio.

LfA has elected to make use of the implied HGB option not to discount provisions with a residual maturity of less than one year. For the purposes of the calculations it is assumed that changes in the amount of an obligation are only applied at the end of the calculation period; in other words, the amount of an obligation is not subject to any change during the course of the year.

Pension obligations are measured in accordance with recognised actuarial principles using the projected unit credit method. The Heubeck 2005 G mortality tables are used as the biometric basis for the calculations. The following assumptions are also used in the calculation of the pension obligations:

Annual discount rate:	3.94%
Annual growth rate in entitlement (e.g. salary):	2.00%
Annual growth rate in pension:	2.00%

The provision for widows'/widowers' pensions is calculated using the collective method, which is based on a probability of marriage derived from the other parameters used in the calculation. The contractual pension age is used as the age at which funding comes to an end.

A present-value approach is used for the 'loss-free' measurement applicable to the interest-rate-related transactions in the **non-trading portfolio** (all interest-bearing items in which the bank is involved). The present value for the transactions is determined by discounting the overall bank cash flows using maturity-matched discount rates. Risk and administrative costs in connection with these interest-rate-related transactions are factored into the calculation. In 2015, there was no excess liability, so there was no requirement to recognise a provision for an anticipated loss in accordance with section 340a HGB in conjunction with section 249 (1) sentence 1 no. 2 HGB.

Income or expenses arising from negative interest rates are reported in the income statement under net interest income.

Off-balance-sheet derivatives entered into by the bank to hedge interest-rate and currency risks arising in connection with individual balance sheet items are combined with the associated underlying transactions as economic hedges. The bank does not recognise valuation units in accordance with section 254 HGB for hedge accounting purposes.

LfA is exempt from the payment of corporation tax and trade tax. As a consequence, there is no requirement to determine or recognise **deferred taxes**.

Given the minor significance of the other entities in the group in terms of their financial circumstances, the bank elects not to prepare **consolidated financial statements** as permitted by section 290 (5) HGB.

B. Balance sheet disclosures

(FIGURES AS AT 31 DECEMBER 2014 IN PARENTHESES)

	Maturity structure					
Maturity structure for selected balance sheet items (excluding pro rata interest, loans/advances and liabilities repayable on demand) **– EUR million –**	**Up to 3 months**	**More than 3 months up to 1 year**	**Due in the following year**	**More than 1 year up to 5 years**	**More than 5 years**	**Indefinite**
Loans and advances to banks						
- Other loans and advances	**554.2** (401.8)	**1,903.4** (2,011.5)		**7,218.7** (7,844.8)	**4,446.7** (4,267.1)	
Loans and advances to customers	**16.2** (25.9)	**303.7** (111.8)		**893.5** (904.4)	**1,013.4** (952.3)	**5.9** (5.6)
Bonds held			**402.3** (529.9)			
Liabilities to banks						
- With agreed term or period of notice	**292.4** (266.1)	**838.6** (977.5)		**3,850.0** (3,846.9)	**3,335.7** (3,650.8)	
Liabilities to customers						
- Savings liabilities	**0.0** (0.0)	**0.0** (0.0)		**0.0** (0.0)	**0.0** (0.0)	
- Other liabilities with agreed term or period of notice	**102.0** (302.8)	**137.0** (161.5)		**1,080.0** (1,136.0)	**1,234.7** (1,311.9)	
Debt instruments						
- Bonds issued			**1,760.1** (1,806.2)			
- Other debt instruments	**0.0** (0.0)	**0.0** (0.0)		**0.0** (0.0)	**0.0** (0.0)	

Loans and advances and liabilities to affiliated companies and other long-term investees and investors	**Affiliated companies** EUR million	**Other long-term investees and investors** EUR million
Loans and advances to banks	**0.0** (0.0)	**1.8** (1.8)
Loans and advances to customers	**97.7** (102.9)	**90.5** (86.0)
Bonds and other fixed-income securities	**0.0** (0.0)	**0.0** (0.0)
Liabilities to banks	**0.0** (0.0)	**0.0** (0.0)
Liabilities to customers	**66.5** (50.5)	**5.0** (0.6)
Debt instruments	**0.0** (0.0)	**0.0** (2.3)

Subordinated assets	EUR million
Loans and advances to banks	**0.0** (0.0)
Loans and advances to customers	**4.1** (4.1)
Bonds and other fixed-income securities	**7.4** (7.1)

MARKETABLE SECURITIES AND SHARES

The asset item "Bonds and other fixed-income securities" consists exclusively of marketable securities, of which securities with a value of EUR 56.8 million (carrying amount) are not listed on a stock exchange.

CHANGES IN FIXED ASSETS

Financial assets (EUR million)	**As at 31 Dec. 2014**	**Change in 2015**	**Carrying amount 31 Dec. 2015**
Securities classified as fixed assets	**3,444.7**	**181.2**	**3,625.9**
Long-term equity investments	**47.2**	**0.0**	**47.2**
Shares in affiliated companies	**72.0**	**13.1**	**85.1**

Please refer to section A for information on the valuation of long-term securities.

Securities classified as fixed assets include bearer securities with a carrying amount of EUR 190.8 million, but for which the fair value was EUR 186.4 million. Short-term fluctuations in fair value caused by changes in market prices are not recognised because it is intended to hold the securities to maturity and because the issuers are all banks or prestigious industrial concerns with investment-grade ratings or are public-sector issuers. Write-downs to a fair value below the repayment amount were therefore not required. The increase in the value of the portfolio of long-term securities was attributable exclusively to new business.

	Cost	**Additions 2015**	**Disposals 2015**	**Reclassifi-cations 2015**	**Reversals of write-downs 2015**	**Amortisation and write-downs**			**Carrying amount 31 Dec. 2015**	**Carrying amount 31 Dec. 2014**
						Prior years	**2015**	**Total**		
Intangible assets (EUR million)	28.9	10.6	0.0	0.0	0.0	4.5	6.1	10.6	28.9	24.4

	Cost	**Additions 2015**	**Disposals 2015**	**Reclassifi-cations 2015**	**Reversals of write-downs 2015**	**Amortisation and write-downs**			**Carrying amount 31 Dec. 2015**	**Carrying amount 31 Dec. 2014**
						Prior years	**2015**	**Total**		
Property and equipment (EUR million)	85.5	0.7	-0.7	0.0	0.0	39.4	2.7	42.1	43.4	45.3

Of the total for property and equipment, EUR 1.9 million relates to office furniture and equipment and EUR 23.9 million to land and buildings used by the bank for its own operating activities.

SHAREHOLDINGS

List of entities in which LfA Förderbank Bayern holds an interest of 20 per cent or more and all LfA's long-term equity investments in major corporations that represent a holding of more than 5 per cent of the voting rights. The disclosures for equity and net income relate to the last financial year for which annual financial statements are available (section 285 no. 11 HGB).

Name and registered office of the entity	Equity	Direct and indirect shareholding	Net income
	EUR million	%	EUR million
Affiliated companies – direct investments			
1. LfA Gesellschaft für Vermögensverwaltung mbH (LfA GV), München	66.7	100.00	- 10.7
2. Bayern Innovativ Bayer. Gesellschaft für Innovation und Wissenstransfer mbH, Nürnberg	0.7	100.00	+ 0.2
3. Bayern Kapital GmbH, Landshut	80.4	100.00	+ 0.3
4. Technologie Beteiligungsfonds Bayern GmbH & Co. KG, Landshut	1.7	69.58	1)
5. Technologie Beteiligungsfonds Bayern Verwaltungs GmbH, Landshut	0.04	75.00	1)
6. Technologie Seed-Beteiligungsfonds Bayern GmbH & Co. KG, Landshut	7.6	88.82	- 0.4
7. Technologie Beteiligungsfonds Bayern II GmbH & Co. KG, Landshut	9.3	48.75	+ 2.6
8. Technologie Beteiligungsfonds Bayern III GmbH & Co. KG, Landshut	4.2	100.00	2)
9. Bayern Kapital Verwaltungs GmbH, Landshut	0.03	100.00	1) + 3)
10. Clusterfonds Start-Up! GmbH & Co. KG, Landshut	4.1	100.00	- 1.1
11. Clusterfonds Innovation GmbH & Co. KG, Landshut	18.7	100.00	- 1.6
12. Clusterfonds EFRE Bayern GmbH & Co. KG, Landshut	8.9	100.00	- 0.6
13. Clusterfonds Seed GmbH & Co. KG, Landshut	13.0	100.00	- 0.5
14. Bayerische Filmhallen GmbH, Grünwald	- 1.7 *)	100.00	- 0.3
15. Bayern Kapital Innovationsfonds EFRE GmbH & Co. KG, Landshut	4)	100.00	4)
16. Wachstumsfonds Bayern GmbH & Co. KG, Landshut	4)	100.00	4)
17. Bayern Kapital Innovationsfonds GmbH & Co. KG, Landshut	4)	100.00	4)

Name and registered office of the entity	Equity	Direct and indirect shareholding	Net income
	EUR million	%	EUR million
Long-term equity investments – direct investments			
18. BGG-Bayerische Garantiegesellschaft mbH für mittelständische Beteiligungen, München	44.1	18.73	+ 2.0
19. Kreditgarantiegemeinschaft des Hotel- und Gaststättengewerbes in Bayern GmbH, München	4.4	17.26	0.0
20. BayBG Bayerische Beteiligungs-gesellschaft mbH, München	200.3	23.48	+ 6.7
21. Garchinger Technologie- und Gründerzentrum GmbH, Garching	0.1	20.00	1)
22. Automobiltechnikum Bayern GmbH, Hof	1.5	40.00	+ 0.3
23. EPS Ethylen-Pipeline-Süd Geschäftsführungs GmbH (EPS-GmbH), München	0.03	25.20	1)
Other long-term equity investments – indirect investments through LfA-GV			
24. Bavaria Film GmbH, München	59.5	16.67	+ 0.7

1) Profit was less than EUR 100,000.00
2) Loss was less than EUR 100,000.00
3) Formerly: Clusterfonds Bayern Verwaltungs GmbH, Landshut
4) Entity established in 2015 - no annual financial statements available yet.
*) Loss not covered by equity

The entity numbered 18 in the list is a bank as defined by section 1 (1) sentence 2 no. 8 German Banking Act (KWG).

TRUST ASSETS AND TRUST LIABILITIES

The reported trust assets of EUR 248.7 million are accounted for entirely by loans and advances to customers.

The trust liabilities of EUR 248.7 million are due entirely to customers.

PREPAID EXPENSES AND DEFERRED INCOME

The prepaid expenses include discounts (section 250 (3) HGB) of EUR 23.0 million (31 December 2014: EUR 38.3 million) and premiums (section 340e (2) HGB) of EUR 178.8 million (31 December 2014: EUR 162.9 million).

Of the total deferred income, EUR 14.3 million (31 December 2014: EUR 26.2 million) is accounted for by discounts (section 340e (2) HGB) and EUR 107.0 million (31 December 2014: EUR 75.3 million) by premiums.

SUBORDINATED LIABILITIES

The subordinated liabilities comprise three promissory note loans with the following contractually agreed terms:

	EUR million	Interest rate	Maturity
Funds raised	25	3.95 %	10 Nov. 2016
Funds raised	25	3.98 %	14 Nov. 2016
Funds raised	50	4.00 %	14 Nov. 2016
+ pro rata interest	0.5		
	100.5		

In the event of insolvency or liquidation of the bank, these liabilities will only be settled after all amounts due to non-subordinated creditors have first been paid. It is not possible for an early re-payment obligation to arise at the request of the creditor. There are no plans to convert this debt into equity or any other form of debt.

Interest expenses amounting to EUR 2.0 million were incurred in 2015 in respect of subordinated liabilities.

EQUITY, REVENUE RESERVES

The other revenue reserves reported on the balance sheet are "other reserves" as defined by section 18 no. 2 LfA Act.

ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

As at 31 December 2015, there were no assets, liabilities or guarantee obligations denominated in foreign currency.

OTHER ASSETS

Other assets include net interest receivables from swap transactions amounting to EUR 7.0 million.

OTHER LIABILITIES

This item includes liabilities of EUR 11.2 million due to a guarantee fund of the Free State of Bavaria related to loans as part of the SME lending programme.

ASSETS TRANSFERRED AS COLLATERAL

In connection with liabilities of EUR 58.7 million to banks (with an agreed maturity or notice period), LfA has transferred assets with the same value to these banks as collateral.

Other assets include collateral payments amounting to EUR 0.5 million relating to the bank levy.

GENUINE SALE AND REPURCHASE AGREEMENTS (REPOS)

As at the balance sheet date, the bank had not entered into any repos.

CONTINGENT LIABILITIES, OTHER OBLIGATIONS

The reported liabilities in connection with specific guarantees and indemnification agreements predominantly relate to the assumption of specific guarantees as part of LfA's various specific guarantee programmes and exemptions from liability given to commercial banks, in respect of which an amount of EUR 640.3 million is already included in the loans and advances to banks. In accordance with the requirements specified by MaRisk, the bank processes its guarantee obligations in the same way as loans. These obligations are subject to continuous credit rating checks. For risk management purposes, the risk of a call under the guarantees is estimated using the output from the credit portfolio model. Of the exposures of EUR 250 thousand or more classified using an internal rating system, 29.2 per cent of the volume falls in the top investment-grade category. At the lower end of the rating scale, 3.8 per cent of the guarantee volume meets the criteria for intensive support.

The reported irrevocable loan commitments largely relate to as yet undrawn loans under LfA's various lending programmes; the figure includes an amount of EUR 57.4 million relating to open guarantee commitments.

The switch in the method used to calculate the portfolio loan loss allowance referred to under accounting policies led to a complete reversal of the loan loss allowance based on the previous calculation method. This was replaced by a new loan loss allowance (addition) determined using the credit portfolio model. The changeover in the method used was carried out in compliance with section 252 (2) HGB. GAS 13.8 permits entities to deviate from the principle of consistency of accounting treatment specified in the HGB if such deviation improves the presentation of net assets, financial position and results of operations.

The net result from the switch in the method used was a positive impact on earnings of EUR 29.3 million.

DERIVATIVE TRANSACTIONS

Volume of derivative transactions – EUR million –	Notional amounts 31 Dec. 2015	Notional amounts 31 Dec. 2014	Fair values *) Positive 31 Dec. 2015	Fair values *) Negative 31 Dec. 2015
Interest-rate risks				
Interest-rate swaps	333	458	30	-1
Caps, floors	0	0	0	0
Total	**333**	**458**	**30**	**-1**
Currency risks				
Currency swaps	0	0	0	0
Cross currency interest-rate swaps	0	0	0	0
Currency forward contracts	0	0	0	0
Total	**0**	**0**	**0**	**0**

*) Including net interest receivable from swap transactions

DERIVATIVE TRANSACTIONS – MATURITY STRUCTURE –

Notional amounts – EUR million –	Interest-rate risks 31 Dec. 2015	Interest-rate risks 31 Dec. 2014	Currency risks 31 Dec. 2015	Currency risks 31 Dec. 2014
Residual maturity				
- up to 3 months	75	0	0	0
- 3 months to 1 year	100	125	0	0
- up to 5 years	132	297	0	0
- over 5 years	26	36	0	0
Total	**333**	**458**	**0**	**0**

LfA is not involved in any forward contracts with currency or other price risks. The transactions are exclusively derivatives that are not recognised at fair value on the balance sheet.

These derivatives comprise solely over-the-counter (OTC) transactions. Generally, their purpose is to serve as an economic hedge to minimise the risk associated with an underlying transaction reported on the balance sheet or to achieve the desired interest-rate structure. However, the bank does not form valuation units for hedge accounting purposes.

All the contracts are with banks based in OECD member countries.

Contracts are measured using the mark-to-market method. The fair value of the derivatives is based on market data as at 30 December 2015. As at the balance sheet date, the portfolio only consisted of interest-rate swaps, which were measured using the DCF method.

C. Income statement disclosures

REGIONAL BREAKDOWN OF INCOME

Most of the income (80 per cent) was generated in the Federal Republic of Germany. The breakdown of the remaining income from countries other than Germany (20 per cent) was as follows: 17 per cent from EMU countries, 3 per cent from other European countries. There was no income from non-European countries in 2015.

AUDITOR FEES

In 2015, the invoiced fees for auditing services related to financial statements pursuant to section 285 no. 17a HGB amounted to a net sum of EUR 320.0 thousand. This figure was partially offset by income of EUR 17.9 thousand from the reversal of excess provisions relating to the prior year. Expenses of EUR 20.1 thousand were incurred in respect of other attestation services as defined by section 285 no. 17b HGB; further expenses of EUR 110.1 thousand were incurred for other services as defined by section 285 no. 17d HGB.

D. Other disclosures

Employees	Average for the year		
	Male	Female	Total
Full-time:	147	105	252
Part-time:	14	99	113
	161	204	365

The average number of employees excluding those with temporary leave of absence was 333. This equates to 299 full-time equivalents (FTEs).

DISCLOSURES PURSUANT TO SECTION 26A (1) SENTENCE 2 KWG

The relevant disclosures can be found in the separate annex "Report pursuant to section 26a KWG" or directly in the annual financial statements.

REMUNERATION PAID TO THE MANAGEMENT BOARD AND THE ADVISORY BOARD

Management Board remuneration (excl. retirement pension)	EUR thousand
Chief Executive Officer and Chairman of the Management Board	**312**
Deputy Chairman of the Management Board	**252**
Member of the Management Board	**217**
Member of the Management Board	**217**

The value of additional benefits in kind received by the Management Board amounted to EUR 30 thousand; other benefits amounted to EUR 17 thousand. In 2015, a net addition of EUR 16 thousand was recognised under the pension provisions for active members of the Management Board.

As at 31 December 2015, the pension obligations to former members of the Management Board and their surviving dependants were recognised in full with a provision of EUR 13,240 thousand (following a net addition of EUR 110 thousand). Retirement pensions and payments to surviving dependants amounted to EUR 1,201 thousand in 2015.

The total remuneration paid to members of the Advisory Board amounted to EUR 59 thousand in 2015.

LOANS AND ADVANCES TO MEMBERS OF THE MANAGEMENT BOARD AND ADVISORY BOARD

As at 31 December 2015, there were no loans or advances to members of the Management Board or Advisory Board.

LFA ADVISORY BOARD AND MANAGEMENT BOARD

As a bank as defined by the German Banking Act (KWG), LfA Förderbank Bayern is subject to supervision by the German Federal Financial Supervisory Authority (BaFin).

Advisory Board

Full members	Deputy members
Ilse Aigner (Chair) State Minister Bavarian State Ministry of Economics and Media, Energy and Technology	**Franz Josef Pschierer** (Deputy Chairman) State Secretary Bavarian State Ministry of Economics and Media, Energy and Technology
Harald Hübner Head of State Department Bavarian State Ministry of Finance, State Development and Home Affairs (since 1 August 2015)	**Judith Steiner** Assistant Head of Department Bavarian State Ministry of Finance, State Development and Home Affairs
Johannes Hintersberger State Secretary Bavarian State Ministry of Finance, State Development and Home Affairs (until 30 June 2015)	
Emilia Müller State Minister Bavarian State Ministry for Labour, Social Affairs, Family and Integration	**Johannes Hintersberger** State Secretary Bavarian State Ministry for Labour, Social Affairs, Family and Integration (since 1 October 2015)
	Michael Höhenberger Head of State Department Bavarian State Ministry for Labour, Social Affairs, Family and Integration (until 30 September 2015)
Peter Driessen Chamber of Industry and Commerce for Munich and Upper Bavaria	**Dr. Lothar Semper** General Manager Chamber of Skilled Trades for Munich and Upper Bavaria
Dieter Seehofer Chairman of the Management Board Sparkasse Ingolstadt	**Josef Bittscheidt** Chairman of the Management Board Kreissparkasse München Starnberg Ebersberg
Dr. Ulrich Schürenkrämer Member of the Management Committee Germany and Chairman of Regional Management South Deutsche Bank AG	**Michaela Pulkert** Regional Head of Department, North Bavaria Nuremberg Branch UniCredit Bank AG (since 1 February 2015)
	Klaus Greger Division Head GRM Group Intensive Care, Head of Frankfurt Office Commerzbank AG (until 31 January 2015)

Guest members pursuant to section 12 (2) LfA Act	Deputy guest members
Konrad Irtel Spokesman of the Management Board VR Bank Rosenheim-Chiemsee eG (until 31 December 2015)	**Dr. Alexander Büchel** Member of the Management Board Genossenschaftsverband Bayern e.V.

Management Board

Dr. Otto Beierl Chief Executive Officer and Chairman of the Management Board Responsible for Management Board office, Corporate Communications and Strategy, Special Loans, Human Resources, Arts Promotion, Internal Audit	**Dr. Thies Claussen** Deputy Chairman of the Management Board Responsible for Product Design, Development and Individual Loans (until 31 March 2016)
Dr. Hans Schleicher Deputy Chairman of the Management Board Responsible for Product Design, Development and Individual Loans (since 1 April 2016)	**Hans Peter Göttler** Member of the Management Board Responsible for Financial Markets, Infrastructure Financing, Legal Affairs, Compliance, Advisory Services
Albrecht Stolle Member of the Management Board Responsible for IT, Organisation and Administration, Business Management/Accounting, Risk Control	

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements of LfA Förderbank Bayern give a true and fair view of the assets, liabilities, financial position, and profit or loss of the bank, and the management report of LfA Förderbank Bayern includes a 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 expected development of the bank.

Munich, 21 April 2016

LfA Förderbank Bayern
The Management Board

Dr. Beierl | Dr. Schleicher | Göttler | Stolle

1.5 Cash flow statement, LfA Förderbank Bayern, Munich

FOR THE PERIOD 1 JANUARY 2015 TO 31 DECEMBER 2015 IN ACCORDANCE WITH GAS 21

Classification item no			Description	Amount as at 31.12.2015 EUR	Amount as at 31.12.2014 EUR
1.			**Net income for the period**	**49,649,627.79**	**59,244,979.42**
	2.	+ / -	Allowances for losses on loans and advances / depreciation, amortisation and write-downs of fixed assets / reversals of loan loss allowances and of write-downs of fixed assets	1,926,099.57	-10,674,259.14
	3.	+ / -	Increase/decrease in provisions	-12,925,932.87	11,551,347.93
	4.	+ / -	Other non-cash income and expenses	82,245,873.90	96,976,069.67
	5.	- / +	Gain/loss on disposal of fixed assets	-977,326.30	-22,403.18
	6.	- / +	Other adjustments (net)	0.00	0.00
	7.	- / +	Increase/decrease in loans and advances to banks	383,560,055.43	233,944,713.74
	8.	- / +	Increase/decrease in loans and advances to customers	-213,651,883.24	-78,092,523.17
	9.	- / +	Increase/decrease in securities (not classified as long-term financial assets)	188,287,649.91	300,493,470.62
	10.	- / +	Increase/decrease in other assets from operating activities	-8,642,402.49	-34,438,454.37
	11.	+ / -	Increase/decrease in liabilities to banks	-438,427,931.75	-158,991,115.23
	12.	+ / -	Increase/decrease in liabilities to customers	43,124,125.76	-199,162,533.45
	13.	+ / -	Increase/decrease in debt instruments	224,324,598.66	269,412,238.06
	14.	+ / -	Increase/decrease in other liabilities from operating activities	-11,842,820.56	-10,512,586.42
	15.	+ / -	Interest expense/interest income	-142,418,256.55	-160,581,702.77
	16.	+ / -	Expenses for/income from extraordinary items	0.00	0.00
	17.	+ / -	Income tax expense/income	0.00	0.00
	18.	+	Interest and dividends received	435,489,455.31	504,366,814.28
	19.	-	Interest paid	-302,342,322.25	-373,519,526.76
	20.	+	Cash receipts from extraordinary items	0.00	0.00
	21.	-	Cash payments for extraordinary items	0.00	0.00
	22.	- / +	Income taxes paid	0.00	0.00
23.		**=**	**Cash flows from operating activities (total of lines 1 to 22)**	**277,378,610.32**	**449,994,529.23**
	24.	+	Proceeds from disposal of long-term financial assets	71,733,855.86	178,894,583.57
	25.	-	Payments to acquire long-term financial assets	-270,138,892.31	-581,640,207.44
	26.	+	Proceeds from disposal of property and equipment	28,005.90	52,244.16
	27.	-	Payments to acquire property and equipment	-739,610.13	-1,023,432.41
	28.	+	Proceeds from disposal of intangible fixed assets	0.00	0.00
	29.	-	Payments to acquire intangible fixed assets	-10,581,627.04	-1,916,323.64
	30.	+	Proceeds from disposal of entities included in the basis of consolidation	0.00	0.00
	31.	-	Payments to acquire entities included in the basis of consolidation	0.00	0.00
	32.	+ / -	Changes in cash from other investing activities (net)	950,313.75	380,647.26
	33.	+	Cash receipts from extraordinary items	0.00	0.00
	34.	-	Cash payments for extraordinary items	0.00	0.00

Classification item no			Description	Amount as at 31.12.2015 EUR	Amount as at 31.12.2014 EUR
35.		=	**Cash flows from investing activities (total of lines 24 to 34)**	**-208,747,953.97**	**-405,252,488.50**
	36.	+	Proceeds from capital contributions by shareholders of the parent entity	0.00	0.00
	37.	+	Proceeds from capital contributions by minority shareholders	0.00	0.00
	38.	-	Cash payments to shareholders of the parent entity from the redemption of shares	0.00	0.00
	39.	-	Cash payments to minority shareholders from the redemption of shares	0.00	0.00
	40.	+	Cash receipts from extraordinary items	0.00	0.00
	41.	-	Cash payments for extraordinary items	0.00	0.00
	42.	-	Cash payments to owners	-44,300,000.00	-44,300,000.00
	43.	-	Cash payments to other capital providers	-1,991,881.08	-2,114,241.66
	44.	+ / -	Changes in cash from other financing activities (net)	-1,429.82	0.00
45.		=	**Cash flows from financing activities (total of lines 36 to 44)**	**-46,293,310.90**	**-46,414,241.66**
	46.		Net change in cash and cash equivalents (total of lines 23, 35 and 45)	22,337,345.45	-1,672,200.93
	47.	+ / -	Effect on cash and cash equivalents of exchange rate movements and remeasurements	0.00	0.00
	48.	+ / -	Effect on cash and cash equivalents of changes in the basis of consolidation	0.00	0.00
	49.	+	Cash and cash equivalents at beginning of period	19,414,225.00	21,086,425.93
50.		=	**Cash and cash equivalents at end of period (total of lines 46 to 49)**	**41,751,570.45**	**19,414,225.00**

Under section 264 (1) HGB, publicly listed corporations that are not under any obligation to prepare consolidated financial statements must include a cash flow statement with their annual financial statements.

The new German Accounting Standard (GAS) 21 has now come into force and its provisions had to be applied in financial years beginning after 31 December 2014. The cash flow statement has been adjusted in line with the new minimum breakdown requirements for banks, as specified in Annex 2 of GAS 21. The prior-year comparative figures have been restated in line with the requirements of the new standard.

The cash flow statement shows the changes in cash and cash equivalents during the financial year. For this purpose, three separate cash flow categories are reported: cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. The indirect method is used to determine the cash flows from operating activities.

Cash and cash equivalents comprise the cash reserve balance sheet item, which in turn consists of cash on hand and the credit balance with Deutsche Bundesbank.

The balances of cash and cash equivalents are not subject to any restrictions on their use. GAS 21 item A2.11 specifies that the minimum reserve to be maintained by banks does not represent a restriction on use.

The year-on-year contraction in cash flows from operating activities was attributable to a decline in the portfolio of short-term securities and lower cash inflows from debt instruments.

The fall in net outflows under cash flows from investing activities mainly resulted from a modest rise in long-term securities compared with 2014.

Items 42 and 43, which the new standard refers to as "dividends paid to shareholders of the parent entity" and "dividends paid to minority shareholders" respectively, have been renamed. LfA's legal structure means that the distributions from the net retained profit are made in the form "other cash payments" rather than "dividends". The items have been renamed in accordance with the provisions in section 265 (6) HGB.

1.6 Statement of changes in equity, LfA Förderbank Bayern

31 DECEMBER 2013 TO 31 DECEMBER 2015

Statement of changes in equity (EUR)	Subscribed capital	Capital reserves	Revenue reserve		Net retained profit	Equity
			Legal reserve	Other revenue reserves		
As at 31 December 2013	368,130,154.46	42,948,518.02	292,800,000.00	285,181,631.55	59,441,765.43	1,048,502,069.46
Appropriation to revenue reserves from net retained profit 2013			14,900,000.00		-14,900,000.00	
Distribution from net retained profit 2013					-44,300,000.00	
Capital increases 2014	0.00					
Net income 2014					59,244,979.42	
As at 31 December 2014	368,130,154.46	42,948,518.02	307,700,000.00	285,181,631.55	59,486,744.85	1,063,447,048.88
Appropriation to revenue reserves from net retained profit 2014			14,900,000.00		-14,900,000.00	
Distribution from net retained profit 2014					-44,300,000.00	
Capital increases 2015	0.00					
Net income 2015					49,649,627.79	
As at 31 December 2015	368,130,154.46	42,948,518.02	322,600,000.00	285,181,631.55	49,936,372.64	1,068,796,676.67

1.7 Independent Auditors' Report

We have audited the annual financial statements – comprising the balance sheet, the income statement, the cash flow statement, the statement of changes in equity and the notes to the financial statements – together with the bookkeeping system, and the management report of LfA Förderbank Bayern rechtsfähige Anstalt des öffentlichen Rechts, Munich, for the financial year from 1 January to 31 December 2015. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the LfA Act are the responsibility of the bank's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 of the German Commercial Code (HGB) and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (German Institute of Public Auditors, IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the bank and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements of LfA Förderbank Bayern rechtsfähige Anstalt des öffentlichen Rechts, Munich, comply with the legal requirements and the supplementary provisions of the LfA Act and give a true and fair view of the net assets, financial position and results of operations of the bank in accordance with German principles of proper account-ing. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the bank's position and suitably presents the opportunities and risks of future development.

Munich, 25 April 2016

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Mayer)	(Müller)
Wirtschaftsprüfer	Wirtschaftsprüfer
German Public Auditor	German Public Auditor

1.8 Report pursuant to section 26a KWG

The bank has decided to make use of the option available under section 290 (5) in conjunction with section 296 (2) HGB and not prepare consolidated financial statements. The disclosures therefore relate to the individual bank.

Name of entity	**Bayerische Landesanstalt für Aufbaufinanzierung** is a regional development bank operated by the Free State of Bavaria. The bank is structured as a public-sector agency with legal capacity to hold rights and duties. Its head office is situated in Munich. It trades under the name "LfA Förderbank Bayern".
Nature of activities	Please refer to section 3 of the German Act establishing Bayerische Landesanstalt für Aufbaufinanzierung.
Geographical location of branches	In addition to the head office in Munich, the bank also has a representative office in Nuremberg and a development support centre in Hof, neither of which is subject to any obligation to maintain their own separate books and records.
Sales revenue	EUR 148,965,100.12
Number of employees receiving wages or salaries (full-time equivalents)	299
Profit/loss before tax	EUR 49,649,627.79
Taxes on profit or loss	LfA Förderbank Bayern is exempted from corporation tax in accordance with section 5 German Corporation Tax Act (KStG) and from trade tax in accordance with section 3 German Trade Tax Act (GewStG).
Public sector aid received	None

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Report of the Advisory Board

The Advisory Board decides on the policies governing the operating activities of the bank and monitors the management of the bank in accordance with the powers it has been assigned.

In 2015, the Advisory Board held seven meetings and conducted six procedures in writing during which it discussed and passed a large number of resolutions relating to reports presented in accordance with the statutes and submissions concerning lending. For example, it noted and approved the regular reports on intended business policy and corporate planning, risk strategy, main findings of audits conducted by the internal audit department, long-term equity investments, business performance, results of operations and the risk position. It also approved a range of larger lending exposures (in which the bank's own risk was more than EUR 5 million).

On 30 May 2016, the Advisory Board adopted the annual financial statements for the year ended 31 December 2015, approved the management report and formally approved the acts of the Management Board for 2015. Based on a proposal submitted by the Management Board, the Advisory Board passed the following resolution on the appropriation of the net retained profit:

"Of the net retained profit for 2015 amounting to EUR 49,936,372.64, EUR 12,500,000.00 shall be allocated to the legal reserve, EUR 37,400,000.00 shall be transferred to the Free State of Bavaria and EUR 36,372.64 shall be carried forward to the next financial year."

Munich, 30 May 2016

Chair of the Advisory Board
State Minister Ilse Aigner

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Report for 2015 on LfA Förderbank Bayern's compliance

with its principles of good corporate governance

LfA Förderbank Bayern's principles of good corporate governance, documentation

LfA Förderbank Bayern has a number of objectives in documenting its principles of good corporate governance.

As the development bank for the Free State of Bavaria, LfA Förderbank Bayern has a special responsibility to the region and the people who live there. Conscious of this responsibility, the bank aims to create transparency and make sure that its practices in terms of corporate governance and monitoring are communicated outside its own organisation. Sustainability issues, such as the environment and corporate social responsibility, form a very important component of corporate governance.

The standards laid down by the act that established the Bavarian Landesanstalt für Aufbaufinanzierung (LfA Act) and by the LfA's statutes are reflected in LfA Förderbank Bayern's principles of good corporate governance.

Management and monitoring of LfA Förderbank Bayern by the Management Board and the Advisory Board

In 2015, the Management Board and the Advisory Board managed the bank in compliance with the principles of good corporate governance laid down by LfA Förderbank Bayern.

The Management Board agreed LfA Förderbank Bayern's corporate strategy with the Advisory Board within the framework of the mandate from the Free State of Bavaria. In addition, the Management Board managed the business of the bank independently in compliance with statutory requirements, stipulations in the bank statutes and internal policies, and – where specified in the LfA statutes – obtained the consent of the Advisory Board. The Management Board informed the Advisory Board of transactions that were of considerable importance for the results of operations or liquidity of the bank; the Chief Executive Officer also informed the Chair of the Advisory Board and the representative of the Bavarian State Ministry of Finance, State Development and Home Affairs of any special events, circumstances or incidents.

Remuneration and D&O insurance

The remuneration received by the members of the Management Board in 2015 did not include any variable components. The amount of the remuneration is published in the notes to the 2015 annual financial statements with a breakdown by the amounts paid to the Chief Executive Officer, Deputy Chairman of the Management Board and the other members of the Management Board.

LfA Förderbank Bayern has taken out a D&O insurance policy for the members of the Management Board. This policy includes an excess in the amount of 10 per cent of the loss subject to a maximum of one-and-a-half times the fixed annual remuneration of the member of the Management Board concerned.

The remuneration received by the members of the Advisory Board in 2015 did not include any variable components. The aggregate amount of remuneration paid to all the members of the Advisory Board is published in the notes to the 2015 annual financial statements.

For the members of the Advisory Board, LfA Förderbank Bayern has taken out a D&O insurance policy that does not include any excess. It was decided not to include an excess in this policy in view of the negligible amounts of allowances paid to the members for their activities in connection with the Advisory Board of LfA Förderbank Bayern.

Avoiding conflicts of interest

In fulfilling their duties, the members of the Management Board and the Advisory Board are particularly bound by the mandate from the Free State of Bavaria. In this regard, there were no conflicts of interest in 2015 affecting the members of the Management Board or the Advisory Board. The members of the Management Board and the Advisory Board have each declared that, in 2015, neither they nor any of their close family members were involved in any business relationship with LfA Förderbank Bayern or with any of its investee or investor entities.

Accounting and auditing of financial statements

The annual financial statements and management report for the year ended 31 December 2015 have been prepared in accordance with the requirements of the German Commercial Code (HGB). The Advisory Board has adopted the annual financial statements for the year ended 31 December 2015, approved the management report and formally approved the acts of the Management Board for 2015. The annual financial statements and management report for the year ended 31 December 2015 are published in the electronic version of the German Federal Gazette.

The independent auditors were appointed by the Advisory Board with the agreement of the Bavarian State Ministry of Finance, State Development and Home Affairs. Prior to the engagement, the designated auditors declared that there were no business, financial, personal or other relationships between the auditors, their decision-making bodies or audit managers on one side and LfA Förderbank Bayern or the members of the bank's decision-making bodies on the other side that could cast doubt on the independence of the auditors. The Chair of the Advisory Board issued the audit engagement. The audited annual financial statements, the management report and the audit report were submitted without delay to the Advisory Board and the Bavarian State Ministry of Finance, State Development and Home Affairs.

PUBLISHING DETAILS

Publisher	LfA Förderbank Bayern Anstalt des öffentlichen Rechts Königinstraße 17 80539 München phone 0800/21 24 24 0 info@lfa.de www.lfa.de
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