Annual Report
2021

L-BANK
Staatsbank für Baden-Württemberg

L-Bank in Figures

OVERVIEW 2017–2021 in EUR millions

	2017	2018	2019	2020	2021
Total assets	70,669.98	69,608.87	77,622.56	86,759.63	89,597.02
Equity	2,865.23	2,963.98	3,013.96	3,064.38	3,101.72
Net interest income[1]	323.41	331.37	302.04	263.20	254.75
Net income	50.59	50.18	49.98	50.42	37.33

	2017	2018	2019	2020	2021
'Hard' Tier 1 capital ratio (CET1 ratio)	18.67%	18.59%	20.06%	20.39%	20.99%
Total capital ratio	20.73%	20.59%	22.20%	22.29%	22.79%
Return on equity	5.44%	6.29%	4.39%	4.33%	5.13%
Cost-income ratio	52.39%	44.53%	53.45%	57.90%	64.11%
Leverage ratio	4.81%	5.12%	4.86%	4.56%	7.82%

2021	Moody's	Standard & Poor's
Rating	Aaa	AA+

[1] Based on business operations.

Contents

A Letter to Our Business Partners

Fiscal year 2021 ended as it began. The Covid pandemic defined many aspects of our daily lives, and will continue to do so. Thanks to our impressive team spirit, we have managed to overcome the most negative impacts of the pandemic to date, but must now deal with the next crisis: Russia's invasion of Ukraine. This is causing human suffering on a scale that is hard to imagine, as well as changes in the geopolitical situation the effects of which we cannot yet assess. In any case, we cannot afford to slacken our efforts: we still face other daunting challenges. First and foremost, climate change, which has arrived and is here to stay. We must endeavour to slow down the speed of its advance by, wherever possible, acting in climate-neutral ways. What does this mean for our federal state? How can Baden-Württemberg become climate-neutral while remaining a pillar of economic strength? Net zero is the climate vision we are aiming for – and we must lose no time in pursuing it.

At the same time, we must ensure that the process of transformation required to achieve this vision is economically and socially acceptable for business and society as a whole. We can only do this if we all pull together. In the past, we have not always succeeded in doing so – economic risks and social concerns have consumed much of our time and attention. But during the pandemic, the debate started moving in a new direction. When the Federation of German Industries (BDI) called for the acceleration of climate action at last November's Climate Congress in Germany, it became clear once and for all that the question is no longer 'whether' the necessary transformation should take place, but 'how' we will make it happen. Now that there is a broad consensus on the need for climate action, we must work out how to remain economically successful as we take action.

How to succeed in business, while at the same time making important contributions to our social development, was clearly demonstrated by the winners of last year's State Prize for Young Companies, which is jointly awarded by L-Bank and the state government. As role models who inspire others and encourage them to create their own businesses, these prize-winners give us hope. Behind each success story you will find a very special kind of person. And we have many such special people in Baden-Württemberg, as shown by the great response to this year's round of the competition, the fourteenth event in the series.

A look at the result of our development finance activities for the past year also gives us grounds for hope. On the one hand, the volume of enterprise development funding clearly reflects the strenuous efforts required to mitigate the Covid pandemic's economic impact. The total, including over EUR 6 billion in coronavirus-related aid, speaks for itself. On the other hand, it also shows that even as the pandemic was raging, SMEs were working hard to remain viable for the future. For example, our Innovation Finance 4.0 programme enabled some 750 companies to lay the foundations of future success. At the same time, the virus also proved that crises always present opportunities to launch new businesses. A new approach can, in the right circumstances, transform markets – and markets often give innovative processes, products and services more of a chance to prove themselves. All these considerations were reflected by new record levels of demand for our Business Start-up Finance programme; the volume of funding granted exceeded the previous record achieved in 2017. We are also continuing to expand our technology parks. Construction work on our two new parks in Freiburg (FRIZ) and Mannheim (TPMA2) will be completed this year. They are welcome additions to our existing properties, which are almost fully occupied.

Sustainability, and its many aspects, is also the key principle behind our commitment to housing development. We aim to increase the supply of needs-based, cost-effective, energy-efficient housing, whether for use as owner-occupied homes or as rental properties. We were especially successful in financing the construction and modernisation of affordable rental accommodation, which rose by more than 40%. But we also excelled ourselves in providing home ownership assistance for both new build and building conversion projects, as well as house extensions and age-appropriate conversions. With yet another strong result last year, L-Bank's housing development activities helped to protect the climate and improve social equality.

Last year, we were all put under enormous pressure, forcing us to go to our limits and sometimes even beyond. This was the only possible way to provide such a high level of service as a team. Dear colleagues and co-workers, your exemplary commitment is what enabled us, yet again, to achieve this spectacular feat. Which reminds me that we have also made major progress in evolving our collaborative environment and realigning L-Bank's strategy. Your feedback in response to multiple employee surveys has been immensely valuable and has helped move L-Bank forward. Your ideas, and the issues you raised, have been discussed in our departments and business units, and have been the subjects of lively debate by the Board of Management. Many of the opportunities for change identified in our various action areas have already been implemented in the course of our StrategyDIALOGUE. For this, and for your commitment and sheer dedication, I wish to thank you on behalf of the entire Board of Management. We look forward to continuing this exciting and successful work with you all.

Edith Weymayr
Chief Executive Officer, L-Bank

Greetings from the State Premier

Following the previous year's turmoil, the Covid pandemic has also had a seminal impact on 2021. We are currently in the midst of the pandemic's fourth wave, which is, yet again, bringing its full force to bear on us all. But although the pandemic's Omicron variant has us firmly in its grip, I am still looking forward to the future with optimism. In these difficult times, L-Bank has once again proved to be a reliable partner both to businesses in Baden-Württemberg and to the state government.

With its many Covid-related aid programmes and sector-specific development finance programmes aimed at creating the ideal conditions for viable businesses in Baden-Württemberg, L-Bank has succeeded in mitigating the pandemic's economic consequences and preserving countless businesses, start-ups and jobs. In 2021 alone, the Bank provided EUR 7 billion in Covid-related aid and assistance for combating the impact of the pandemic. Since the pandemic first started in 2020, businesses in Baden-Württemberg have received a total of almost EUR 10 billion in financial support.

In addition, L-Bank's enterprise development performance has produced a total of EUR 2.5 billion in funding for the digital and sustainable transformation of Baden-Württemberg's economy, protecting 265,000 jobs and creating 8,500 new jobs in the process.

The impact of the pandemic was not the only thing to affect L-Bank's work in 2021. Totalling EUR 690 million, the strong demand for start-up development finance actually exceeded the record level achieved in 2017. And with a volume of EUR 470 million, the Innovation Finance 4.0 programme provided a strong financial boost for the innovation projects and new business models of many SMEs in the federal state.

Trends in the housing development sector have also been gratifying. The construction of affordable housing is one of the major social issues of our time. At EUR 2.15 billion, the total volume of L-Bank's home ownership and rental accommodation programmes exceeded the two-billion-euro threshold for the first time in five years. In the case of finance for rental accommodation in particular, funding rose to EUR 1.1 billion, an increase of more than 42% establishing a new all-time high.

The State Prize for Young Companies, one of the most highly endowed business awards in Germany, is presented to exemplary entrepreneurs from Baden-Württemberg who not only strive to succeed commercially, but also make a contribution to a sustainable, climate-neutral society; entrepreneurs who, in short, show social commitment and a sustainable approach to business.

To achieve a socially acceptable combination of ecology and economy, we need entrepreneurial characters like this – individuals capable of establishing new economic models that focus on systematically decoupling growth from the consumption of resources. Encouraging such talents is why I was delighted to become the patron of L-Bank's State Prize for Young Companies.

Overall, L-Bank can look back over another extraordinarily successful year. I would therefore like to thank L-Bank and all its employees most warmly for their immense hard work and commitment, and wish them every success in fiscal year 2022.

Winfried Kretschmann

Winfried Kretschmann MSP*
State Premier of the State of Baden-Württemberg

* Member of the State Parliament of Baden-Württemberg.

Greetings from the Chair of the Supervisory Board

Ladies and gentlemen, my dear colleagues at L-Bank,

A glance at our development finance figures is enough to provide impressive confirmation of the experience we all lived through last year. The coronavirus pandemic kept us – kept the economy as a whole – on our toes, demanding huge efforts from everyone concerned. L-Bank had to deal with exceptionally high pressure related to financial aid for businesses in particular, which proved enormously helpful and effective during this difficult period. We proved more than capable of overcoming these challenges. Difficult times always test our resilience, shaping individuals and society as a whole. Two years of pandemic have shown the importance of values like solidarity and a sense of community. Overall, we have succeeded in weathering this crisis. And now, alas, we must confront the next crisis, in the form of Russia's invasion of Ukraine. This war will bring about many changes, both political and social, and we, too, will feel the consequences here in our federal state.

But we also have another challenge to face, as we systematically pursue climate neutrality. Because as current events are proving, energy policies are inseparable from security policies. Furthermore, the issue of sustainability is becoming increasingly important. In companies, sustainability has moved from being a marginal issue to becoming a governance-related corporate objective. Increasingly, successful implementation of the various facets of ESG (Environmental, Social and Governance) is turning into a key criterion for corporate forward planning, even among SMEs. The strategic toolkit for forging a successful path into the future includes measures that aim to preserve the environment for future generations: strategies for protecting the climate, using renewable energy, improving resource efficiency, and minimising atmospheric emissions and wastewater. At the same time, fairness has become a priority, both in supply chains and in our dealings with each other, enhanced by dependable, rule-bound behaviour.

L-Bank and the state government have accepted the challenges involved in shaping and developing the federal state into an innovation-focused, sustainable, socially and environmentally compatible place to live and work. We offer interesting development finance options for ambitious projects, from our Innovation Finance 4.0 programme and Combined SME Loan with Climate Premium for enterprise development through to our Combined Home Loan with Climate Premium for housing construction. Last but not least, L-Bank is a well-established provider of key services such as parental and family allowances. The phase of a child's life after birth is formative, both for young families and for the developing child. Parental allowances enable mothers and fathers to spend this time with their offspring without financial worries, no matter what their circumstances. In 2021, L-Bank once again paid out more than EUR 1 billion in parental allowances to families.

This is a truly impressive performance. I would like to thank you, all my co-workers at L-Bank, for the contributions you have made. I look forward to continuing to work with you on the future of Baden-Württemberg. L-Bank's annual report also provides useful insights into the future of our economy. In the report, we showcase the State Prize for Young Companies as the embodiment of entrepreneurship across Baden-Württemberg as a whole. Behind the successes we describe are very special minds and personalities – entrepreneurs capable of developing innovative products and services based on their own ideas. Individuals who are also helping to create a creative, climate-neutral society, who are socially engaged and run sustainable businesses. As inspirations for tomorrow's sustainable transformation, companies like this are indispensable assets for our economy. And this, too, shows that we are heading in the right direction, allowing us to look to the future with optimism even in these difficult times.

Best wishes,

Dr. Danyal Bayaz
Minister of Finance for the State of Baden-Württemberg

Our responsibility
Time to take major economic leaps

Baden-Württemberg's economy is undergoing a profound structural transformation. Over the next few years, this will cause many sectors to change out of all recognition. People's evolving mobility needs, requirements imposed by new climate and environmental policies, innovative tech developments (often emerging from digitisation), as well as opportunities for rethinking business processes and developing entirely new business models are popping up everywhere. If SMEs are to make the most of the opportunities associated with this technological transformation, they must overhaul traditional business models, selectively develop their technological competencies, and systematically adapt their strategic processes. At the same time, sustainability has evolved into a corporate objective that impacts directly on business governance. Successfully implementing the various aspects of sustainability has become a key formula for success, even for SMEs. Consequently, strategic thinking has become more important than ever, for SMEs, too. Those who fail to pick up the gauntlet and transform their businesses will lose customers. And those who fail to make their workplaces attractive as quickly as possible will lose employees. Economic transformation always starts on a small scale, with individual companies where only a fine line divides opportunities from risks. The winners of the State Prize for Young Companies are showing how you can make successful progress in various sectors if you have enough imagination and daring, coupled with a strong awareness of traditional values and a down-to-earth attitude.

Strong and lean – as a business, L-Bank also has challenges to overcome

The corporate landscape is not the only thing affected by these transformative processes. The financial sector in particular has an important role to play in this transformation. Back in 2018, the EU Action Plan for Financing Sustainable Growth triggered a series of legislative projects that will fundamentally change Europe's capital markets. With this action plan, the EU is pursuing three objectives: to redirect financial flows towards sustainable activities; to integrate sustainability risks into the risk management processes of players in the financial markets, and to make investments more transparent and long-term. When the EU Commission presented its updated Sustainable Finance Strategy on 6 July 2021, it once again clarified the key role played by the financial sector and sustainability. Financial flows should be directed towards sustainability-focused projects so they can make a vital contribution to preserving a world worth living in – both for us, and for future generations.

Inside L-Bank

Challenges require new ways of thinking

This new strategy effectively assigns a set of new mandates to the financial sector. In the past, the main function of the latter was to underwrite the supply of credit to the economy. Now, it must play a key role as a social management tool. For good reason: the way the financial sector structures its products directly influences the decisions taken by households and businesses. Consequently, capital flows can be managed very effectively by regulating the banks – in turn, making it possible to encourage compliance with climate targets.

The conditions in which L-Bank is operating, as well as the expectations placed on the Bank, have changed fundamentally. Current challenges include low and even negative interest rates, accelerated digitisation, increasingly operationalised sustainability requirements, demographic trends, changing stakeholder expectations, and new regulatory requirements. In short, a multitude of game-changing developments mean that we must re-examine the Bank's underlying processes and workflows, strategic direction and development finance products, and then systematically take them to the next stage. This is why L-Bank launched Strategy-DIALOGUE, a strategic review involving the entire workforce, Staff Council, management team and Bank boards and committees.

The aim of this approach is to create an L-Bank driven by collaborative participation, with a business strategy that is systematically discussed and incorporates the ideas and expectations of the entire workforce. And which consequently reflects our own overriding objective: to actively and creatively support the structural transformation of Baden-Württemberg.

Our development funding capability is what gives us meaning

Our activities and actions are framed and constrained by external parameters such as the L-Bank Act, regulatory requirements and the expectations of political stakeholders. To comply with these conditions, we must always be in a position to support the state government's development funding requirements.

Over the last two years, we have responded to the Covid pandemic by implementing more new development programmes and delivering higher levels of funding than ever before. In the process, it became clear that we could only meet the expectations of our owner and stakeholders by consistently focusing on our development funding capability. This was the true 'proof of concept' of our development funding capability, and we successfully passed the test.

To consolidate our development funding capability in the medium to long term, we identified four action areas in which we aim to advance. The action areas were identified in the course of StrategyDIALOGUE discussions first initiated in 2020:

- **Development business:**
  What should L-Bank's development business look like in the future?
- **Income and expenses:**
  Where can we cut costs, where can we boost earnings?
- **Corporate culture:**
  How do we want to work together in the future?
- **Process optimisation and digitisation:**
  Which processes can we streamline, where can we digitise or automate our workflows, and how do we want to do this?

Our mission: to sustainably develop Baden-Württemberg

Baden-Württemberg should also offer future generations opportunities to thrive in an environment worth living in. This involves giving top priority to all aspects of sustainability – economic, ecological and social – as well as value creation.

Until recently, the sustainability debate focused on operational ecology and corporate social responsibility. With the concept of 'sustainable finance', the focus has now shifted to finance as a whole. The financial sector, its products and consequently its entire system of objectives is now under scrutiny. How can L-Bank's banking and development business more consistently incorporate sustainability and ESG aspects? How can we manage sustainable banking operations, and communicate all aspects of this sustainability in clear, user-friendly ways, while at the same time pursuing a sustainable personnel policy as an employer? The answers to these questions will define the key milestones in our ongoing evolution.

> 'Our vision is shaped by sustainability and our ability to fund efficient, sustainable development – inspired by love ***for our state***.'

As a development bank, our remit is to help improve living and working conditions in Baden-Württemberg. For us, transformation and sustainability are not just passing fads; they have been part of our DNA for nearly 100 years. With our development funding, we help improve economic, ecological and social living conditions in the federal state. We aim to help ensure that life in Baden-Württemberg continues to be worth living for future generations, and that people continue to feel safe and secure in the state.

Creating the right conditions for all this is the mission underlying our business strategy. We aim to support the ongoing structural transformation driven by the two key megatrends of sustainability and digitisation while nurturing dynamic, sustainable business activity. Our development activity is an important management tool for achieving this. To ensure that our development programmes are fully aligned with the various aspects of sustainability, we have embedded the United Nations Sustainable Development Goals and the EU Taxonomy as guiding principles in our Business Strategy 2022. We are systematically analysing these two sustainable development frameworks and incorporating them step by step into our development and financing activities.

The guiding principle of our Enterprise Development action area is the transition to a climate-neutral, resource-efficient and increasingly circular economy as the basis for ensuring that Baden-Württemberg's economy remains competitive in the long term. The main priority of our Housing Development action area is, on the one hand, to create new, demand-driven, affordable housing, and on the other, to renovate or modernise existing housing to make it more climate-friendly. The Bank also focuses on contributing to energy-efficient, accessible new build and refurbishment projects. With the help of both the state housing development programme and other development finance options, L-Bank aims to enable families to purchase or build their own homes.

Sustainable Development Goals are showing the way

This is where it is important to have quantitative and qualitative benchmarks. At the UN Summit on Sustainable Development in September 2015, the United Nations General Assembly adopted the 2030 Agenda and its 17 Sustainable Development Goals (SDGs). We support these goals at the regional level.

How does our development funding contribute to the various SDGs? We use indicators to help us understand why and how a financed activity contributes to an SDG. For example, our finance for projects that aim to reduce carbon emissions is an indicator of our compliance with the 'Climate Action' SDG. We have analysed our funding activities accordingly, and in doing so, have taken the first step towards a holistic impact management system.

Such analysis clearly shows how the funding we issued in fiscal year 2021 contributed to SDGs. We allocated our development programmes to specific SDGs based on their intended use and the descriptions of the various programmes or products. We also took account of the fact that development programmes can make positive contributions to one or more goals. At the same time, however, we did not double-count programmes when quantifying their financial contributions; where a given programme addresses multiple SDGs, we distributed the funding volume equally between the supported SDGs. The analysis shows that through our development funding, we support 12 of the 17 Sustainable Development Goals.

As a development agency with a regional focus, in this case on our federal state, the goals we consider most important include climate and environmental action (SDGs 7 and 13), transformation and digitisation (SDG 9), small and medium-sized enterprises (SDGs 8 and 9), and equal opportunities (SDG 10). Our SDG analysis focused in particular on new business financed by loans in 2021. Our financial aid, grants and subsidy programmes will be included in a more detailed SDG analysis as we continue to develop our reporting in the future.

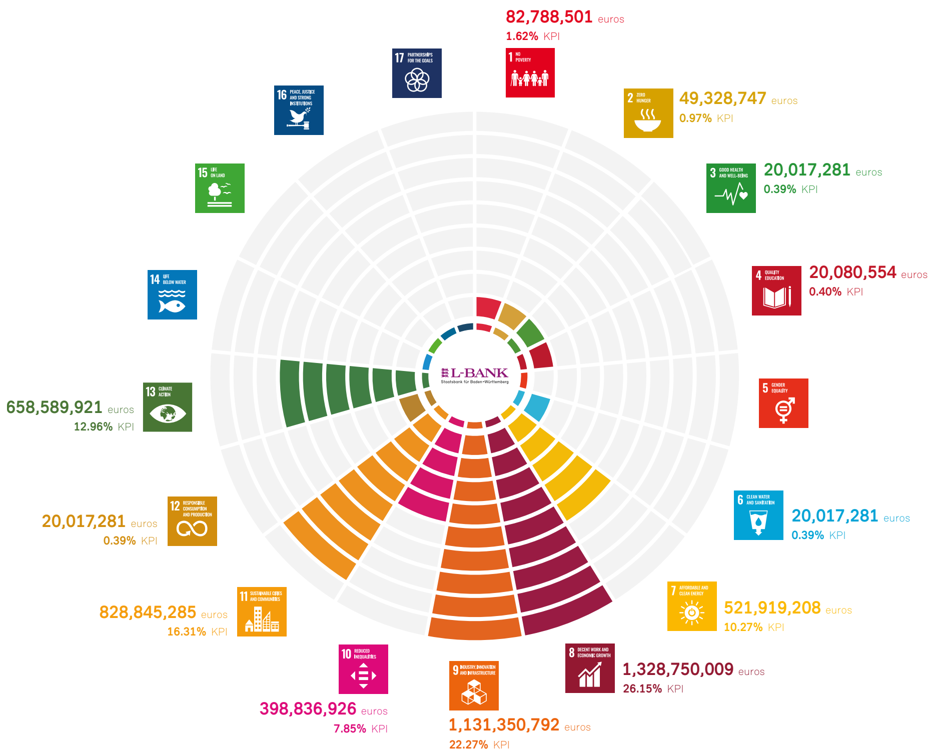
Volume of funding across all lines of business

in 2021

5.1 billion euros

Our contribution to sustainable development

with a total funding volume of EUR 5.08 billion



The big picture is our alpha and omega

For us, sustainability is not just something associated with our development finance products. We also want to help develop a Baden-Württemberg that is aligned with the Sustainable Development Goals through the way we behave, our organisational objectives, the activities we sponsor, and how we engage with society.

Our claim to be a sustainable development agency is underpinned by the exemplary environmental protection built into our business operations. We are already a pioneer among financial institutions with our environmental management system, which has been EMAS-validated and ISO 14001-certified since 2016. The structures implemented as part of this system are systematically used for purposes of environmental and climate protection. In 2020, L-Bank also concluded a climate protection agreement with the federal state and joined the BW Climate Alliance. In doing so, we reaffirmed our commitment to climate action and set ourselves ambitious goals for making our business operations climate-neutral.

Through our social commitments, we are also endeavouring to raise awareness of ESG issues and encourage the development of sustainable business models by participating in a variety of initiatives and organisations.

Thus we are actively involved as, among other things:

- A member of UNEP-FI – the United Nations Environment Programme's Finance Initiative.
- A signatory of the Diversity Charter.
- A member of the Association for Environmental Management and Sustainability in Financial Institutions (VfU).
- One of the first signatories of the WIN Charter for Sustainability Management.
- One of the first signatories of the BW Climate Alliance's Climate Protection Agreement, and a member of the alliance.
- A stakeholder in Stuttgart as a financial centre, having taken part in developing and then signing the financial centre's sustainability strategy.

Top-down, bottom-up: how we continue to add value for sustainable development

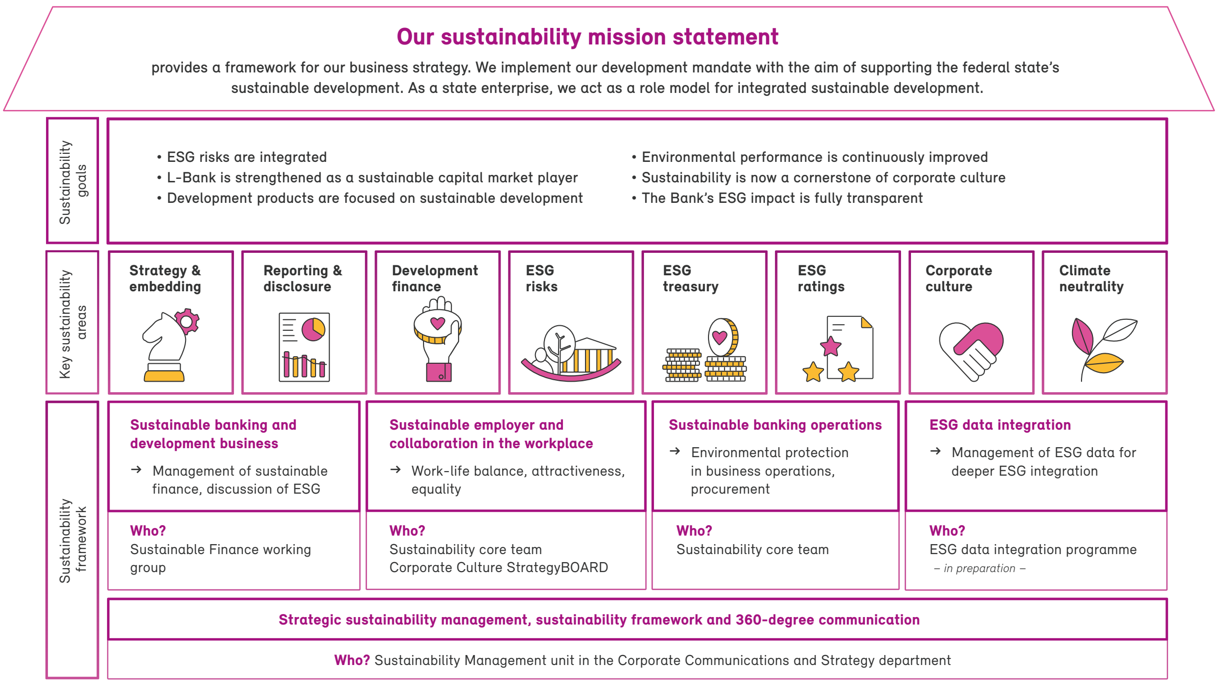
A pioneering planning process needs two things: the detailed knowledge possessed by employees, and the strategic farsightedness of the management team. By which we mean a project planning process that happens at senior management level, based on a profusion of information gathered on the ground, and characterised by opportunities to provide feedback, engage in brainstorming, and submit constructive criticism – but also by a coordinated, systematic approach to planning, leadership and implementation. We have brought together both sides of the equation by setting up our StrategyBOARDs and the Sustainable Finance working group as management instruments, plus our IdeasARENA and 'idea champions' as opportunities for participatory involvement.

Our four StrategyBOARDs process four different action areas:
Bank as a Whole, **Development Business**, **Corporate Culture**, and **Digitisation & Process Optimisation**. They are given their work assignments by the Board of Management. The StrategyBOARDs act as forums for exchanging and discussing strategic ideas and preparing these ideas for the Board of Management before they are turned into assignments for further development and implementation.

How will the nature and scope of our value creation evolve in the future? As far as the value creation process is concerned, the selective and systematic exploitation of digitisation opportunities is crucially important. With this in mind, we have set up a digitisation road map in our Digitisation & Process Optimisation StrategyBOARD, which we use to show how our digitisation strategy is helping us to implement our business strategy. Our digitisation strategy is essentially the basis for ensuring that we will be able to continue to implement the Baden-Württemberg state government's ideas for development in the future, and that our development funding capability remains unimpaired. The paperless, media-independent mapping of our customer processes and in-house workflows is just as much part of our vision as the way we design our workplaces and use various business intelligence options. Business intelligence in particular (including data compilation, data mining, data management and data visualisation) is opening up exciting new perspectives.

The term 'sustainability' highlights companies' responsibility for the impact of their actions on society. This covers a very wide range of aspects. General social responsibility encompasses companies' social obligations just as much as their ecological and economic responsibilities. Corporate Social Responsibility (CSR) is not something that can be treated as a single project: CSR is a continual process, involving the ongoing development of an organisation-specific awareness and assumption of responsibility in four key action areas – economy, workplace, community and ecology – and their integration into L-Bank's core business.

L-Bank's sustainability road map provides an organised, holistic perspective on the whole subject of sustainability by showing which departments are facing which sustainability issues. The road map content is structured according to the six sustainability targets embedded in the Bank's business strategy. These in turn are derived from the Bank's primary objective: to support the sustainable development of the State of Baden-Württemberg as its dedicated development bank:



Two interdepartmental working groups coordinate content and provide inspiration. The Sustainable Finance working group is responsible for developing options for action in the banking and development business that are appropriate for L-Bank. It is also in charge of progressing the integration of ESG with our banking and development business through an ongoing work programme. Another interdepartmental working group has been tackling issues associated with sustainable banking operations since 2012, ranging from environmental protection in our business operations through to our EMAS-certified environmental management system and the optimisation of our working conditions. The lynchpin of all these strategic and communication-related sustainability activities, as well as the top-level coordinator of this meta-activity at L-Bank, is the Sustainability Management unit, part of the Corporate Communications and Strategy department. L-Bank's Board of Management regularly focuses on the big picture involving the various aspects and outcomes of sustainable development. It also scrutinises specific issues and draws up regular reports. This means that our organisational set-up is capable of dealing with the significantly more stringent requirements associated with sustainability as a whole, as well as its complexity and transformational dynamics.

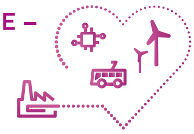
In the course of our StrategyDIALOGUE, employee participation was completely restructured as a dialogue-focused strategic process. In addition to our existing ideas management platform, which is all about finding concrete, measurable ways to optimise our current processes by applying innovative, creative thinking, employees were also able to give free rein to their ideas on L-Bank's future in our IdeasARENA. In a wide-ranging employee survey, we collected feedback on a broad spectrum of topics. Some 20 'idea champions' act as points of contact, collecting employees' ideas, identifying possible initiatives, and subsequently managing their evaluation and implementation. At the same time, they liaise with the Strategy-BOARDs and can suggest actions to them as well.

How knowledge and understanding boost motivation

Once members of staff clearly understand how they are contributing to the big picture, they become more motivated. What are our objectives? Are we heading in the right direction? What are we expecting to happen in the future? Openly responding to these questions and explaining our decisions is a vital aspect of our StrategyDIALOGUE. Regular updates on our progress towards our goals appear in the StrategyREPORT, a quarterly report that keeps all employees informed of our ongoing work on business strategy goals and the development of key strategic indicators.

StrategyDIALOGUE –
L-Bank reloaded

Efficient, sustainable development inspired by love for our state.



Our commitment to Baden-Württemberg

Our remit is to move Baden-Württemberg forward by creating an innovation-friendly environment, contributing to social equilibrium, and progressing ecological actions. And, in fact, we are fulfilling this remit more successfully than ever before, as our development loans, financial aid, equity instruments and business zone development activities set a new benchmark for our development funding performance.

L-Bank's total development business
in 2021

15.2 billion euros

Versatile, reliable, future-focused: our enterprise development activities

For the last two years, the recently renewed restrictions associated with the spread of the Covid pandemic have been putting huge stresses on companies and self-employed businesspeople alike. So it is all the more impressive to see how they are continuing to power the transformation of our economy, despite such complex adverse conditions. Sustainability, climate action, digitisation: as our development funding figures show, Baden-Württemberg's businesses are rising to the challenge, highly innovative, and more than capable of holding their own against international competition. With our development finance offerings, we are improving their resilience to economic shocks while simultaneously encouraging structural change. Once again, the total volume of development assistance provided to companies in Baden-Württemberg rose significantly. Financial aid to offset the economic impacts of the Covid pandemic made a significant contribution to this renewed surge of development funding.

Total development funding for businesses

9.5 billion euros

Coronavirus programmes help companies surmount the crisis

The Covid pandemic and its severe repercussions on businesses in our federal state caused L-Bank to focus its development funding policies on protecting the hardest-hit companies. L-Bank was also extensively involved in the administration of relevant federal and state-level programmes.

The range of Covid-related aid and assistance programmes continued to grow in 2021. We used the full range of instruments at our disposal: companies were provided with repayment relief, grants, loans, sureties, and hybrid or equity capital. The Covid pandemic's economic impact was mitigated by special offers for trade fairs and exhibitions, as well as support for cultural events, the hospitality industry and non-profit organisations, but also through broader programmes for start-ups and fledgling companies, solo entrepreneurs and cash-strapped companies. To safeguard and further stabilise the economic recovery, the funding time frame of major assistance programmes such as the **Bridging Assistance IV** programme and **New Start Assistance** programme was extended to March 2022.

Grants since the start of the pandemic
totalled almost

9.0 billion euros

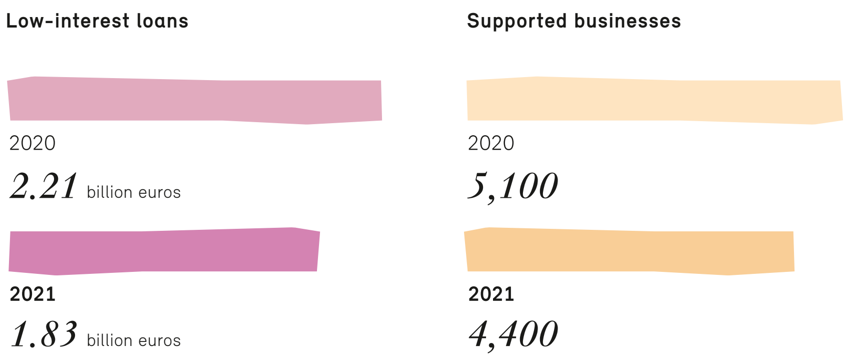
Number of applicants

500,000

SME development finance: improving dynamism, stability and resilience

This does not mean that the long-term objectives of L-Bank's SME finance activities have changed; on the contrary, the crisis has further emphasised the need for action. The importance of providing support for structural change throughout the major sustainability and digitisation megatrends, as well as nurturing dynamic, sustainable business operations, has become clearer than ever. At the same time, it is important to safeguard the state's entrepreneurial base by investing in expansion and modernisation through programmes such as **Growth Finance** and **Investment Finance**. In short, it was not possible to maintain the full scope of our standard SME development programmes at the previous year's level.

SME development through our standard programmes
compared to previous year



Issues that will matter to society in the future were addressed by programmes such as **Resource Efficiency Finance** (until 30 June 2021, followed by the **Combined SME Loan**), Innovation Finance and the **Digitisation Premium**.

These programmes are applied broadly, ranging from measures to optimise business premises to funding for innovation or digitisation projects. In particular, the systematic implementation of digital technologies and digital expertise boosts corporate competitiveness and future viability. As a cross-sectoral solution, digital technologies enable new business models, smart working processes and smart production processes, as well as new ways of networking with customers and suppliers. Last but not least, they impact customer acquisition and, by adding new after-sales service options, boost customer loyalty.

Funding volume: innovation-focused programmes
in total

865 million euros

Digitisation Premium supports

8,700 companies

The tourist industry: especially hard-hit by Covid, but also exceptionally active

So many regional businesses benefit from tourism (e.g. hospitality, the hotel trade, retail, service providers and suppliers, not to mention regional producers, crafts and trades) that it would be more accurate to say there are very few economic sectors that do not benefit from tourism. Tourism adds significant value and creates, both directly and indirectly, a large number of jobs. Jobs that all have certain features in common: they are not exportable, they boost domestic demand over the long term, and they are predominantly found in the SME sector. From 2010 to 2019, the number of guests and overnight stays in tourist accommodation based in the southwest steadily rose to record levels, at over 57 million overnight stays. But the two Covid years hit the industry hard. Last year, despite a slight uptick, the drop from pre-crisis levels increased once again. A wide variety of investments will be needed to drive a recovery. Tourist establishments must satisfy the increased demand for personal safety and reassurance; new tourism concepts are being trialled. Supported by our Covid-related aid packages, tourist businesses have picked up the gauntlet and are investing in making their offerings even more attractive.

Tourism Finance Plus
in 2021

107 million euros

for *300* businesses

Golden age for start-up and fledgling businesses

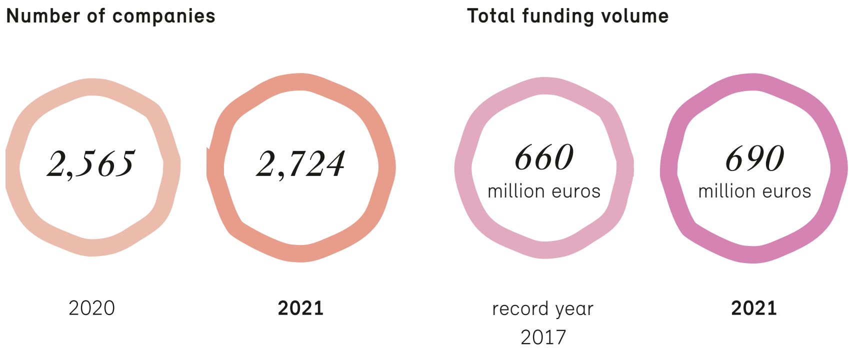
Our **Start Finance 80**, **Start-up Finance** and **Pre-Seed Finance** programmes cover the varied funding needs of business founders. We can, for example, provide support for substantial investments featuring higher risks, such as those characterising high-tech projects. But certain kinds of funding are also suitable for lesser needs more frequently associated with service start-ups. This systematic differentiation of our various development programmes was reflected in the high demand for our development offerings for business start-ups; the total volume of funding awarded to business start-ups exceeded the record levels achieved in 2017. The flexibility and dynamism of up-and-coming companies are essential to our economic vitality. New ideas and innovative approaches have an invigorating effect on all sectors. With the launch of our **Master Start-up Premium**, we have created an instrument that makes it easier for business founders in the trades and crafts sector to become self-employed. Anyone who has passed their master craftsperson's examination and wants to start a business can apply for our **Master Start-up Premium**, which takes the form of a repayment subsidy added into our **Start Finance 80** and **Start-up Finance** programmes. This is how the State of Baden-Württemberg is encouraging craft apprenticeships and supporting the business start-up plans of young master craftsmen and craftswomen at the earliest possible stage.

Master Start-up Premiums awarded
to young master craftsmen and craftswomen around

100

Start-up development finance

year-on-year comparison



Equity finance: turbocharging corporate development

Fast-growing SMEs and innovative start-ups have capital requirements that often cannot be met by debt capital. At the same time, precisely these companies have the highest economic potential. Consequently, a suitably adapted portfolio of equity instruments is a vital prerequisite for supporting innovation and renewal processes in Baden-Württemberg. Fortunately, companies in the federal state have access to a wide variety of finance and service providers. These vary according to which phase of corporate development they specialise in, the individual sectors they focus on, or indeed the target regions they serve. In addition to public-sector investors, there is also a large number of private companies such as family offices or firms that take stakes in other companies to further develop their existing business.

As a development bank, we always seek to supplement our existing services and help to activate additional private capital for the equity market. With this in mind, we started restructuring L-Bank's equity investment programmes in 2016. L-Bank has two main channels for engaging in SME and venture-capital-related activities: our **LEA Mittelstandspartner** fund, set up in the spring of 2016, and our **LEA Venturepartner** fund, which was launched the following year. The **LEA Mittelstandspartner fund (LEA MP I)**, which has a total volume of EUR 200 million, is fully utilised; any residual funds are applied to follow-up investments in portfolio companies. So last year, we set up a successor fund **(LEA MP II)** with a target volume of EUR 300 million. The first closing – which raised a total of around EUR 100 million – was concluded in August 2021, and first investments have already been made. **LEA Venturepartner**, with a total funding volume of EUR 60 million, is a VC investor specialising in B2B software and the high-tech sector.

Number of companies in which LEA MP I has invested

to date since fund was set up

9

LEA MP II commitments

currently at

2 companies

In all these funds, L-Bank deliberately acts as a minority shareholder, playing the role of confidence-inspiring anchor investor. This allows the Bank's own funds to be leveraged using private sector capital. L-Bank has a 15% stake in the total subscribed capital of **LEA MP II**. On the investor side, the fund aims to extend the hitherto predominantly regional investor base and take the fund another step forward in terms of size, reputation and professionalism.

The Bank's **Start-up BW Pre-Seed** programme supports start-up projects at an even earlier stage by helping founders to prepare for financing rounds. As well as receiving financial support from the State of Baden-Württemberg, often co-financed by private investors, pre-seed entrepreneurs are mentored by regional **Start-up BW Pre-Seed** partners as they work on their business models and develop their companies.

Technology parks are centres of innovation – and have been for more than 20 years

As a rule, the journey from good idea to good product does not just involve hard work, but is also lengthy. With our technology parks, we aim to shorten this journey by creating an environment that enables entrepreneurs to implement their ideas and bring new products to market faster and more easily – supported by excellent networks, suitable premises, and close proximity to internationally respected universities.

By locating our technology parks right next door to the state's many universities, we create an ideal environment for transferring knowledge from university research projects to businesses, making it much easier for young, technology-centric companies to succeed at, for example, our Karlsruhe Technology Park (TPK), Stuttgart Engineering Park (STEP), Tübingen-Reutlingen Technology Park (TTR) and Mannheim Technology Park (TPMA). In these technology parks, we provide a variety of buildings for technology companies with widely differing goals and strategies. Our parks continue to be very popular; they are almost fully occupied by corporate tenants – which is why we continue to extend our technology park family. Our new premises in Mannheim and the Freiburg Innovation Centre (FRIZ) will be ready to welcome tenants in the course of 2022.

Companies with LEA Venturepartner investments
to date since fund was set up

12

New Start-up BW Pre-Seed commitments

127

Total funding volume

21 million euros

TPMA continues to grow; the TPMA2 extension will open in 2022.

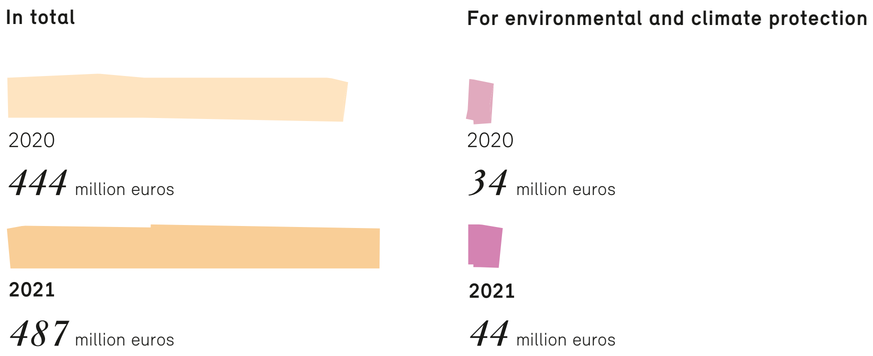
The impact of financial aid is swift and direct

With our Covid-related emergency aid packages, we managed to stabilise Baden-Württemberg's economy and support the most severely affected sectors with the liquidity they needed. Help in times of need is an important aspect of financial aid – but it is also a very effective management tool. Financial aid provides an immediate incentive. Either directly, or with the support of advisory services, it is possible to initiate or encourage rapid changes in behaviour.

A prime example: encouraging people to rethink their travel behaviour. During 2021, L-Bank provided financial assistance for various modes of e-mobility. Until the end of Q1, for example, commercial enterprises were eligible for a scrapping premium if they exchanged their conventional motorbikes for electric two-wheelers. We also provided subsidies to facilitate the purchase of electric cargo bikes and trailers used for commercial, non-profit, community or municipal purposes. Various programmes helped to subsidise the maintenance and operating costs of electrically powered vehicles, helping to make them even more attractive. Transport companies could make use of our e-bus consulting voucher to obtain advice on how best to transition their local mass transit operations to alternative drive technologies. All with the aim of protecting the climate and reducing local exhaust-gas and noise emissions by bringing about changes in user behaviour. But our environmental and climate action programmes were not the only ones in high demand – our financial assistance for business also continued to grow.

Financial assistance for business

compared to previous year



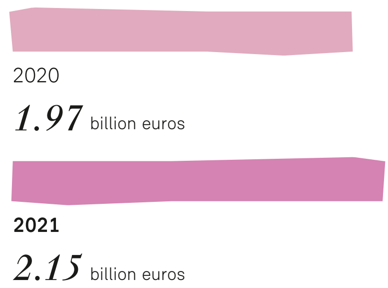
Affordable, energy-efficient, age-appropriate – the holy trinity of housing development

The housing shortage in Baden-Württemberg is driving up prices and making housing unaffordable for young families and the socially disadvantaged. This is not just true of conurbations and university towns; a Prognos study commissioned by L-Bank back in 2017 highlighted a growing housebuilding deficit. Between 2011 and 2015, while the housing demand rose by 4.6%, the housing supply only grew by 2.5%. A subsequent analysis carried out in 2019 showed that the housing market was 'overburdened' in 88 Baden-Württemberg municipalities. It is true that more accommodation was made available in 2020 and that Baden-Württemberg's construction sector was also very active last year. But the pressure on Baden-Württemberg's housing market remains very high.

The ultimate objective is more affordable housing across all market segments. It is important to increase the supply of needs-based, affordable, energy-efficient accommodation in the form of both rental and owner-occupied housing. The necessary all-round improvements will not result from one-dimensional optimisation efforts – multiple adjustments are needed in parallel. Not only is it important to increase available living space; it is also essential to make that living space more flexible. The growing popularity of home offices, for example, means that interior planning and design must change to cater for the increasingly variable use of premises. Last but not least, living spaces must become more sustainable; more than one-third of all energy in Germany is consumed by buildings – mainly for heating, cooling and hot water. This must change. The medium-term goal is climate neutrality. But this does not just mean focusing on new builds, which only account for a tiny proportion of the housing stock. The renovation and extension of existing housing stock are vital starting points for a sustainability-focused housing strategy.

In terms of finance, last year saw positive signals regarding the creation of new living space, as well as renovations and the efficient use of energy in the building sector. We can report a gratifying increase in the volume of funding provided. At the same time, our development funding criteria and facilitated access to finance are ensuring that the independent housing construction market develops in sensible, practical ways.

Total lending volume for housing development
compared to previous year

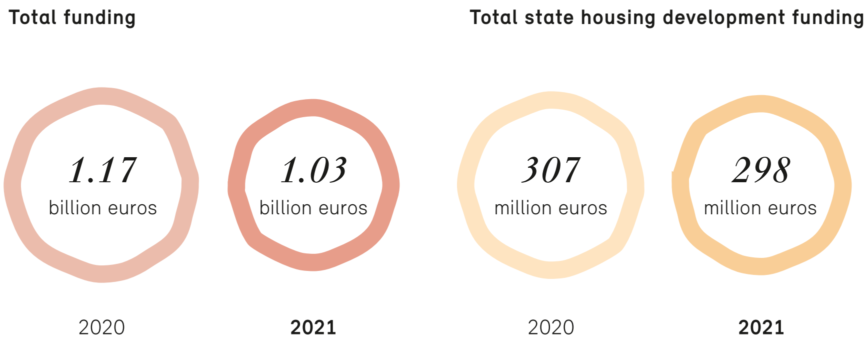


The home ownership ratio in Germany is stagnating

Young households in particular are finding it difficult to make the leap into property ownership – this alone is reason enough to act. After all, home ownership not only plays an important role in creating individual wealth and providing for retirement; it also helps people to identify with a region and encourages social engagement. Home ownership gives people greater independence and security. This is why our home ownership assistance programmes are set up to help families with children in particular to build or buy their own homes.

Total volume of home ownership assistance

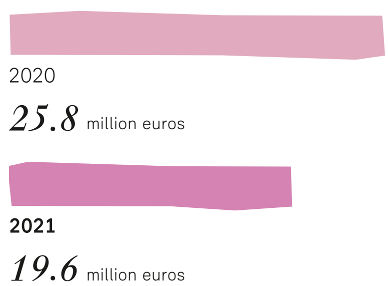
compared to previous year



Funding for the purchase of owner-occupied housing under the state housing development programme remained at a very satisfactory level. The federal state's goal of transforming Baden-Württemberg into the 'Number one climate-protecting state' is reflected by our changeover to programmes focusing on energy efficiency. On 1 July 2021, we phased out our **Energy Efficiency Finance – Refurbishment** and **Living for the Future: Renewable Energy** programmes, while simultaneously launching our **Combined Home Loan with Climate Premium** programme. This means our development finance is now driven by ambitious climate goals; future funding will be directed into especially high-performing projects.

Volume of funding for homeowners' associations

compared to previous year



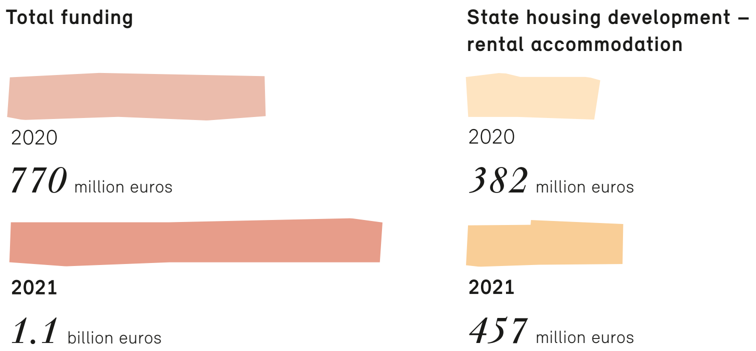
Finance for homeowners' associations continues to be very attractive, catering as it does for associations planning energy-efficient refurbishment, access-enhancing conversions, or the future use of renewable energy in existing buildings. As a result of the reprioritisation of the state housing development programme in July 2021, homeowners' associations had to adjust their resolutions regarding the financing arrangements required to carry out these projects. This resulted in delays to the application and approval process – as a result, the volume of funding commitments fell short of last year's level.

Pressure on prices and rents has highlighted the importance of social housing assistance

Living spaces are no longer unrestrictedly devoted to 'non-work'. The disappearance of the strict separation between home life and work has further accelerated the trend towards increased pro-capita living-space requirements – a trend that has been increasingly evident for many years. Working from home (WFH) is generating additional demand for living space – and exacerbating the existing pressure on housing prices. At the same time, the amount of social accommodation available for people on low incomes has steadily fallen over the last few years. Providing access to adequate housing, one of the cornerstones of our welfare state, is still a core political priority.

Volume of funding for rental housing development

compared with previous year



Another cornerstone is finance for social rental accommodation, which ensures that households that cannot afford adequate housing through their own efforts nevertheless have some prospect of obtaining accommodation. The funding benefits them indirectly – it is paid out to investors prepared to provide low-income households with rental accommodation. In return for subsidised development funding, the recipients assume certain obligations involving in particular regulated tenancy and rent agreements. Social property lets are thus aligned with predefined income and rent ceilings.

The various rental housing development programmes managed by L-Bank provide financial assistance for the construction and modernisation of rental accommodation by subsidising investment costs and compensating for rent-controlling conditions that deviate from market-standard rents. The new federal funding programme for energy-efficient buildings (BEG) was introduced on 1 July 2021, at which time it also became possible to aggregate federal programmes with loans and grants awarded under state rental housing assistance programmes. The transformation of development funding that accompanied this introduction resulted in a higher volume of approvals and represented another step towards arresting the decline of social housing in the federal state.

A modern, energy-efficient house in Ostfildern, featuring thermal insulation and wooden façades.

As part of the planned update and further development of the **BW Housing Construction** development programme for 2022, additional measures for improving the funding of social housing construction are envisaged. For example, the potential duration of regulated tenancies may be increased to up to 40 years, and landlords' rent undertakings would be offset by higher financial subsidies. Even now, most housing construction companies choose regulated tenancies lasting between 25 and 30 years for their social housing new builds. Providing an attractive option for extending controlled rent agreements could further boost the reliable provision of social accommodation.

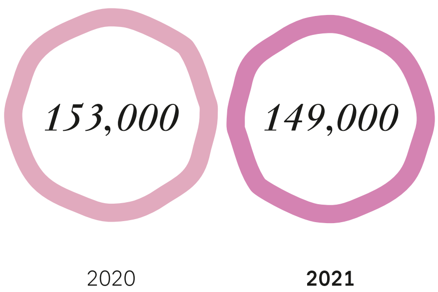
The 'Effizienzhaus' (Efficient House) Quality Standard 55 was established as the regular basis for funding new build construction projects in the 2020/2021 state housing development programme. The sustainability certification envisaged in the draft of the new **BW Housing 2022** development programme could provide even more support for the construction of new, climate-friendly social accommodation in the future.

Safe, social and fair: our financial assistance strengthens families and communities

Mutual respect, uncompromisingly equitable treatment, lifelong learning – social responsibility is one of L-Bank's top priorities. Providing support for families, funding education, and helping families integrate into communities are the starting points for our financial assistance in the social sphere. As part of this, we provide funding for the training of social education specialists with an on-the-job component, and for expanding the educational capacities of child day-care centres. We subsidise language development activities for children, and improve integration opportunities by funding extracurricular German-language courses.

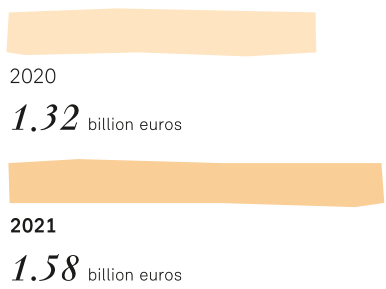
Approved family allowance applications

compared to previous year



Financial assistance for families, education and social projects

compared to previous year



In 2021, family and parental allowances once again represented by far the largest single item in respect of financial assistance for families and communities. Family allowances help to safeguard the financial livelihood of families after the birth of a child, at a time when the demands of parenting interrupt or restrict parents' work and consequently reduce parental incomes. Parents can choose between our **Standard Family Allowance**, our **Family Allowance Plus**, or a combination of both. Since autumn 2021, options have improved once again, with more part-time options, less red tape, and additional months of parental allowance for parents of premature babies. The new regulations adopted as part of the Second Act Amending the Federal Family Allowance and Parental Leave Act make it possible for all parents whose children were born after 1 September 2021 to further improve their work-life balance. To safeguard the economic stability of families while they are drawing family and parental allowances, selected Covid-related special regulations governing family allowances were also extended until 31 December 2021. The many new regulations and temporary, Covid-related adjustments to family benefit regulations posed additional challenges for parents and also for L-Bank. More explanations were required, with many parents seeking advice at our in-house service centre. As a result, they were able to base their decisions on accurate, well-founded information.

Total applications approved

1.1 billion euros

Family benefit consultations

more than

295,000

Development finance by business segment: 1 January to 31 December 2021

DEVELOPMENT FINANCE ACROSS ALL LINES OF BUSINESS	VOLUME OF COMMITMENTS	COMMITMENTS	
	5,080,541,786.80	**18,313**	
	VOLUME OF COMMITMENTS	COMMITMENTS	RESIDENTIAL UNITS*
HOUSING DEVELOPMENT	**2,150,945,223.97**	**8,679**	**16,659**
Home ownership assistance	**1,025,189,579.62**	**7,709**	**6,171**
Home Ownership Finance – BW including finance for growing families – Structured loans (state housing development)	297,981,642.38	1,773	1,293
Top-up and miscellaneous loans	120,249,415.00	753	X
Living with Children	302,427,800.00	3,111	3,457
Living for the Future	3,702,269.24	138	217
Combined Home Loan	273,341,427.00	1,778	942
Other programmes	27,487,026.00	156	262
Rental accommodation assistance	**1,106,129,644.35**	**842**	**9,065**
Rental Accommodation Finance – BW – New builds – MW15/MW25 (state housing development)	372,974,300.00	203	2,628
Rental Accommodation Finance – BW – Approval of regulated tenancies (state housing development)	13,776,400.00	252	460
Rental Accommodation Finance – BW – Modernisation (state housing development)	51,224,774.27	66	933
Rental Accommodation Finance – L-Bank – New builds	450,430,335.00	153	3,276
Rental Accommodation Finance – L-Bank – Modernisation	76,617,322.95	68	1,616
Other financial offerings	29,017,147.13	35	152
Top-up loans (new builds/modernisation)	112,089,365.00	65	X
Support for homeowners' associations (state housing development)	**19,626,000.00**	**128**	**1,423**

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

	VOLUME OF COMMITMENTS	COMMITMENTS
INFRASTRUCTURE DEVELOPMENT	**216,852,530.00**	**156**
Municipal investment loan, direct	180,155,530.00	128
New Energy – Community wind farms	5,197,000.00	24
Other financial instruments	31,500,000.00	4

	VOLUME OF COMMITMENTS	COMMITMENTS	COMPANIES
ENTERPRISE DEVELOPMENT		**9,478**	**8,573**
Business start-up finance	**689,843,402.50**	**2,960**	**2,724**
Start Finance 80	80,628,907.64	993	985
Start-up Finance	588,389,294.86	1,829	1,612
Pre-Seed Finance Grant	20,825,200.00	138	127
SME finance	**1,902,679,575.86**	**5,763**	**5,156**
Growth Finance	453,389,711.96	1,332	1,219
Local Transit Finance	32,461,640.75	666	362
Tourism Finance	107,363,750.41	322	300
Liquidity Loan	88,461,050.00	296	289
Investment Finance	189,908,402.00	182	140
Rural Area Development programme	90,565,869.99	487	474
Resource Efficiency Finance	249,093,156.50	203	180
Combined SME Loan	73,763,610.00	43	40
Direct loans and syndicated finance	27,000,000.00	5	3
Surety and guarantee programme/Sureties for refinancing loans	33,595,392.86	18	9
Loans to associated companies	7,200,000.00	1	1
Refinancing of associated companies	0	0	0
Innovation Finance	470,016,804.36	820	751
CPD Finance	126,546.00	3	3
Digitisation Premium	71,720,703.10	1,382	1,382
Film and cinema assistance	12,937.93	1	1
Mezzanine financing instruments	8,000,000.00	2	2
Agricultural development finance	**120,221,054.47**	**755**	**693**
Agricultural Liquidity Assurance BW	0	0	0
Agricultural Growth	63,060,715.47	596	552
Loans for environmental and consumer protection, sustainability, new energy sources	43,127,119.00	112	99
Working capital loans – Growth in the agri-food industry	14.033.220.00	47	42

Corporate Governance Report 2021

L-Bank, in its capacity as the State of Baden-Württemberg's development bank, has a statutory remit to support the federal state in the performance of its public duties and, in doing so, to implement and manage various development initiatives. A sound and responsible attitude to corporate governance is a natural component of the Bank's approach to these non-commercial activities. L-Bank has incorporated the Public Corporate Governance Code of the State of Baden-Württemberg into the Bank's standard operating procedures by resolutions of both the Board of Management and Supervisory Board, and observes all the provisions of the latest version of the Code. This Corporate Governance Report covers fiscal year 2021 and the following declaration applies in full as at the reporting date, 31 December 2021.

Declaration of compliance

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

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

Proportion of women on the Board of Management and Supervisory Board, and in executive management positions

As at 31 December 2021, two women were represented on the three-strong Board of Management. As at the reporting date, seven of the 18 members of the Supervisory Board (38.9%) and 73 of the 212 employees in executive management positions (34.4%) were women.

An overview of the remuneration paid to members of the Board of Management and Supervisory Board is set out in the Notes to the Annual Financial Statements.

The Board of Management The Supervisory Board

Management Report – Report of the Board of Management of L-Bank for fiscal year 2021

Background

Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) is the development bank of the German federal state of Baden-Württemberg. The Bank's business activities are governed by its statutory remit, namely to support the state government of Baden-Württemberg in the fulfilment of its public duties, especially in terms of structural, economic and social policy, by implementing development programmes that comply with European Union (EU) regulations governing state aid.

L-Bank has its head office in Karlsruhe, with a branch office in Stuttgart. L-Bank is wholly owned by the State of Baden-Württemberg and, as a public-law institution, is subject to the supervision of the federal state government. L-Bank is also supervised by the Federal Financial Supervisory Authority (BaFin) in cooperation with Deutsche Bundesbank. L-Bank's development goals and operational targets – such as the Bank's target clients and development priorities – are determined by the Bank's owner in accordance with the provisions of the L-Bank Act, relevant political priorities and, with respect to activities relating to development programmes, the specific terms of each individual programme. Consequently, L-Bank's main business activities are largely influenced by external factors and can therefore only be controlled by the Bank to a limited extent.

Economic Report

Basic parameters

Germany's economic development in 2021 was, once again, heavily influenced by the coronavirus pandemic. While it is true that the national gross domestic product (GDP) as a whole grew by 2.8%, representing a significant recovery from the slump in 2020, further setbacks meant that this positive development was less sustained than initially expected. Following the winter slowdown and new government restrictions on business due to high levels of infection, which caused GDP to decline by 1.7% (in each case compared to the previous quarter), catch-up effects in the service sector in particular stimulated strong growth (2.2%) in the spring quarter, followed by 1.7% in the summer quarter. A decline in new infection rates and significant progress in vaccination levels were largely responsible for this improvement. In the fourth quarter, however, the economic growth trend was once again curbed by the fourth wave of Covid infections, exacerbated by major supply bottlenecks. As a result, GDP showed a 0.7% decline in the final quarter of the year.

From an economic perspective, one of the most significant factors affecting 2021 was the bottleneck-induced recession that dominated the manufacturing industry for long periods of time. While industrial companies' order backlogs steadily rose, constrictions in the supply of intermediate products meant that production could not keep pace with high levels of demand. The trade and construction sectors were also – in some cases, severely – affected by supply bottlenecks and price rises. Following an uptick in the unemployment rate at the start of the year, the labour market showed a steady and ongoing recovery. Overall, the average unemployment rate fell from 5.9% in 2020 to 5.7% in 2021. The trending rate of inflation was also impacted by the supply-side shortages described above, as well as a marked increase in commodity and energy prices. In December, the inflation rate reached the highest level for nearly 30 years at 5.3% over December of the previous year.

In 2021, Baden-Württemberg's economy also rebounded from the previous year's pandemic-induced slump. Export business figures in particular reflected the rebound, with total exports over the first three quarters reaching EUR 163 billion, an increase of 18% over the corresponding figure for the previous year. Even more remarkably, the export volume over this period was actually 5% up on the pre-pandemic level achieved in 2019. Even in the southwest, however, the dynamic growth of the federal state's export business was hampered by supply-chain bottlenecks, which caused problems for the federal state's many industrial companies in particular. Although the high infection rates had a significantly less negative impact on Baden-Württemberg's economy than on other federal states, the state's economic recovery during the summer months was somewhat weaker than anticipated. In the third quarter in particular, the GDP growth rate was only 0.5% up on the previous quarter – substantially below the growth rate at federal level (1.7%). Despite all these economic fluctuations and uncertainties, the trend on the labour market remained positive. The average rate of unemployment fell from 4.1% in the previous year to 3.9%. By the end of the year, the unemployment rate had declined to just 3.4%. Thus at both federal and state level, the main problem in 2021 was, once again, related less to unemployment than to the ongoing shortage of skilled workers. In view of the major structural challenges associated with digitisation and the climate-friendly transformation of the economy, advanced skill sets are needed more urgently than ever.

Business performance

The Covid pandemic continued to dominate L-Bank's business activities in 2021. The strong demand for aid to mitigate the pandemic's economic impact made a significant contribution to the ongoing rise of the Bank's overall development funding levels. In addition, L-Bank experienced consistently high demand across its established development programmes.

Throughout the past reporting year, the Bank's development priorities continued to focus on enterprise development. Once again, the figures for new enterprise development business significantly exceeded the previous year's levels. But the volume of business in the housing development segment also saw a renewed surge. There was, however, a decline in new business in the infrastructure development segment.

Enterprise development

L-Bank supports the transformation of the economy, hence also the creation and preservation of jobs in Baden-Württemberg, with a range of development products for new business start-ups, existing small and medium-sized enterprises, and agricultural companies.

This support takes the form of low-interest loans and subsidies, as well as the systematic assumption of risks. In the year under review, the ongoing Covid pandemic caused the demand for Covid-related aid programmes to rise yet again, resulting in record levels of new enterprise development business. Compared to the previous year (EUR 6,220.2 million), the volume of new business increased significantly to EUR 9,488.2 million, far exceeding expectations.

L-Bank is heavily involved in administering aid programmes for offsetting the economic consequences of the coronavirus pandemic, disbursing grants and subsidies from the State of Baden-Württemberg and the federal government. While the previous year's focus was on rapidly securing business liquidity across multiple sectors, the programmes in the reporting year increasingly focused on businesses and the self-employed. The volume of funding awarded under Covid-related aid programmes more than doubled, coming to a total of EUR 6,366.8 million (2020: EUR 2,674.2 million).

Meanwhile, the Bank's well-established enterprise development programmes are helping companies in Baden-Württemberg to overcome imminent challenges such as digitisation, sustainability and climate protection. As expected, the established development programmes (excluding Covid-related aid programmes) saw a general, pandemic-related reluctance to make investments. The volume of new business declined to EUR 3,121.4 million (2020: EUR 3,546.0 million).

Encouragingly, and above expectations, the volume of funding granted to business start-ups rose by EUR 51.4 million to EUR 669.0 million (2020: EUR 617.6 million). This exceeded the previous record set in fiscal year 2017. The increase in new business was essentially due to the 'Start-up Finance' development programme. The programme helps fledgling companies and business start-ups to become truly autonomous, engage in succession planning, and/or expand their existing business activities.

The volume of new business in development funding for small and medium-sized enterprises showed a decline due to the economic impact of the coronavirus pandemic, totalling just EUR 1,830.5 million (2020: EUR 2,272.8 million). The 'Investment Finance' programme helps to fund business investments in rural parts of Baden-Württemberg; the volume of new business under this programme fell to EUR 189.9 million (2020: EUR 238.0 million). There was also a decline in the volume of funding approved under the 'Liquidity Loan' programme. Corporate liquidity demand resulting from the crisis was lower than expected; at EUR 71.7 million, the volume of new business was significantly down on the previous year (EUR 267.0 million). The development of the 'Growth Finance' and 'Tourism Finance' programmes was, on the other hand, very positive. Under the 'Growth Finance' programme, long-term loans for typical SME investment projects are granted on favourable terms. Approvals rose sharply to EUR 453.4 million (2020: EUR 356.6 million). The 'Tourism Finance' programme is used to strengthen the competitiveness of leisure and tourism operators by funding the refurbishment and modernisation of tourist infrastructure and facilities. In particular, the repayment subsidies offered under the new 'Tourism Finance Plus' variant resulted in extraordinarily high demand. Funding commitments soared to a total of EUR 107.4 million (2020: EUR 4.3 million).

The 'Innovation Finance' development programme also saw another increase in new business levels. At EUR 470.0 million, the volume of approvals was well above the previous year's level (EUR 443.7 million). Under the 'Innovation Finance' programme, small and medium-sized enterprises are awarded low-interest loans and subsidies for the development of new products and production processes. The 'Digitisation Premium' programme helps SMEs to digitise their processes, products and services. The volume of funding more than tripled to a total of EUR 71.7 million (2020: EUR 18.9 million). This development shows how actively businesses in Baden-Württemberg are tackling the digital transformation. As a result of the top-to-bottom reorganisation of federal funding for energy-efficient buildings (BEG), the 'Resource Efficiency Finance' programme was discontinued on 30 June 2021. The volume of approvals still came to EUR 249.1 million (2020: EUR 530.1 million).

In the agricultural development segment, new business figures nearly reached the previous year's level at EUR 119.4 million (2020: EUR 126.1 million). The 'Agri-Food Industry – Environmental and Consumer Protection' programme also funds the reduction of energy consumption and emissions in the agri-food sector, the processing and marketing of organically farmed produce, and improvements in consumer protection. The programme saw improved demand over the previous year, meaning that the lending volume rose from EUR 37.5 million to EUR 43.1 million. However, the increase could not fully compensate for the decline of the 'Agri-Food Industry – Working Capital' programme in particular, which fell from EUR 26.9 million to EUR 14.0 million. The 'Agriculture – Growth' development programme supports investments in agriculture that help to reduce production costs or improve production and working conditions, and consequently make the sector more competitive. At EUR 62.2 million, the volume of new business was slightly higher than in the previous year (EUR 61.0 million).

Housing development

L-Bank uses low-interest loans and grants to fund the creation and acquisition of rental and owner-occupied accommodation. By financing modernisation and refurbishment projects, the Bank also helps to improve the energy efficiency of and physical access to existing properties. Despite the coronavirus pandemic, demand for housing remains high, especially in urban areas. As expected, the volume of new business rose to a total of EUR 2,151.9 million (2020: EUR 1,968.2 million).

As part of its legal remit, L-Bank is committed to the construction and modernisation of affordable rental housing. Very gratifyingly, and well above expectations, the amount of funding approved this year rose significantly once again, to reach EUR 1,107.1 million (2020: EUR 770.1 million). The mid-year introduction of federal funding for energy-efficient buildings (BEG) made a huge contribution to this trend. Funding levels under programmes managed by the Bank also increased. The total lending volume under the state housing development programme rose to EUR 456.9 million (2020: EUR 382.2 million), and at EUR 650.2 million, the figures for new business under the Bank's own development programmes were significantly higher than in the previous year (EUR 387.9 million). Funding for homeowners' associations for purposes of energy-efficient renovation or age-appropriate conversion of residential buildings fell short of expectations, with a total volume of approved funding of EUR 19.6 million (2020: EUR 25.8 million).

Home ownership development programmes saw a decline in approved funding from EUR 1,172.3 million to EUR 1,025.2 million, failing to achieve the predicted moderate increase in new business. The volume of lending under the 'Living with Children' programme fell to EUR 302.4 million (2020: EUR 424.6 million). This programme helps families with children to buy or build a home of their own. The decline in demand is primarily due to a reluctance to invest. On the other hand, the volume of funding granted under the 'Combined Home Loan' development programme showed a gratifyingly positive upward trend; funding commitments rose to EUR 273.3 million (2020: EUR 258.1 million). The 'Combined Home Loan' programme supplements the grants provided under the federal BEG programme to cover the additional funding required to build, buy or modernise owner-occupied housing. On 1 July 2021, the 'Combined Home Loan' programme was expanded to include a 'Climate Premium'. A grant of EUR 2,000 or EUR 4,000 is paid out for more challenging refurbishment projects that meet Germany's Efficient House quality standards

55 or 40. At EUR 298.0 million, the volume of funding for owner-occupied housing awarded under the state housing development programme remained more or less equal to the previous year's level (EUR 307.2 million), hence in line with expectations. The volume of top-up funding declined to EUR 120.2 million (2020: EUR 153.3 million).

Other developments

To strengthen Baden-Württemberg's position as a business hub, L-Bank provides financial solutions for municipal and social infrastructure projects and supports public-sector implementation of infrastructure projects by granting loans or other forms of financing. Demand in the public sector declined in the year under review, resulting in a volume of new business totalling EUR 2,008.8 million (2020: EUR 2,543.4 million).

As a service provider to the State of Baden-Württemberg, L-Bank is responsible for managing and distributing a wide variety of financial aid and assistance services. The funds are drawn from state, federal and EU budgets. In 2021, the Bank processed a total of 36,186 new approvals (2020: 24,122) excluding Covid-related aid, representing a total of EUR 2,441.7 million (2020: EUR 2,509.4 million). Hospital finance remained the programme with the highest volume of funding (EUR 1,111.4 million vs 2020: EUR 1,600.5 million). A volume of EUR 357.6 million (2020: EUR 145.6 million) was disbursed for funding schools. Funding for urban development remained unchanged at EUR 191.0 million. Technology and enterprise development received EUR 190.9 million in funding (2020: EUR 171.6 million), while a total of EUR 168.4 million (2020: EUR 159.0 million) was approved for investments in water, wastewater, flood protection, site decontamination and hydropower projects. L-Bank also supported families on behalf of the federal and state governments, in particular by distributing family allowances. At EUR 1,071.1 million, the volume of funding approved for family allowances remained at much the same level as the previous year (EUR 1,094.8 million).

L-Bank's investment portfolio consists primarily of strategic and credit-equivalent shareholdings in Baden-Württemberg companies, as well as shareholdings in subsidiaries involved in the regional development of business zones in Baden-Württemberg. As at the balance sheet date, the book value of the portfolio as a whole amounted to EUR 256.3 million (2020: EUR 259.9 million).

The book value of strategic investments held by L-Bank on behalf of the State of Baden-Württemberg totalled EUR 186.0 million at year-end 2021 (2020: EUR 183.8 million).

As a co-investor, L-Bank invests primarily in small and medium-sized enterprises based in Baden-Württemberg through shareholdings in funds. The external SME fund (LEA Mittelstandspartner) with EUR 200.0 million in assets (L-Bank stake: EUR 50.0 million) helps established companies to deal in particular with the challenges associated with the ongoing digital transformation of products and value chains (Industry 4.0).

As at year-end 2021, L-Bank had also taken a position in the follow-up fund, LEA Mittelstandspartner II (L-Bank stake: up to EUR 50.0 million), which provides equity capital to established technology companies. The external venture-capital fund LEA Venturepartner set up jointly with the State of Baden-Württemberg (assets: EUR 60.0 million; L-Bank stake: EUR 29.4 million) provides venture capital to high-tech companies with growth potential. The total book value of the Bank's credit-equivalent shareholdings at the balance sheet date came to EUR 58.4 million (2020: EUR 65.7 million).

L-Bank operates technology and business parks through subsidiaries. Because they are close to universities and research institutions, these real-estate hubs help companies to make the most of technology transfers from academia to business. The parks differ from other commercial leasehold premises by the way they are managed and the additional services on offer, which include conference and training facilities as well as nursery and primary schools. During the year, the Bank continued to expand its site development activities as planned. As at 31 December 2021, L-Bank provided companies involved in business zone development with a total of EUR 60.9 million in funding (2020: EUR 59.0 million).

Assets, financial performance and financial position

Financial performance

The following breakdown of operating income helps to clarify L-Bank's financial performance. Transfers to the development fund, which under commercial law should be treated as interest expenses, commission expenses or other operating expenses, are shown here as payments to the State of Baden-Württemberg, hence as an appropriation of profits. Net interest income, which continues to be L-Bank's most important source of income, declined slightly to EUR 254.8 million (2020: EUR 263.2 million), due primarily to low interest rates.

Once again, net commission income was comprised primarily of cost reimbursements by the State of Baden-Württemberg for services provided by L-Bank. These included, in particular, the granting of financial aid and the distribution of family benefits (especially family allowances). Contrary to expectations, the ongoing Covid crisis and associated subsidy programmes resulted in significantly increased payments. Consequently, net commission income rose by EUR 49.2 million to EUR 110.4 million.

Administrative expenses, which include depreciation on tangible assets as well as personnel and general expenses, were 22.7% up on the previous year, rising to EUR 229.6 million (2020: EUR 187.1 million). The increase was due primarily to expenses for the external personnel required to administer grant and subsidy programmes. These expenses were offset by corresponding cost reimbursements in the Bank's net commission income. Due to the Covid situation, it proved impossible to implement planned projects to the extent anticipated.

The net result from other operating income and expenses was negative at EUR 2.0 million (2020: positive net income of EUR 2.5 million). As expected, the operating result before risk provisioning/valuations declined slightly to EUR 133.6 million (2020: EUR 139.8 million).

At EUR 24.2 million, the net result from asset revaluation was better than expected due to the distribution of a fund shareholding (2020: EUR –8.8 million). The number of loan defaults was minimal; the additional general loan-loss allowance set up in the previous year to cover risks arising from the coronavirus crisis was preserved almost unchanged. As a result, the operating result increased to EUR 157.8 million (2020: EUR 131.0 million). L-Bank's distributable income totalled EUR 157.3 million (2020: EUR 130.4 million).

Due to the development fund system, L-Bank's current development contributions had no impact on earnings in 2021. Of the total development fund (provision) of EUR 93.9 million set up for the year under review, EUR 67.6 million were utilised. The development fund available for financing development services in 2022 amounts to EUR 106.3 million. Out of the Bank's earnings for 2021, an amount of EUR 80.0 million was transferred to the development fund for 2023's development contributions. EUR 40.0 million were added to the fund for general banking risks.

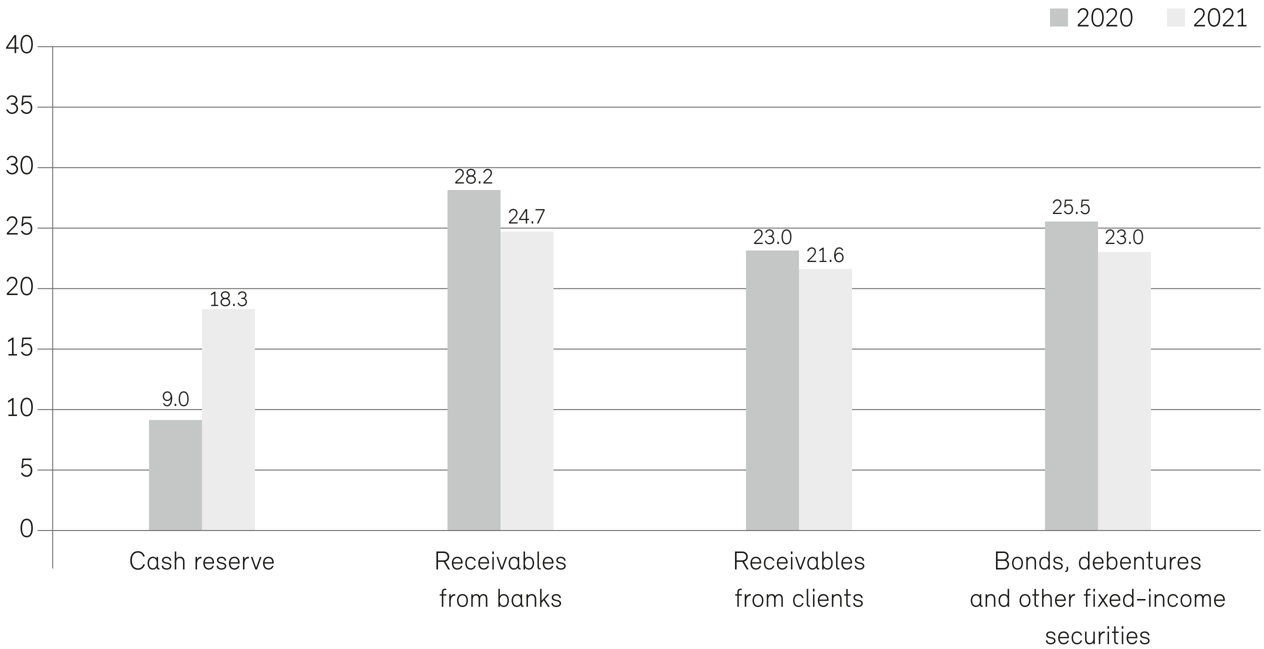
Net income for the year totalled EUR 37.3 million (2020: EUR 50.4 million). Taking account of the profit carried forward from the previous year, net profit amounted to EUR 38.7 million. The Board is planning to transfer EUR 38.0 million of this income to other retained earnings in order to increase the Bank's Tier I capital ratio, and to carry forward the remaining EUR 0.7 million.

BREAKDOWN OF OPERATING INCOME in EUR millions

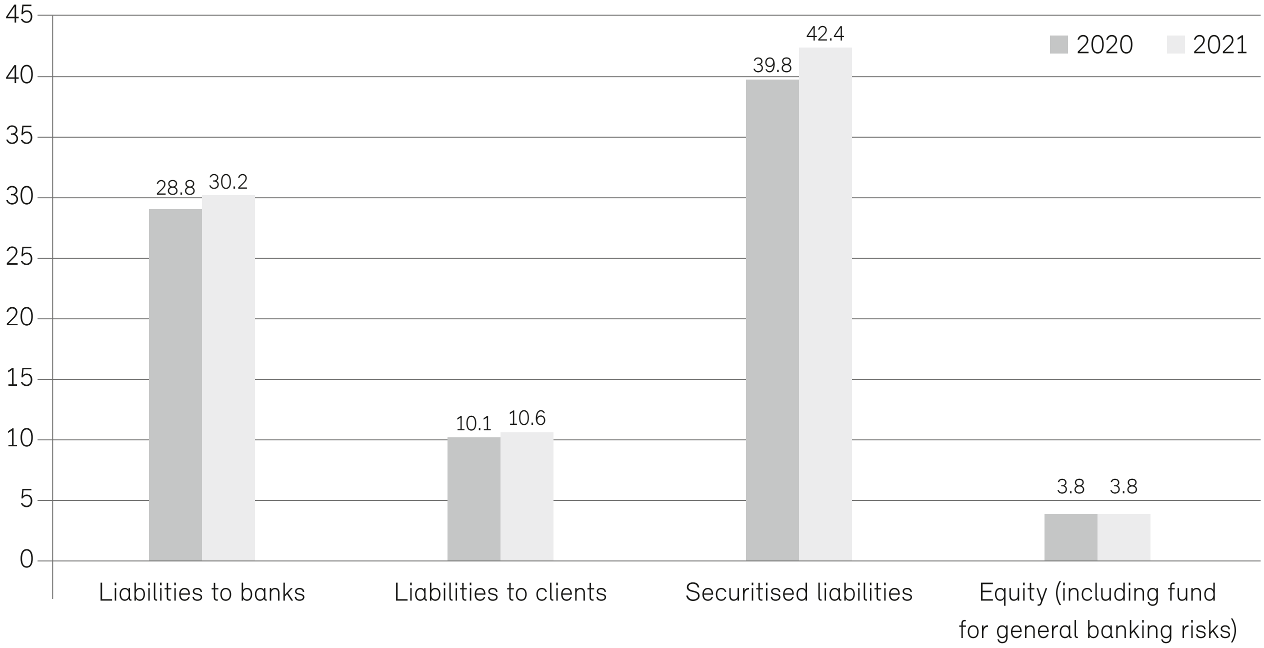
	01.01.2021 to 31.12.2021	01.01.2020 to 31.12.2020	Change	Change in %
Net interest income	254.8	263.2	–8.4	–3.2
Net commission income	110.4	61.2	49.2	80.4
Administrative expenses	229.6	187.1	42.5	22.7
Net result from other income/expenses	–2.0	2.5	–4.5	<–100.0
Operating result before risk provisioning/ valuations	**133.6**	**139.8**	**–6.2**	**–4.4**
Net income from asset revaluation	24.2	–8.8	33.0	<–100.0
Operating result	**157.8**	**131.0**	**26.8**	**20.5**
Taxes on income	0.5	0.6	–0.1	–16.7
Distributable income	**157.3**	**130.4**	**26.9**	**20.6**
Addition to development funds (provision)	80.0	80.0	0.0	0.0
Addition to fund for general banking risks	40.0	0.0	40.0	–
Net income	**37.3**	**50.4**	**–13.1**	**–26.0**

Assets and liabilities

SELECTED ITEMS UNDER ASSETS in EUR billions



SELECTED ITEMS UNDER LIABILITIES in EUR billions



L-Bank's total assets rose by 3.3% to EUR 89,597.0 million at the balance sheet date (2020: EUR 86,759.6 million). On the assets side, the significantly increased cash reserve was partially offset by the decline in receivables and securities, accompanied on the liabilities side by higher securitised liabilities and liabilities to banks.

The business volume, which also encompasses contingent liabilities and irrevocable lending commitments, rose by 4.1% to EUR 94,394.3 million as at the balance sheet date (2020: EUR 90,669.8 million).

Financial position

As the State Bank of Baden-Württemberg, L-Bank benefits from the federal state's maintenance and public (statutory) guarantee obligations, as well as an explicit state guarantee. The latter means that L-Bank's de facto credit rating is identical to that of the State of Baden-Württemberg. Consequently, credit-rating agencies Moody's Investors Service and Scope continue to give L-Bank their top ratings of Aaa and AAA respectively. As in the previous year, rating agency Standard & Poor's gave both the State of Baden-Württemberg and L-Bank its second-best AA+ rating. Banks can continue to count L-Bank bonds towards their short-term liquidity coverage ratios (LCR) as assets with the highest liquidity standing.

During the year under review, L-Bank was once again able to make flexible use of the refinancing options on offer to meet its objectives in terms of funding volumes, maturity profiles and structure. The Bank focused on maturities in the two-year to five-year range. The principal instrument used here is the Bank's Debt Issuance Programme, with a funding limit of EUR 30,000.0 million, of which EUR 19,183.0 million were utilised as at 31 December 2021 (2020: EUR 21,704.1 million). The total volume of medium and long-term refinancing on the capital markets amounted to EUR 7,001.5 million (2020: EUR 8,179.2 million). As at the year-end, utilisation of the Commercial Paper Programme, which is used for short-term refinancing and has an upper funding limit of EUR 20,000.0 million, amounted to EUR 18,732.8 million (2020: EUR 17,221.0 million). During the fiscal year, L-Bank also participated in targeted longer-term refinancing operations (TLTRO-III) organised by the ECB and Deutsche Bundesbank, with a total volume of EUR 342.8 million (2020: EUR 3,420.0 million).

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

During the past fiscal year, the Bank's liquidity was assured, and the Bank complied with all regulatory requirements at all times.

Capital adequacy is calculated in accordance with the requirements of the Capital Requirements Regulation (CRR II). The following table provides a breakdown of the Bank's equity as at 31 December 2021, prior to approval of the annual financial statements by L-Bank's Supervisory Board.

EQUITY in EUR millions	
'Hard' Tier I capital after deductions	3,761.1
Additional Tier I capital after deductions	0.0
Supplementary capital after deductions	317.9
Total equity	4,079.0

Summary of the Bank's business development and position

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

Personnel

In terms of personnel, 2021 was, once again, dominated by measures related to the coronavirus pandemic. On the one hand, these included internal initiatives for protecting employees' health, for example by shifting a large proportion of the Bank's in-house activities to home offices, or ensuring that employees working in L-Bank buildings were socially distanced. On the other hand, new processes for managing the state's Covid-related aid were also introduced. At the same time, the Bank continued to carry out its regular duties and work on the implementation of the L-Bank digitisation strategy. This was the main reason for the increase in staff numbers during the fiscal year. With 1,420 active employees, L-Bank employed slightly more staff at the 2021 reporting date than in the previous year (1,351).

When organising individual working hours, L-Bank remains true to the principle that work-life balance should be a top priority. This is reflected in, for example, personalised part-time models for helping employees adapt their working lives to their personal circumstances. A total of 366 employees were working part-time as at the reporting date (2020: 351). In addition, L-Bank's flexitime models enable all employees to distribute their working hours as flexibly as they need to in order, for example, to deal with the closure of child day-care facilities.

L-Bank continues to offer employees a phased retirement programme for helping them manage the transition to retirement. As at the reporting date, some 71 people were taking part in the retirement programme's active phase. With an average employee age of 45.0 (2020: 46.1), the programme helps the Bank to make plans for filling strategically important positions over the long term. At 6.17%, the staff turnover rate fell slightly from the previous year's level (6.87%).

When filling executive management positions, L-Bank strives to achieve an appropriate gender balance whilst always taking suitability, skills and professional performance into consideration. As a rule, this means that male and female candidates are considered in equal proportions. As at the reporting date, 34.4% of all the Bank's executive managers were women (2020: 32.0%). Overall, L-Bank employs more women than men: female employees account for 57.0% of the workforce (2020: 56.4%).

For L-Bank, the provision of in-house training for junior staff is an important recruitment pathway. In addition to apprentices, trainees and students on work-study programmes, junior staff also included recruits who had previously worked for the Bank as interns, work-experience trainees or legal interns; 61 new recruits started at L-Bank in fiscal year 2021. As well as teaching specialist skills, the Bank's continuing education programme also gives a high priority to personal development.

L-Bank's personnel development strategy encompasses all the instruments and initiatives for developing employees, executives and, indeed, the Bank's corporate culture as a whole, using outcome-focused, sustainable learning, development and change processes. As well as designing and implementing customised staff development programmes, L-Bank further enhanced its training portfolio in 2021 by adding an in-house continuing education catalogue. The continuing education catalogue lists training courses on cross-disciplinary topics involving communication, digitisation, agility, change and the Bank's development mandate, as well as self-management and work organisation. The new catalogue is an important incentive for creating continuing education options tailored to L-Bank's specific needs, addressing subject areas that will become even more important in the future.

Sustainability Report

As a development bank, sustainability is a core component of L-Bank's DNA and the vision guiding the Bank's business activities. In collaboration with the state government, L-Bank uses development funding as both incentive and lever for the sustainable development of Baden-Württemberg's economy and society. L-Bank introduced a sustainability management system in 2013. Since then, the Bank's step-by-step integration of sustainability issues and objectives into its business strategy has created a suitable strategic framework while underscoring the Bank's commitment.

Over the next few years, Baden-Württemberg's economy will be materially impacted by deep-reaching processes of structural change driven by two major trends: digitisation and sustainability. This momentous task, coupled with the ongoing implementation of the EU's action plan for financing sustainable growth, are the key challenges which L-Bank, as the federal state's development bank and major agent of the state government, must confront.

In early 2021, to highlight the importance of sustainable development for L-Bank and raise its profile in the region's financial ecosystem, the Bank helped to develop and then became signatory to a sustainability strategy for Stuttgart as a financial centre in which L-Bank is a major player.

We fulfil our statutory reporting obligations under the CSR Implementation Directive by issuing a non-financial report as a separate part of our annual report, complete with references to the management report. The annual report is published on L-Bank's home page (www.l-bank.info).

Outlook

Persistent supply bottlenecks will almost certainly continue to hamper the German economy through the early months of 2022. Furthermore, the incidence of infection by the Omicron variant of the coronavirus is likely to remain volatile in the first quarter, to the extent that voluntary or government-imposed isolation or social distancing could have a negative impact on economic development. Significantly higher growth rates are not anticipated until the spring. The pace of growth will depend on how quickly the industrial order backlog is resolved and the various bottleneck-creating factors are alleviated. Gross domestic product should, however, return to the pre-crisis level seen at the end of 2019 during the second quarter of 2022 at the latest. Despite the expiry of most pandemic-related initiatives, fiscal policy should continue to support economic development, where necessary with further stimulus under the ECB's still expansionary monetary policy. Overall, L-Bank is predicting growth of between 3.8% and 4.1% for Germany in 2022. The above-mentioned effects will probably hamper the recovery of the labour market during the first quarter, but as the year continues, it is likely that unemployment will continue to fall in line with the current trend. Despite the expiry of various bottom-line policies – in particular the temporary reduction of value added tax in the second half of 2020 – the rate of inflation will probably remain high throughout 2022. As before, the main driving forces are the existing supply bottlenecks, coupled with rising energy and commodity prices. As a result, Deutsche Bundesbank is expecting the average rate of inflation to rise to 3.6%. At the end of February 2022, the military conflict between Russia and Ukraine escalated further; the economic consequences for Germany – and especially for Baden-Württemberg – remain to be seen.

Due to the manufacturing sector's comparatively strong influence on Baden-Württemberg's economic development, we expect the state's gross domestic product to show above-average growth in 2022 compared to the rest of Germany, assuming that industrial companies succeed in clearing their order backlogs in the course of the year. Such was the expectation reflected by the L-Bank/ifo business survey at the end of 2021, which indicated that companies in the southwest had more optimistic expectations of their future business development than companies in the remainder of the Federal Republic. In view of these considerations, L-Bank predicts that Baden-Württemberg's GDP will grow by between 4.1% and 4.4%. The chief risk factor, at both state and federal level, remains the ongoing development of the pandemic. Any new full-scale lockdowns necessitated, for example, by new coronavirus variants, or any other delay in industrial recovery, would have a significant damping effect on the economic rebound. As for the labour market, in line with developments at federal level, it is likely that after a subdued start to the year, the positive trend will continue and the unemployment rate will fall to something resembling pre-crisis levels.

In the coming year, L-Bank will continue to prioritise development assistance for business start-ups, established SMEs, and the housing development sector. Essentially, the Bank plans to continue its development activities through its existing programmes. Alongside the established development programmes, L-Bank will continue to approve Covid-related aid until at least the end of the first quarter. The Bank is anticipating a moderate improvement in overall demand in 2022.

It is likely that the volume of new business involving finance for start-ups and SMEs will be slightly higher than in the previous year. In view of growth forecasts for the economy as a whole, there is likely to be increased demand for funds to finance traditional investments, but substantially lower demand for assistance in coping with the Covid pandemic. At the same time, the Bank will enhance its usual development programmes by supplementing them with development initiatives targeting those industries that were most severely impacted by the coronavirus crisis. In addition, the Bank is planning to optimise individual development programmes for 2022, to assist companies in Baden-Württemberg with their sustainable, climate-friendly transformation. L-Bank expects the volume of new business under the 'Innovation Finance 4.0' programme to remain high. In the 'Tourism Finance' development programme for 2022, the Bank intends to establish investment incentives as well as a new focus on development. The Bank's equity-related activities will be further strengthened by additional investments in investment funds. L-Bank also intends to boost its business zone development activities, in particular by adding new technology park sites. The sale of technology park properties remains part of the Bank's overall strategy.

In the housing development sector, new business is expected to fall slightly below the levels seen in 2021. Development funding conditions are based, among other things, on federal funding for energy-efficient buildings (BEG). The existing BEG regulations expired on 24 January 2022 and are being restructured. Consequently, the volume of approvals under individual development programmes is likely to decline. Forecasts for rental accommodation development suggest that the volume of new business will be slightly below levels achieved in 2021. Despite the lack of capacity in the construction industry, the demand for funding is likely to remain high due to the consistently high demand for housing, especially in the private home ownership segment. L-Bank does not anticipate any major changes in funding for owner-occupied housing under the state housing development programme. With respect to finance for homeowners' associations, the volume of new business is expected to show a slight increase.

In 2022, L-Bank is forecasting a somewhat lower operating result before risk provisioning/valuations. This is due to the fact that while income will remain more or less unchanged, slightly higher costs are anticipated for IT projects in particular. Income from asset revaluation is expected to fall to a significantly lower level than in the reporting year, because estimates suggest that the high returns on investments in the year under review will not be repeatable to the same extent. Total assets in 2022 are expected to fall slightly compared to the year under review.

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

Overall, L-Bank is forecasting that the volume of new business in 2022 (excluding Covid-related aid) will remain almost unchanged from 2021; meanwhile, Covid-related aid is expected to see a substantial decline. No significant changes in the Bank's financial performance, financial position or net assets are anticipated.

Opportunities and risk report

The aim of the Bank's risk management model is to ensure that, even in the event of unexpected losses, the Bank's enduring survival should be assured without the support of the State of Baden-Württemberg. To manage the risks associated with L-Bank's business activities, the Bank has installed a risk management system with the aim of enabling it to:

- → Ensure the Bank's risk-bearing capacity and solvency at all times.
- → Assess the Bank's overall risk exposure at any time.
- → Identify, assess, communicate and manage material individual and concentration risks at an early stage.
- → Identify risk-related developments, combined with alternative courses of action.

The State of Baden-Württemberg devises development programmes that target specific market segments in need of financial support while simultaneously defining regional priorities for the Bank's business activities. In return, the State of Baden-Württemberg explicitly and unconditionally guarantees the Bank's liabilities through a public (statutory) guarantee and maintenance obligation.

L-Bank was specifically excluded from the scope of the CRD with effect from 27 June 2019. However, as CRR regulations apply to all German lending institutions pursuant to Section 1a of the German Banking Act (KWG), L-Bank must continue to comply with these regulations.

How risk management is organised

The core elements of the Bank's risk management approach are defined by the Board of Management in the form of internal guidelines (policies). In particular, the Board of Management regulates the implementation of risk inventories, methods for determining the materiality of risks, risk quantification methods, validation methods, the performance of internal stress tests, procedures for reviewing risk-bearing capacity, the capital planning process, the definition of risk tolerances, risk reporting, and the processes and powers for controlling and monitoring risks.

The Board of Management has delegated the implementation of internal guidelines to various risk managers, as well as to the Risk Controlling function, the Compliance function, the head of the Internal Audit unit and the Security Office. Within the L-Bank hierarchy, these functions report directly to the Board of Management. To assist them in fulfilling their remits, they have set up a Stress-testing Committee, a Regulatory Compliance Committee and a Risk Management Working Group.

With respect to the Bank's lending and trading business, the front office and back office areas at L-Bank are strictly separated at all levels, up to and including Board of Management level. In 2021, Divisions II and IV were front office areas, Division I was back office, and the Risk Controlling function formed part of Division III. The Head of Division I was responsible for the back office (second vote and problem-loan processing), deputised by the Head of Division III (the Chief Risk Officer). The latter also bears bank-wide responsibility for assessing and monitoring all counterparty, market price, liquidity and operational risks. As head of the Risk Controlling function, the Head of Division III reports exclusively on the above-mentioned risks.

The Board of Management regularly briefs the Supervisory Board on the risk situation, risk management, risk controlling and any other risk-related issues, and reports on specific incidents as and when necessary. The Supervisory Board has set up various committees to deal with specific areas of activity, as follows:

At meetings of the Risk Committee, the Board of Management reports on counterparty, market price, liquidity and operational risks. The Risk Committee is also briefed on the Bank's risk strategies and on any matters which, in view of the associated risks, are especially significant. For its part, the committee advises the Board of Management on questions relating to the Bank's overall risk appetite and risk strategies.

The Audit Committee is primarily responsible for discussing the audit report with the auditor, and for preparing the Supervisory Board's adoption of the annual financial statements and the Board of Management's proposal for the appropriation of profits. It also discusses the Internal Audit unit's reports, as well as the Compliance function's annual report.

The Personnel Committee is primarily responsible for preparing Supervisory Board resolutions relating to appointments to the Board of Management; it adopts resolutions setting out contractual and other formal matters relating to Board of Management members, with the exception of remuneration.

The Remuneration Control Committee is primarily responsible for preparing Supervisory Board resolutions relating to the remuneration of Board of Management members.

In consultation with the Risk Committee/Supervisory Board, the Board of Management defines various risk management policies that are also used to determine the Bank's risk appetite. Each of the relevant units must adhere to the risk management policies as they carry out their respective activities:

- Thus the Board of Management defines, for example, an interest-rate risk and currency-risk profile for the investment book; the Treasury department is responsible for implementing this profile. The Treasury department is also responsible for managing liquidity risk and (rollover) funding risk, whilst also ensuring that the control parameters specified by the Board of Management are observed.
- Counterparty risk is managed by various methods, including the setting of portfolio-related and customer-related limits approved by the Board of Management; these may be set by the Bank's individual lending departments according to a system of competencies.
- Operational risks are managed by risk managers. The latter are divided into central risk managers, who manage operational risks affecting the entire Bank, and decentralised risk managers, who manage the risks associated with specific working procedures.

The quantitative and qualitative assessment and communication of risks is primarily the responsibility of the Controlling department, which performs the duties of the Risk Controlling function. Assessments are based on a company-wide database containing standardised records detailing all the Bank's transactions and business partners. The analyses, produced as part of the risk management process, are regularly compared to balance-sheet-based analyses and data used for reporting purposes. The Controlling department is also responsible for monitoring compliance with all risk management policies, and for reporting on the risk situation to the Board of Management.

The Board of Management has set up a Stress-testing Committee which, taking existing risk concentrations into account, designs stress scenarios across multiple risk types and proposes suitable settings for model parameters to the Board of Management. In addition, the Stress-testing Committee proposes sensitivity analyses at the level of individual risk types.

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

Taking a risk-focused, process-independent approach, the Internal Audit unit reviews and assesses the effectiveness and adequacy of the Bank's risk management system, as well as the orderly conduct of all L-Bank's material activities and processes. It does so on behalf of the Board of Management, to which the unit reports directly. The Internal Audit unit carries out its duties independently and impartially, and is not required to accept instructions regarding the evaluation or reporting of audit results.

The Compliance unit is responsible for regulatory compliance, money laundering and fraud prevention, as well as securities market compliance. The Data Protection Officer, who is part of the Legal Affairs Division, is responsible for ensuring compliance with data protection regulations.

The Security Office assists the Board of Management with all security policy issues. In addition to ensuring that Bank buildings are secure, the Security Office is also responsible for information security policy, coordinating information security and all associated measures, monitoring the effectiveness of security measures, ensuring the continuous improvement and further development of security processes, and regularly reporting on information security.

Business and risk strategies

In the Bank's business strategy, the Board of Management sets down policies and other guidelines that must be applied when devising risk strategies based on the Bank's overall business strategy. The Bank's statutory public-service mandate results in concentrations of counterparty risks (cluster risks) in particular industries, types of collateral and regions. To achieve a balanced aggregate risk profile, the Board of Management defines quality requirements for the portfolio structure as a whole in the Bank's business strategy. These include policies defining the credit rating criteria (risk categories) for new business that must be satisfied by borrowers who are not involved in the Bank's development programmes.

In its risk strategy, the Board of Management specifies the procedures that should be used to review the Bank's capital adequacy and liquidity adequacy, lays down policies for new products and markets, and defines the strategies for dealing with counterparty risk, market price risk, liquidity risk and operational risk.

As part of a quantitative assessment of the Bank's capital adequacy, the Board of Management defines the Bank's risk appetite in the risk strategy by specifying the scope of risk coverage capital that should be set aside as cover for losses.

With respect to managing credit risk, the risk strategy includes policies that clearly specify borrowers' minimum credit ratings and risk margins, and requires business units to secure loans against collateral classified as recoverable. In addition, the lending volumes for the next four years are defined for each line of business. Budgets for development programmes are based on the amount of subsidy funding that has been made available in each case. Budgets for other development business are based primarily on levels of demand from the commercial banks with which L-Bank cooperates. Lending business associated with development aid business is primarily determined by the refinancing options available. Any investments made for this purpose must meet exceptionally high standards of creditworthiness. The risk strategy shows the projected scope of future counterparty risks and their impact on the Bank's risk-bearing capacity, while making due allowance for existing risk concentrations.

With respect to market price risks, the Bank pursues a strategy of following projected interest-rate movements to generate predictable levels of income with acceptable levels of risk, primarily within maturity bands of up to 24 months. The underlying projections of interest-rate movements are derived from capital market parameters. Due to the current volatility, these transactions are intensively monitored on a daily basis, with ongoing reviews being conducted at least weekly by the Board of Management. Due to the long-term investment of equity capital, a market price risk is shown for maturity bands of more than 24 months. The Bank makes use of the national and international capital markets to obtain refinancing on optimised structural and cost terms. The public guarantee and maintenance obligation provided by the State of Baden-Württemberg means that the Bank benefits from the latter's excellent credit standing on the capital markets. Potential refinancing risks due solely to a substantial downgrade of the federal state's credit rating are permanently classified as negligible.

With regard to operational risk, L-Bank pursues an avoidance strategy whilst adhering to the principle of profitability. This means that – regardless of existing comprehensive internal control procedures and regardless of statutory or regulatory requirements – the Bank only takes special mitigation or avoidance measures if the potential loss exceeds the costs of taking such measures.

Risk-bearing capacity

Risk-bearing capacity represents the highest and most comprehensive level at which the Bank's risk exposure is analysed. It includes verification of the Bank's capital adequacy and liquidity adequacy. It is the basis for the operational implementation of the Bank's risk strategy, because when the risk strategy is formulated, risk tolerances are explicitly specified in the form of risk-weighted-asset (RWA) limits for counterparty risk, value-at-risk (VaR) limits for market-price and (rollover) funding risk, and nominal minimum and maximum limits for insolvency risk. As part of establishing these limits, a conscious decision is made regarding the scope of potential future risks.

Because planned new business activities can only be implemented if the resulting risks are covered by risk coverage capital or potential liquid resources, the analysis of risk-bearing capacity effectively determines the maximum scope of potential new business (especially development aid business), providing a timely indication of any capital increase or liquidity measures that may be required. The review of the Bank's risk-bearing capacity is supplemented by analyses of the expected shortfall, by adverse scenarios across multiple risk types, by sensitivity analyses, and by an inverse stress test.

The risk-bearing capacity review process essentially consists of the following subcomponents:

- Risk inventory, including determination of risk relevance and risk materiality.
- Determination of risk exposures and comparison with existing risk coverage capabilities from economic and normative perspectives, using normal scenarios and various adverse scenarios across multiple risk types that include projections of equity, liquidity adequacy and relevant risk exposure.
- Validation of risk measurement methods.
- Sensitivity analyses and inverse stress testing.

Risk inventory

The starting point for reviewing risk-bearing capacity is a risk inventory, carried out at regular intervals. During the risk inventory, of the generally conceivable risks that could impact the Bank's net assets, financial performance, and/or liquidity position (financial position), those risks are first selected that present not just theoretical hazards, but are likely to materialise as genuine threats. These risks are described as 'relevant' risks, and they are assessed in terms of their materiality. If, when considering the Bank's net assets, financial performance, and/or liquidity position, a relevant risk exceeds at least one of the defined thresholds, that risk is material. The risk inventory is used to check whether the risk management system takes account of all material risks (risk coverage). Then follows a critical analysis to determine whether risk assessment, risk management and risk reporting permit an appropriate evaluation of all risks identified by L-Bank.

Risk management takes account of all relevant risks either by means of risk quantification or by applying other risk management policies. During reviews of the Bank's risk-bearing capacity, potential losses are calculated and management limits specified for all material risks as a matter of course. Potential losses are calculated on the basis of a 99.9% level and a 12-month observation period. Where these potential losses cannot be meaningfully assessed against the value at risk (VaR), the risks are limited using other management instruments. The 2021 risk inventory confirmed that material risks include: counterparty risk, market price risk, liquidity risk and operational risk, including associated risk concentrations. The risk inventory did not identify any new relevant risks. In the case of liquidity risk, a distinction is made between (rollover) funding risk and insolvency risk. Environmental, social and governance (ESG) risks are still not treated as separate risks, but as risk drivers that have an impact on material risks that have already been identified. These risk drivers are accounted for in scenario analyses across multiple risk types. As from 31 December 2021, the periodically calculated projections also include an explicit ESG scenario that analyses the possible economic consequences of regulatory action as part of the economy's ongoing transformation process.

Potential risks and risk coverage capability

The Bank's risk-bearing capacity is monitored from a normative and an economic perspective. The results are reported to the Board of Management on a monthly basis. The Risk Committee and the competent supervisory body are informed of the Bank's risk-bearing capacity in the quarterly risk report.

The Bank implemented three normal scenarios. In the baseline scenario, net interest income and risk provisioning expenses in particular were projected on the basis of parameters derived from the parameters existing on the balance sheet date (e.g. forward rates for interest, multi-year default rates calculated from current transition matrices). The anticipated impact of the Covid pandemic was included and regularly updated in the parameters set for the baseline scenario, based on expert opinions. Because the negative assessments were not substantiated in the course of 2021, they were steadily downgraded in the scenario's parameters. As at 31 December 2021, the following assumptions were still in place:

- Additional expenses (setting up home-office workplaces, provision of more services on behalf of the federal state) were used as the starting point.
- Increased operational risks associated with the administration of Covid-related aid programmes were taken into account.
- Higher correlations were applied to the assessment of counterparty risks, to take account of borrowers' exposure to the pandemic as a common risk driver.

In the baseline assumption used for the empirical economic forecast model, the overall state of the economy at the end of the scenario period is predicted on the basis of the current economic situation, taking account of current political and economic circumstances. This forecast also takes account of international trade relations (global political aspect), the ECB's monetary policy (European monetary aspect) and any structural shifts or changes in Baden-Württemberg's economy (local economic aspect). Finally, the economic plan scenario is a combination of the baseline scenario and the empirical economic forecast model, whereby certain risk factors in the base scenario are adjusted by applying conservative aspects of the empirical economic forecast model.

Due to L-Bank's business model, the implementation of a macroeconomic satellite model is not appropriate for modelling adverse scenarios. For this reason, relevant risk parameters are derived from the current economic cycle and then stressed in various adverse scenarios. Each scenario's specific risk parameters are derived from empirical observations, and each scenario targets a different geographical 'event space': a severe global economic downturn, inflation in the eurozone, the impact on Germany of a liability union, a structural crisis in Baden-Württemberg, and an adverse empirical economic forecast model.

In these various adverse scenarios, only implausible events are capable of generating significant stress effects on the Bank's capital ratios due to the Bank's business model. So the Bank also produces a suitably adverse stress scenario by deriving the negative effects on the annual result from value-at-risk calculations. To round off the assessment of the Bank's future risk-bearing capacity, a regulatory stress scenario is also applied, based on sudden changes in supervisory requirements which would disadvantage the Bank.

Normative perspective

In the normative perspective, the Bank's risk-bearing capacity is deemed to be adequate if the Bank continuously complies with all regulatory and supervisory capital requirements and constraints for at least 36 months from the reporting date under observation. For this purpose, the Bank projects the total capital ratio, Tier 1 capital ratio and leverage ratio on a quarterly basis.

In the normative perspective, the Bank's risk coverage capability corresponds to the total or Tier 1 capital calculated in accordance with CRR II. In the normative perspective, CRR II requires that counterparty risk (credit risk), market price risks in the trading book, FX risks in the investment book, operational risk and CVA risk should all be assessed. The Bank uses the following procedures to quantify the risks under consideration:

- Counterparty risk: Balculation of risk-weighted exposure levels to credit and counterparty credit risk (CCR) using the standardised approach to credit risk

set down in Articles 111–141 CRR II or using the Standardised Approach for Measuring Counterparty Credit Risk (SA-CCR) set out in Article 274 CRR II.
- Market price risk: The Bank has no trading books. For the investment book, the total risk exposure to foreign exchange, settlement and commodity risk is calculated in accordance with Articles 325–380 CRR II.
- Operational risk: The Bank's total risk exposure to operational risk is calculated using the baseline indicator approach described in Articles 315-316 CRR II.
- CVA risk: The Bank's total risk exposure to the risk of adjusted credit valuations of OTC derivatives is calculated using the standard method set out in Article 384 CRR II.

When projecting future capital adequacy, scenario-dependent assumptions are made regarding the future development of net interest income (taking possible interest-rate movements into account), plus, in particular, personnel expenses, general expenses and risk provisioning expenses (in each case taking planned new business and interest-rate adjustment transactions into account). In the case of risk provisioning expenses, the Bank distinguishes between specific and non-specific risk provisions. Specific risk provision for the unsecured part of a non-performing exposure (NPE) is calculated using a standardised expected-loss model. Non-specific risk provisions are calculated for performing exposures (PE) using the methodology applied in standard accounting practice.

In the normative perspective, normal scenarios must adhere to ICAAP minimum capital ratios. These comprise the trigger for the maximum distributable amount (MDA trigger: Total SREP Capital Requirement – TSCR; Combined Buffer Requirements – CBR; Pillar 2 Guidance – P2G) plus a management buffer defined by the Board of Management. This management buffer makes it possible to take appropriate management steps as soon as capital constraints become apparent.

The Bank prepares projections of future capital adequacy and capital requirements at the end of each quarter. The following table shows the development of the Bank's equity, Tier 1 capital, total risk exposure and resulting capital ratios.

FISCAL YEAR 2021	31.03.2021	30.06.2021	30.09.2021	31.12.2021
Total risk exposure in EUR millions	17,871.0	18,267.2	18,014.9	17,919.7
Tier I capital in EUR millions	3,711.1	3,762.0	3,761.5	3,761.1
Equity in EUR millions	4,047.1	4,106.9	4,091.6	4,079.0
Tier I capital ratio in %	20.77	20.59	20.88	20.99
Total capital ratio in %	22.65	22.48	22.71	22.76
Leverage ratio in %	4.30	8.03	8.27	7.82

The normal scenarios performed as at 31 December 2021 also confirm the Bank's future capital adequacy from a normative perspective. All relevant capital ratios are well above the requisite regulatory/supervisory ratios, and also well above the specified ICAAP minimum ratios.

In the adverse scenarios performed as at 31 December 2021, the earnings projections show in part significant declines in profits, but at no point in time do they show a negative result. Again, the projected capital ratios in these scenarios are higher than the required regulatory/supervisory ratios.

To ensure future compliance with the minimum capital ratios, risk-weighted assets (RWA) are limited to business unit level. The RWA ceiling is distributed across the individual business segments, taking account of new business planning and the associated risk concentrations.

The following table shows the RWA limits as at 31 December 2021 and their maximum utilisation in fiscal year 2021. The maximum utilisation of RWA limits per business segment and in total is based on monthly calculations.

In EUR millions	RWA LIMIT 2021	MAXIMUM UTILISATION 2021	RWA LIMIT 2022
Total credit risk (CRSA)	25,000	17,113.7	25,000
Thereof for:			
Home ownership assistance	5,500	3,732.4	5,000
Companies	10,500	6,428.4	10,500
Financial institutions	8,150	7,005.6	8,150
Public sector	750	474.4	750

Economic perspective

In the review of the Bank's capital adequacy from an economic perspective, the net present value (NPV) of all existing assets and liabilities, less associated administrative expenses and anticipated risk provisioning expenses, is presented as risk coverage capability. Thus the hidden charges on fixed assets from avoiding write-downs at the lower of cost or market are also taken into account. This risk coverage capability (also known as internal capital) is compared with all identified material risks that could cause an economic loss and a reduction of internal capital, irrespective of any capital adequacy requirements set out in the CRR II regulations. All risks are calculated with a confidence level of 99.9%.

As at the balance sheet date, the business portfolio's NPV is calculated as EUR 6,405.1 million. This is offset by NPV administrative expenses totalling EUR 358.8 million, plus imputed NPV risk provisioning costs of EUR 211.4 million, resulting in an NPV-based risk coverage capability of EUR 5,834.9 million. As at the reporting date, 34.61% of this was taken up by VaR values totalling EUR 2,019.4 million. Utilisation of NPV risk coverage capital in 2021 ranged between 34.61% and 52.81%. Even in adverse scenarios, the Bank's risk coverage capability exceeds the additional losses evoked in all scenarios. The Bank complied with the specified aggregate loss ceiling (ALC: upper limit of all value-at-risk sub-limits) of EUR 4,300.0 million on all key reference dates in the last fiscal year. On all reporting dates, the maximum share of the ALC in the Bank's internal capital remained below the internally defined limit of 96%. For control purposes, an ALC of EUR 4,300 million has been specified for 2022. This corresponds to 75.9% of the Bank's internal capital at the budgeting date (30 June 2021), totalling EUR 5,663.4 million.

To manage risks, the specified ALC is distributed across the individual risk types in the form of (sub)limits.

	VALUE-AT-RISK LIMIT 2022 in EUR millions
Aggregate loss ceiling	4,300.0
Thereof for:	
Counterparty risks	1,600.0
Credit-spread risks	1,500.0
Interest-rate and FX risks (IRRBB)	200.0
Embedded options	35.0
Rollover funding risks	700.0
Operational risks	50.0
Biometric pension risk	20.0
Real-estate risk	10.0

Adequacy of Bank's liquidity

The Bank manages insolvency risk by means of liquidity coverage ratios (LCR), net stable funding ratios (NSFR) and survival time frame performance ratios. The Bank must comply with these ratios both in a credible baseline scenario and in an appropriately Bank-specific adverse scenario. Furthermore, the Board of Management has placed limits on monthly maximum liquidity needs and stipulated that the portfolio of securities in the ECB deposit account may not fall below a specified minimum threshold. The Bank must also comply with the requirement to ensure that a sufficient liquidity buffer is always available, so that all payment obligations over the next 7 or 30 days are covered in both normal and stress scenarios.

The basis for the operational management of insolvency risk is a computer-assisted liquidity forecast that depicts all anticipated cash flows over the next ten years. The system produces a daily analysis for the current month and the following two months. A monthly analysis is produced for any remaining months in the fiscal year, and for the following fiscal year. Annual reviews are produced for subsequent years. When producing this liquidity forecast, the Bank assumes that contractual maturities will apply.

In fiscal year 2021, neither the LCR, NSFR nor the survival time frame ratios ever fell below the internally specified minimum thresholds. The projections carried out as at 31 December 2021 confirmed the Bank's future liquidity adequacy.

Because the internally specified survival time frame is longer than the period stipulated in the Minimum Requirements for Risk Management (MaRisk) for checking the adequacy of the free liquidity buffer, the available liquidity buffer is always sufficient to ensure the Bank's compliance with the specified survival time frame.

All risk management policies were complied with at all times during fiscal year 2021.

Validation of risk measurement methods and performance of sensitivity analyses and inverse stress testing

To ensure that the value-at-risk figures are as informative as possible, the underlying risk measurement methods are validated, which involves subjecting the applied parameters to various sensitivity analyses. In addition, an inverse stress test is used to verify the useful content of the value-at-risk figures. The annual validation procedures are carried out by a unit that has no connection with, or involvement in, model development and application. The validation methods, scope of the individual validation procedures and responsibilities for these procedures, as well as the regular intervals at which they should be applied, are specifically defined for each type of risk. Standardised report templates are used for all types of risk, in which the key findings of the validation processes are summarised for the Board of Management. If the findings of these validation exercises result in adjustments to measurement procedures or their underlying assumptions, all such adjustments must first be approved by the Board of Management. The Controlling department informs the Board of Management of the results once a year. During the 2021 validation cycle, the appropriateness of the methods and procedures used was confirmed.

In the economic perspective on the Bank's risk-bearing capacity, the actuarial models used to measure risk showed the limitations of their informative value at various points during the financial market crisis. In view of the fact that actuarial models cannot by their very nature depict all possible events, the Bank's quantitative assessments of individual risks are continuously supplemented by comprehensive sensitivity analyses. By performing these analyses, the Bank identifies risk factors that could have a particularly significant impact on the Bank's net assets, financial performance and/or liquidity.

In the course of these analyses, scenarios relating to a single type of risk are developed and assessed in terms of impact. The information obtained is taken into account when modelling the adverse scenarios and stress scenarios used during reviews of risk-bearing capacity.

The analytical system described above does not entirely preclude the possibility that certain scenarios jeopardising the Bank's continued existence may never be identified. Consequently, to establish the limits of the models used to review the Bank's risk-bearing capacity, certain assumptions are made regarding loss-related exposure; these assumptions are used to retroactively determine the conditions under which such losses might occur. This inverse stress test is performed once a year. The Controlling department informs the Board of Management of the results in a separate report. The Risk Committee/Supervisory Board is informed of the results when they receive the risk report at year-end.

The statutory liability mechanisms (maintenance obligation, public guarantee obligation and explicit guarantee of all the Bank's liabilities) mean that the State of Baden-Württemberg is obliged to take any capital and/or liquidity strengthening measures necessary to maintain the Bank's business operations. The inverse stress test findings indicate that it is highly unlikely that these liability mechanisms will need to be invoked.

The definition of the scenario for the 2021 inverse stress test takes account of effects impacting the entire capital market, as well as idiosyncratic effects. The stresses focus on significant loan losses plus the Bank's assumption of liability for borrowers' bank claims on end-clients in the overriding interests of economic policy. The stress test also assumes that extreme meteorological conditions cause the European economy to experience severe production shortfalls, in turn resulting in job losses. Political attempts to achieve carbon-neutral production are insufficient to compensate for the job losses, but do increase national debt. The process of adjusting the economy is further hampered by lower environmental standards abroad and interest-rate increases by central banks. However, while it is feasible that such a scenario should occur, neither the assumed severity nor the extremely rapid progression have any historical precedents.

Risk management and risk control

In addition to identifying material risks as part of the risk inventory process, the Bank's risk management and risk control processes include the assessment, management, monitoring and communication of material risks.

Counterparty risk

Default risk refers to the risk that a business partner will fail to meet its contractual obligations. These obligations may arise from a lending transaction as defined in the German Banking Act (Section 19 KWG), or from a performance obligation relating to a transaction involving settlement on completion. The reason for non-fulfilment of a contract may be specific, relating to the borrower's credit standing or particular circumstances (e.g. home country, industry sector). Migration risk is the risk of a decline in value due to borrowers' deteriorating credit ratings. Concentration risk arises when the solvency of a large number of borrowers depends on an identical condition or event and, due to the uneven distribution of these borrowers, losses are incurred that threaten the Bank's solvency. Even a single borrower's default may have a significant impact on a financial institution's solvency if the credit volume is sufficiently high.

Assessment of counterparty risk

The qualitative assessment of default and migration risk – which also includes issuer, counterparty and settlement risk – is carried out by classifying the borrower's creditworthiness and appraising the collateral provided for the loan. As part of classifying borrowers' creditworthiness, each borrower is assigned a credit rating expressed as a risk category. When assigning individual ratings, in addition to the client's ability to service their debt, the Bank also pays particular attention to industry affiliation and other risk-related characteristics (e.g. home country, exposure to ESG risks). For borrowers involved in development finance for owner-occupied housing, the homogeneity of the client group means that they are assigned a group rating based on the average probability of default. Certain kinds of collateral are taken into account in the qualitative assessment of loss exposure. Loans guaranteed by municipalities and real-estate loans secured on residential properties in Baden-Württemberg are assigned to risk category 1. Where collateral in kind is provided in the form of residential property in Baden-Württemberg – independent of the real-estate loan, but within the relevant lending value – the borrower is assigned to risk category 4. In the case of Pfandbriefe and similar bond issues (e.g. covered bonds), the external issue rating is used.

The quantitative assessment of all material risk subtypes of counterparty risk is linked to the results of the qualitative assessment. A value at risk is calculated for the entire loan portfolio with the help of a Monte Carlo simulation based on migration and default probabilities, correlations, and recovery rates. Migration and default probabilities are allocated on the basis of the rating category to which each client is assigned during the Bank's qualitative assessment. Until June 2021, migration and default probabilities were predicated on an anticipated increase in rating downgrades due to the pandemic, based on historical analysis of rating migrations. Because the anticipated increase in credit rating downgrades did not in fact materialise, the ‘coronavirus markups’ on the migration probabilities were removed as at 30 June 2021. In the case of private and corporate clients in the rental housing sector, a sufficient default history is already available, so the Bank can incorporate its own historical borrower correlations into the assessment. In other business segments, regulatory borrower correlations are applied. The assumed correlations were raised in December 2020 to reflect borrowers’ exposure to the pandemic as a common risk driver; this Covid-related adjustment will be retained until further notice. When calculating the amount of the loss, for reasons of prudence, only security provided in the form of cash collateral and/or loans granted to end-borrowers in accordance with the ‘borrower’s bank’ principle are taken into consideration. For the remaining unsecured portion, the historically estimated recovery rates are compared with the regulatory recovery rates for all business segments except ‘Companies in the financial sector’ and ‘Public sector’, and the lower (more conservative) value is applied in each case. Because the Bank has no loss history for the two excluded business segments, the regulatory recovery rate is applied directly in both cases.

To calculate the regulatory recovery rate for risk positions in the retail sector collateralised against residential real estate without a central government guarantee (‘Baden-Württemberg home ownership’ and ‘Saxony home ownership’ programmes), the Bank applies the regulatory (IRBA) residual debt servicing capability of 90% (Article 164 (4) CRR II), or 55% in the case of all other business segments (Article 161 (1a) CRR II). As at the reporting date of 31 December 2021, regulatory recovery rates had been applied to all business segments. A residual debt servicing capability of 25% is assumed for all securities eligible for bail-in (Article 161 (1b) CRR II), as their servicing is prioritised over any subordinated risk claims for which the regulatory residual debt servicing capability is 25%. In the case of shareholdings, the Bank applies a conservative recovery rate of 0%.

The following table shows the default probabilities for individual risk categories, and shows internal risk categories against the corresponding external risk categories.

RISK CATEGORIES AND CORRESPONDING DEFAULT PROBABILITIES

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

The value-at-risk calculations for default and migration risk are based on a holding period of one year and a confidence level of 99.9%.

Risk concentrations arising primarily from the Bank's public-service mandate are assessed both qualitatively and quantitatively. A qualitative assessment of concentration risks associated with industries, collateral and countries is performed on the basis of the Herfindahl-Hirschman Index (HHI).

Using the parameters applied to the value-at-risk calculation (in particular rating category/probability of default, recovery rate, correlations) and the fact that a portfolio model is involved, the risks arising from concentrations on individual borrowers, industries, countries and collateral are included in the value at risk calculated for the default or migration risk. The value at risk is calculated on the basis of a Monte Carlo simulation that takes account of borrower correlations, whereby individual borrower concentration risks are included in the assessment. The quantitative assessment of individual borrower concentrations is made possible by a comparative value-at-risk assessment. For this purpose, a value at risk is calculated for the entire portfolio on the basis of the Gordy model, which assumes total granularity. The difference between the total value at risk calculated on the basis of the Monte Carlo simulation and the total value at risk calculated on the basis of the Gordy model shows the individual borrower concentration.

To ensure that all risk factors are adequately considered in both quantitative and qualitative assessments, the Bank performs a variety of sensitivity analyses. Sensitivity analyses of specific risk types did not identify any new risk drivers in 2021.

Managing, monitoring and controlling counterparty risk

To limit the risk of loss, comprehensive risk management policies must be observed both when granting loans and as part of ongoing loan processing.

The following table shows the minimum credit ratings that borrowers in each of the individual business segments must normally satisfy at the time the loan is granted. Any exceptions to these requirements must be decided by the Board of Management.

Business segments	Risk category
Loans provided under programmes	Credit ratings required for programme-related development business are stipulated in the development programmes agreed between the State of Baden-Württemberg and L-Bank, and in the Bank's in-house SOPs
Other loans (including securities and financial investments)	1 to 5
Interest-rate derivatives without collateral	1 to 3, but currently no new business
Interest-rate derivatives with collateral	1 to 5

In addition, adequate collateralisation must be assured when granting loans. The type of collateral to be provided in programme-related development business is specified in the corresponding programme guidelines. In non-programme-related development business, care must be taken to obtain sufficient and sustainable collateral insofar as this is customary in banking and reasonable on the basis of the client's legal form or credit rating. At the same time, the value of the collateral provided must not depend on the borrower's credit rating. L-Bank has specified acceptable types of collateral, and also specified the maximum value that should be assigned to each type when determining the unsecured portion of the loan. Collateral that, for material or formal reasons, may not be assigned any explicit collateral value must still be accepted when granting loans if the acceptance of such collateral is standard industry practice and if, in the event of enforced realisation, the Bank can expect to realise recovery proceeds.

Furthermore, loans may only be granted if appropriate individual limits have been set for issuer, counterparty and borrower risks. For development aid business, appropriate limits should always be set before loans are granted, whereas for non-programme-related development business, the Bank may set limits while simultaneously granting loans. In programme-related development business, the Bank is very much subject to the 'obligation to contract', so the individual limits are very tight. The maximum loan amount that L-Bank may issue to borrowers incurring commercial risks outside the Federal Republic of Germany is restricted by appropriate limits set at country level (country limits). Issuer, counterparty, borrower and country limits are set by the Board of Management based on an internal analysis of credit quality and monitored on a daily basis by the Controlling department. If a limit is exceeded, the heads of the departments concerned are informed on the same day and appropriate risk-response measures are initiated. The Risk Committee/Supervisory Board is informed of significant limit overruns in the quarterly risk report.

To offset possible losses from counterparty risks, risk-based margins should really be charged when granting loans. Given L-Bank's business model, however, it is not possible to set individual risk-based margins for development loans issued under the Bank's development programmes. With respect to development aid business, most transactions are conducted with capital-market participants. For these borrowers, the Bank mainly trades in credit spreads on the capital market, meaning that L-Bank only has limited influence on margins. For all loans where margins are not fixed by third parties (programme loans) and where conditions are not set on the capital market, a risk margin is calculated on the basis of the probability of default and incorporated into the decision-making process.

To prevent unbalanced lending decisions, two approving votes (front office/trading and back office) are mandatory for all trading transactions and for all risk-related credit transactions prior to conclusion of the transaction.

Furthermore, the Bank has installed an early risk detection system so that it can identify early-stage deterioration of borrower creditworthiness at the level of both individual transactions and the portfolio as a whole, and subsequently gear ongoing loan processing and risk management to such changes in borrower creditworthiness.

Due to the Bank's business model, it is not really possible to limit concentration risks by applying new-business policies. However, to ensure that portfolio structures which could endanger the Bank's existence are identified at an early stage, concentration risks are analysed at portfolio level and constrained by value-at-risk limits and RWA limits for default and migration risk.

Housing development is associated with a low collateral concentration risk based on the collateralised real estate. Because development funding is restricted to the jurisdiction in which the guarantor is located, the Bank's housing development activities are also associated with a geographical concentration risk. Demand for residential accommodation remains high, however, significantly exceeding regional supply. New builds are currently lagging behind demand, especially in metropolitan areas. There are no indications of a general price decline in Baden-Württemberg's real-estate market. Guarantees are subject to another collateral-related concentration risk. Of the guarantees received (without public guarantee or maintenance obligation) worth around EUR 7,948.3 million, the State of Baden-Württemberg accounts for some EUR 7,317.7 million. Due to the credit standing of the State of Baden-Württemberg, L-Bank regards this risk as negligible.

L-Bank's business model also shows a low concentration risk associated with industry sectors. At EUR 53,421.9 million, the highest volume of receivables is due from companies in the financial sector. Also included in this amount are receivables from central banks and other public bodies that need not be taken into consideration when determining the degree of interdependency between an institution and the financial system pursuant to Commission Delegated Regulation (EU) 1222/2014 of 8 October 2014. However, the contagion risk to which L-Bank is exposed through receivables from companies in the financial sector is classed as low. L-Bank extends loans for business development purposes via borrowers' commercial banks. The Bank's exposure to these borrowers' bank loans amounted to EUR 21,582.5 million as at 31 December 2021. These lendings to banks are secured by the assignment to L-Bank of claims on end-clients.

Alongside these loans to borrowers' banks, L-Bank has engaged in other development business with companies in the financial sector totalling EUR 6,858.2 million, of which EUR 4,337.3 million are secured by public guarantee/maintenance obligation. EUR 24,981.3 million of the Bank's total lending commitment to companies in the financial sector relate to transactions associated with development aid business, whereby the Bank invests low-cost funds from refinancing in low-risk or risk-free issuers. Of the above-mentioned EUR 24,981.3 million, an unsecured volume of EUR 6,137.2 million remains after deducting claims on central banks (EUR 18,844.0 million). Roughly 92.3% of this is assigned to risk categories 1 to 4 and only around 7.7% to risk categories 5 and 6. Consequently, the concentration in the financial sector does not currently represent any particular risk of loss for the Bank.

In regional terms, the Bank's public-service mandate means that it is exposed to a high concentration risk for the region 'Germany'. A total of 90.1% of the risk portfolio is assignable to Germany, of which 59.6% relates to the State of Baden-Württemberg. 5.8% of the risk-relevant portfolio is located in the eurozone (primarily in France, the Netherlands and Austria) or with international organisations (such as the World Bank). 4.2% of the risk-relevant portfolio is attributable to transactions in countries outside the eurozone, which are performed for purposes of risk management or capital investment.

Ongoing and incident-related creditworthiness and collateral classifications are intended, above all, to ensure that the Bank can take early risk-response measures at the level of individual transactions (e.g. by increasing the collateral requirement) in the event that a client's credit standing should deteriorate. But the classification also enables the Bank to carry out real-time assessments of the entire portfolio's risk structure. The following table shows the loan portfolio's risk structure as at 31 December 2021.

RISK STRUCTURE OF THE LOAN PORTFOLIO AS AT 31.12.2021 in EUR millions

Risk category	Private clients	Companies and self-employed persons	Companies in the financial sector	Public sector	L-Bank total	Allocation in %
1	144.1	248.7	23,548.0	17,738.0	41,678.8	45.1
2	1.4	930.0	1,934.9	5,589.6	8,455.9	9.2
3	12.8	2,858.5	10,555.1	47.8	13,474.2	14.6
4	17.0	3,241.8	14,760.1	85.5	18,104.4	19.6
5	5,257.1	1,391.8	886.7		7,535.6	8.2
6	137.3	291.1	1,403.4		1,831.8	2.0
7	35.9	603.7	142.1	9.4	791.2	0.9
8		60.0	56.2		116.2	0.1
9	0.9	31.1	17.2		49.2	0.1
10		50.5	0.3	0.0	50.9	0.1
11			87.5		87.5	0.1
12		47.7	27.5		75.2	0.1
13	15.0	116.4	2.5		134.0	0.1
14	7.8	9.4	0.4		17.6	0.0
Total	**5,629.4**	**9,880.8**	**53,421.9**	**23,470.2**	**92,402.4**	**100.0**

In addition to RWA limits, which are used to safeguard the Bank's risk-bearing capacity from the normative perspective, credit risks are also limited by setting a value-at-risk limit at portfolio level. The following table provides an overview of the proportion of the aggregate loss ceiling taken up by counterparty risks in the course of 2021.

VALUE AT RISK FOR COUNTERPARTY RISKS IN 2021 in EUR millions

	01.01.2021		31.03.2021		30.06.2021		30.09.2021		31.12.2021	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	4,300.0	3,006.2	4,300.0	2,728.7	4,300.0	2,383.8	4,300.0	2,240.5	4,300.0	2,019.4
Share of counterparty risks in %	37.2	37.0	37.2	39.4	37.2	29.0	37.2	28.9	37.2	32.4
Counterparty risks	1,600.0	1,111.4	1,600.0	1,074.0	1,600.0	692.0	1,600.0	648.4	1,600.0	653.9

The significant mid-year decline in counterparty risks is the result of a change in the way risks are assessed in relation to the economic consequences of the Covid pandemic. At the beginning of the year, the Bank was still anticipating a high probability of credit rating downgrades, but in actual fact no such trend towards lower rating classifications was observed. As a result, the markup on credit rating downgrade probabilities introduced in 2020 for reasons of prudence was no longer applied as of 30 June 2021. However, the adjustment of borrower interdependencies (correlations) applied as at 31 December 2020 was retained, because the impact of measures to limit the spread of the coronavirus is much the same for the vast majority of businesses and self-employed persons.

As part of its ongoing loan processing activity, the Bank ensures that potential losses are minimised or averted by defining dedicated procedures for the treatment of non-performing exposures (NPEs). For example, a regulated dunning procedure is specified to ensure that claims are upheld and settled as soon as possible. For this purpose, loans are classified as problem loans if there are strong indications that, to avert or minimise losses, actions may be required that go beyond the normal scope of client support, intensified client contact, and the provision of additional collateral as part of the intensive support process. Loans are classified as NPEs if they meet any one of the following criteria:

- → The client is in material default of payment, i.e. is more than 90 days in arrears with a payable to the Bank exceeding 1% of the total debt and greater than EUR 100 (in the case of retail businesses) or at least EUR 500 (in the case of other clients).
- → According to the Bank's internal rating, the client is in risk category 13 or 14.
- → An individual risk provision has been made against the client.
- → Collateral provided to L-Bank by the client is realised (by compulsory auction excluding partition by auction).
- → The client is classified as 'forborne' and is under problem-loan processing.

'Forborne loans' are balance sheet assets where the Bank has given a borrower in financial difficulties extra concessions as part of the restructuring process (e.g. in the form of debt deferral agreements, maturity extensions, repayment holidays or debt rescheduling) in order to re-establish or assure the borrower's debt-servicing capability in the event that the latter has ceased to exist or is acutely at risk. Such a loan must be reported as an NPE and forborne loan for a period of one year after the financial difficulties have been resolved. The loan must then be classified exclusively as a forborne loan for a further two years (forbearance period).

The following table shows the NPE portfolio at the end of 2021. When classifying NPEs, the Bank distinguishes between restructuring exposure (risk category 13) and workout exposure (risk category 14).

NPE PORTFOLIO AS AT 31.12.2021 in EUR millions

	Total risk portfolio	NPE portfolio		Restructuring portfolio		Workout portfolio	
		total	in %	total	in %	total	in %
Private clients	5,629.4	22.8	0.41	15.0	0.27	7.8	0.14
Rental housing construction clients	7,026.2	7.0	0.10	2.1	0.03	4.9	0.07
Companies in the financial sector	53,421.9	2.9	0.01	2.5	0.00	0.4	0.00
Other companies	2,854.6	120.5	4.22	116.0	4.06	4.5	0.16
Public sector	23,470.2	0.0	0.00	0.0	0.00	0.0	0.00
Total	**92,402.4**	**153.3**	**0.17**	**135.6**	**0.15**	**17.6**	**0.02**

The total NPE portfolio as at 31 December 2021 includes forborne loans in the amount of EUR 32.1 million. Another EUR 7.6 million in forborne loans are in the forbearance period and consequently not included in the reported NPE portfolio.

To ensure that risks are identified early, the Bank has installed various early-warning indicators, including deteriorating credit ratings (number and volume) in the Bank's commitment exposures, the trending NPE ratio, trending collateral values, changes in the proportion of NPEs for which the Bank has already made risk provisions, and the proportion of NPEs in financial difficulties that can no longer be rectified by restructuring measures. As at the reporting date, and indeed over the whole of fiscal 2021, none of the early-warning indicators suggested a future increase in default risk.

Early and adequate risk provisioning

L-Bank makes appropriate allowance for default risks that have become acute by setting aside specific risk provisions. The Bank also forms general risk provisions for certain portfolios where the risk structure could cause acute default risks to arise in the future. Based on various instruments for the early identification of risks, the Bank has set up dedicated processes for forming specific and general risk provisions and issued corresponding guidelines.

The unsecured portion of NPEs, as determined after prudent valuation of the collateral provided, is fully covered by risk provisions.

Market price risk

Market price risk refers to potential losses caused by unfavourable price movements on the money and capital markets. Market price risk mainly exists in the form of interest-rate risks and, to a negligible extent, foreign-exchange risks. As the Bank does not maintain trading books, market price risks only arise in connection with the bank book's lending and refinancing transactions. Some of these transactions contain explicit and/or implicit options with associated option risks. Market price risks are also posed by credit-spread risks associated with securities in the investment book.

Assessing market price risks

The interest-rate and foreign-exchange risks in the investment book are quantitatively assessed using the value at risk, based on historical simulations. For this purpose, euro or FX receipts collected on the basis of interest-rate risks are compared with euro or FX disbursements made on the basis of interest-rate risks, and a market value is calculated for the resulting gap. L-Bank does not separate out funds invested to cover pension commitments to employees, so these investments form part of the euro bank book. Consequently, for the purposes of assessing interest-rate risk, anticipated disbursements for covering pension commitments have been taken into consideration on the basis of the payments used to calculate these pension commitments. Since explicit non-behaviour-dependent options should always be perfectly hedged, there is no need to include them in the euro and FX cash flows.

In order to monitor risk-bearing capacity, interest-rate and foreign-exchange risk are assessed for the economic perspective on the Bank's risk-bearing capacity, based on a historical simulation over an observation period of 2,500 days with a confidence level of 99.9% and a 250-day holding period. For daily control purposes, a value at risk is calculated on the basis of 10- and 25-day holding periods.

A qualitative assessment of the interest-rate risk and USD risk is performed using the supervisory standard test and supervisory early-warning indicators for interest-rate risk in the bank book.

Risks arising from explicit behaviour-dependent options, as well as risks associated with implicit options, are quantitatively assessed on the basis of the risk factors identified for interest-rate and foreign-exchange risks as part of the value-at-risk assessment, taking historical observations into account.

The informative value of the above-mentioned quantitative assessments is verified by means of backtesting and sensitivity analyses. In fiscal year 2021, there was no need to adjust the model due to incorrect statements of the calculated value at risk. Sensitivity analyses are used to explore possible losses resulting from varying degrees of extreme interest-rate and exchange-rate changes that are not always reflected over the historical observation period applied. These scenarios are also used to determine the risk of loss due to interest-rate changes that did not occur over the last 2,500 trading days but may occur in the future. The sensitivity analyses confirm the suitability of the risk factors applied.

The credit-spread risk is quantitatively assessed by analysing the value at risk, based on a historical simulation covering tradable securities in the investment book. Because the Bank generally holds securities from issue to term, this risk only needs to be considered from the normative perspective if a trading option is assumed to result in sales of securities. As at 31 December 2021, this was not the case in projections in either the normal or adverse scenarios.

To monitor the Bank's risk-bearing capacity from an economic perspective, the credit-spread risk is assessed on the basis of a historical simulation of changes in industry- and rating-dependent CDS spread curves. The observation period is 2,500 days with a confidence level of 99.9% and a 250-day holding period. To support these assessments, sensitivity analyses are also performed.

Managing, monitoring and controlling market price risk

The management of interest-rate and foreign-exchange risks for the investment book as a whole is essentially based on the risk strategy laid down by the Board of Management, which specifies that risk positions in the 24-month maturity band may only result from longer-term equity investment. Compliance with this requirement is verified by specifying a corresponding target risk structure. In the latter, the Board of Management specifies the target interest-rate risk profile, together with deviations per maturity band that are permissible for efficient implementation.

The risk exposure arising from different receipt and disbursement dates for lending and refinancing transactions is hedged primarily by means of interest-rate swaps and cross-currency interest-rate swaps. As at 31 December 2021, the portfolio of interest-rate swaps had a nominal value of EUR 69.6 billion. Cross-currency interest-rate swaps had a nominal value of EUR 19.6 billion, currency swaps had a nominal value of EUR 19.0 billion.

Furthermore, the Board of Management has resolved that at the level of individual transactions, all explicit non-behaviour-dependent options in lending and refinancing transactions must be hedged by an identical offsetting transaction as a matter of course. In the Bank's programme-related development business, it is exposed to implicit options based on Section 489 of the German Civil Code (BGB). Any potential losses arising from this exposure are offset by the structure of the various development programme mechanisms. Risks associated with behaviour-dependent or embedded options that cannot be hedged are assigned separate limits. As at 31 December 2021, embedded option-related risks were assessed at EUR 31.5 million.

As part of the process of safeguarding the Bank's risk-bearing capacity, the Board of Management also specifies a value-at-risk limit for interest-rate and foreign-exchange risk (including explicit non-behaviour-dependent options). The following table provides an overview of the proportion of the aggregate loss ceiling taken up by these market price risks in the course of 2021.

VALUE AT RISK FOR INTEREST-RATE AND FX RISKS IN 2021 in EUR millions

	01.01.2021		31.03.2021		30.06.2021		30.09.2021		31.12.2021	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	4,300.0	3,006.2	4,300.0	2,728.7	4,300.0	2,383.8	4,300.0	2,240.5	4,300.0	2,019.4
Share of interest-rate and exchange-rate risks in %	4.7	2.8	4.7	3.0	4.7	3.0	4.7	2.1	4.7	2.3
Interest-rate and exchange-rate risks	200.0	83.5	200.0	82.7	200.0	71.2	200.0	47.7	200.0	46.5

A qualitative assessment of the interest-rate risk is made by calculating the loss of net present value (NPV) resulting from a parallel upward or downward shift in the yield curve by 200 basis points relative to the Bank's available equity capital according to Article 72 CRR II (standard supervisory test), as required by the regulator. This interest-rate risk coefficient is limited to 20% in L-Bank's internal risk management system, with an early-warning threshold of 16%. In addition, NPV calculations in the six scenarios relative to Tier 1 capital, as specified by the supervisory authority in BaFin Circular 06/2019 (BA) – Interest-rate risks in the investment book (pursuant to Article 25 CRR II), are used to determine supervisory early-warning indicators. For this purpose, L-Bank has set a limit of 15% for the supervisory threshold, and an internal early-warning threshold of 12%. These key indicators are calculated and reported to the Board of Management on a daily basis. EBA guidelines on the management of interest-rate risk in the investment book (EBA/GL/2018/02) call for the measurement and management of interest-rate risks in the investment book from both NPV and earnings perspectives. When calculating earnings risk, L-Bank uses the same scenarios used to assess NPV. In each case, the effects of these scenarios on the net interest surplus over the next 12 months are determined on the assumption both that the interest-rate risk exposure is retained, and that it is fully closed out. These figures are calculated and reported to the Board of Management every month.

The Controlling department is responsible for monitoring interest-rate risk and foreign-exchange risk by comparing the VaR figures calculated each day with the specified limits. The Board of Management is informed of market price risks in a daily risk report and a monthly aggregated report, which is distributed to the Risk Committee/Supervisory Board on a quarterly basis.

As part of safeguarding the Bank's risk-bearing capacity, the Board of Management also sets a value-at-risk limit for the credit-spread risk. The decline in credit-spread risks at year end was primarily due to the increase in long-term interest rates and the maturities of various securities. The following table provides an overview of the proportion of the aggregate loss ceiling taken up by this risk in the course of 2021.

VALUE AT RISK FOR CREDIT-SPREAD RISK IN 2021 in EUR millions

	01.01.2021		31.03.2021		30.06.2021		30.09.2021		31.12.2021	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	4,300.0	3,006.2	4,300.0	2,728.7	4,300.0	2,383.8	4,300.0	2,240.5	4,300.0	2,019.4
Share of credit-spread risks in %	34.9	36.7	34.9	37.6	34.9	43.5	34.9	44.7	34.9	40.1
Credit-spread risks	1,500.0	1,102.8	1,500.0	1,027.1	1,500.0	1,037.3	1,500.0	1,000.9	1,500.0	810.0

Loss-free valuation of the non-trading portfolio (bank book)

The Bank uses the so-called loss-free valuation of interest-rate derivatives to determine a possible provision for impending losses. This is because the bank book derivatives are in an – albeit abstract – hedging relationship with recognised financial instruments with corresponding or opposing risk profiles. Accordingly, a provision for impending losses would have to be formed if, as a consequence of this (abstract) hedging relationship, a so-called commitment surplus were to result on the interest-rate book compared to its NPV. As at 31 December 2021, these calculations show significant hidden reserves on which even a negative change in the yield curve, determined on the basis of the VaR calculation, would only have a limited impact.

Rollover funding risk

Rollover funding risk refers to the risk that the Bank may not be able to obtain sufficient liquidity on the expected terms when required.

Assessing the rollover funding risk

The rollover funding risk for existing transactions (i.e. without taking account of new and interest-rate adjustment transactions) is measured quantitatively by calculating a value at risk with a 250-day holding period and a 99.9% confidence level. This value at risk is calculated on the basis of changes in L-Bank's refinancing conditions observed in the past, based on the underlying assumption that the Bank is only able to refinance net disbursements on less advantageous terms. Sensitivity analyses that assume a certain deterioration in funding conditions, or a widening of the funding gap, are used to confirm the validity of the calculated results.

Managing, monitoring and controlling the rollover funding risk

To limit the rollover funding risk, the calendar-year requirement to refinance the Bank's open position – in terms of liquidity – from portfolio transactions may not exceed EUR 10 billion. This target was met throughout the fiscal year.

The Bank complied with the value-at-risk limit granted for the economic perspective on risk-bearing capacity throughout fiscal year 2021.

VALUE AT RISK FOR ROLLOVER FUNDING RISK IN 2021 in EUR millions

	01.01.2021		31.03.2021		30.06.2021		30.09.2021		31.12.2021	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	4,300.0	3,006.2	4,300.0	2,728.7	4,300.0	2,383.8	4,300.0	2,240.5	4,300.0	2,019.4
Share of rollover funding risks in %	16.3	21.1	16.3	16.8	16.3	20.7	16.3	20.3	16.3	20.6
Rollover funding risks	700.0	633.8	700.0	457.8	700.0	494.1	700.0	454.7	700.0	416.5

Rollover funding risks are significantly down on the previous year's figure. The rise in interest rates since 1 January 2021 means that collateralised derivatives have negative market values for shorter periods of time, necessitating deposits of cash collateral. In turn, the shorter-term funding required for this collateral causes the value at risk for rollover funding risks to fall.

The Controlling department is responsible for monitoring the rollover funding risk by comparing the VaR figures calculated each month with the specified limits. The risk of possible future price increases due to higher expenses for follow-up refinancing (rollover funding) is assessed with the help of various early-warning indicators, based, among other things, on the owner's creditworthiness and an increase in the cost of short-term refinancing.

The Board of Management is informed of the rollover funding risk in a monthly aggregated report, which is distributed to the Risk Committee/Supervisory Board on a quarterly basis.

Operational risk

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

Operational risks resulting from unlawful actions detrimental to the Bank are assessed by means of a threat analysis. Risks arising from outsourced services that fail to comply with contractual terms are accounted for in the materiality analysis of outsourced contracts. Whereas central risk managers are appointed by the Board of Management, the role of decentralised risk manager is generally fulfilled by the heads of the various departments, who may also delegate specific tasks to departmental staff as part of their organisational remit.

Assessment procedures and management

The size and scope of operational risks are identified and assessed with the aid of structured interviews across all departments. These interviews are held throughout the year. Any risks identified are assigned to one of five loss-level or loss-frequency classes. These are measured by the impact on L-Bank's financial position of a potential risk were it to materialise, and also the anticipated frequency of such an occurrence. The Bank is obliged to resort to estimates simply because, to date, the Bank has only experienced a minimal number of loss events associated with operational risks, and the consequential damages have been negligible. Hence it is not possible to calculate the value at risk on the basis of historical loss events alone. An aggregated value at risk for the Bank as a whole is calculated from experts' estimates with the help of a Monte Carlo simulation.

VALUE AT RISK FOR OPERATIONAL RISK IN 2021 in EUR millions

	01.01.2021		31.03.2021		30.06.2021		30.09.2021		31.12.2021	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	4,300.0	3,006.2	4,300.0	2,728.7	4,300.0	2,383.8	4,300.0	2,240.5	4,300.0	2,019.4
Share of operational risks in %	1.2	1.1	1.2	1.4	1.2	1.6	1.2	1.7	1.2	2.1
Operational risk	50.0	34.3	50.0	37.4	50.0	37.6	50.0	37.5	50.0	41.4

The Controlling department is responsible for monitoring operational risk by comparing the VaR figures calculated each quarter with the specified limits. The Board of Management is informed of operational risk in the monthly risk report, which is distributed to the Risk Committee/Supervisory Board on a quarterly basis.

The changes in the value at risk in 2021 are due to changes in the experts' assessments of individual risk-bearing transactions, based in particular on consideration of possible losses from operational risks associated with the Covid pandemic. Due to their minimal number and impact, loss events had no influence on these assessments.

In addition to the usual insurance policies taken out to mitigate the business impact of certain loss events, the internal control system acts as the basis for avoiding operational risks. It includes comprehensive implicit and explicit procedures for safeguarding the Bank's process workflows. Typical procedures include two-person verification, random spot checks, explicit steps to take in the event of changes to operating processes or structures, an IT permissions management system that excludes conflicts of interest between incompatible activities, and rigorous selection criteria for new recruits. The system as a whole is based on the Bank's written documentation, which takes a modular approach to the formulation of the rules governing corporate structure and workflow.

To ensure that the Bank only enters into business transactions that it can process and manage in a manner commensurate with the associated risk, a new-product process is applied to all new types of business. Prior to first-time acceptance, the Bank determines the extent to which existing processes and procedures are sufficient to map the new type of business. The Bank is currently developing an administrative approach that will be used to present all HR, organisational, IT, accounting and fiscal consequences associated with new business. Test cases are used to check the assumptions made throughout the process, as well as the adequacy of the procedures to be put in place.

Operational risk is also reduced through ongoing monitoring of adherence to relevant legal and regulatory provisions (e.g. compliance, prevention of money laundering and fraud, data protection). The Compliance function aims to exclude risks that could arise from non-compliance with legal requirements. Consequently, the Compliance function's role is to help implement effective procedures to ensure that L-Bank complies with the statutory regulations and policies that govern the Bank's activities, and to put in place the necessary controls. Compliance with these requirements is assured by appropriate organisational measures and the ongoing monitoring of relevant business transactions.

Given the Bank's portfolio structure, transfer and conversion risks are generally of very limited significance. The risk that L-Bank might suffer losses as a result of restrictions on payment transactions and/or currency convertibility as a result of statutory interventions in or against the countries concerned is regarded as negligible, but even so, is capped by country limits.

When assessing operational risk, any hazards resulting from the provision of Internet-based communication technologies and automated data processing are treated as information risks. To effectively manage such risks, L-Bank's information security strategy is based on the 'IT Baseline Protection Manual' issued by the German Federal Office for Information Security (BSI).

With respect to workflow organisation, the Bank makes a distinction between policies representing binding prescriptions for action on the one hand, and process diagrams and knowledge documentation on the other. Policies always apply, regardless of the underlying workflows or IT systems used, whereas knowledge documentation/process diagrams and IT user manuals describe specific workflows. L-Bank has broken down the loan administration process into multiple stages: granting of loans, further processing of loans, processing of problem loans (restructuring and workout). Criteria have been established for each stage in the process and must be complied with when a loan is being processed. These processing criteria constitute the master lending process.

A master process has also been established for trading transactions. This sets down the processing criteria for reviewing opportunities for trades, and for agreeing, recording, forwarding and changing closing dates. It also regulates, in clear, unambiguous terms, the updating of the trading transactions portfolio; the legal form of contracts; the closing of trades outside the Bank's own trading rooms and normal working hours (late trades); the recording and monitoring of telephone calls, and any ongoing supervisory activities relating to settlement and controls.

The rules governing corporate structure specify which business activities are carried out in which organisational unit (organisation chart and schedule of responsibilities). The rules governing 'management and representation' specify who may carry out specific business activities. Finally, service agreements and employment policies are used to comply with statutory requirements pertaining to employment law and industrial relations.

Outlook for risk situation

In the year under review, L-Bank's very good position on the capital market – supported by the State of Baden-Württemberg's guarantee – meant that refinancing could be obtained on terms that were favourable to both the Bank and its investors' interests. The Bank continues to be able to obtain funding on very favourable terms thanks to the explicit guarantee provided by the State of Baden-Württemberg and the latter's very good credit ratings. International demand for liquid, safe investments will provide the Bank with reliable, broadly diversified opportunities to raise capital for the foreseeable future.

The Bank's market price risk is primarily due to longer-term equity investments. Risks to earnings are due to the ongoing low level of interest rates. An increase in interest rates would gradually lead to higher investment income.

The social restrictions (distancing/isolation) imposed for the purpose of containing the Covid pandemic are putting the service sector in particular at risk, and within this sector, more specifically the hospitality and event industries. The trend towards online shopping has intensified, adversely impacting the earnings prospects of brick-and-mortar retailers. Ongoing supply bottlenecks are hampering the recovery of the manufacturing industry. Due to the structure of L-Bank's loan portfolio, these effects are only having a limited impact on the portfolio's quality, hence on L-Bank's earnings; the Bank has put adequate risk provisions in place. Increasingly, the costs of transitioning the state's economy to a low-carbon production environment are coming into focus. It is likely that the technological upheaval will initially result in more insolvencies and job losses. So the considerable innovative strength of Baden-Württemberg's business sector will be instrumental in overcoming the imminent challenges.

The cost of safeguarding the Bank's business operations under pandemic conditions is assigned to operational risk. Consequently, there was a nominal increase in the number of losses. The number of typical loss events in 2021, however, remained at the low level seen in previous years. The progressive automation of our processes and IT support, and above all the further development of the Bank's online services, mean that employee-related loss events are likely to remain at the current low level, whereas IT-related risks are likely to increase.

Key features of the internal control and risk management system: the accounting process

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

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

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

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

L-Bank uses standard software for its financial accounting. This provides:

- Protection against unauthorised access through a system of permissions based on authorisation levels.
- Avoidance of errors by means of plausibility checks.
- Detection of errors by means of two-person verification, standardised reconciliation routines, and comparisons of budgeted with actual figures.

At the same time, these measures serve to ensure that assets and liabilities are correctly assigned and reported, and also plausibly valued.

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

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

Karlsruhe, 1 March 2022

Edith Weymayr Dr. Iris Reinelt

Johannes Heinloth

Separate Non-financial Report – Report of the Board of Management of L-Bank for fiscal year 2021

Background, classification and methodology

All L-Bank's actions are based on its statutory public-service mandate. To fulfil this mandate, L-Bank must always act in an exemplary, credible and trustworthy manner. The L-Bank Sustainability Guidelines and Sustainability Code serve as the appropriate frame of reference. Back in 2013, L-Bank established a Bank-wide sustainability management system and incorporated the sustainable development model into the Bank's business strategy to act as a framework for the Bank's business activities.

The state government specifies the basic objectives underlying the Bank's development activities, with the intention of transforming Baden-Württemberg into Europe's leading climate-friendly region over the next few years. This is reflected in L-Bank's business strategy and orientation. As a state-owned company, L-Bank is guided by the sustainability strategy of the State of Baden-Württemberg. Within the scope of its own operational discretion, L-Bank's development activities are consistently aligned with the primary issues on which current development policy is focused: on sustainability, and on the structural transformation being driven by digitisation and climate action.

With the entry into force of the Paris Convention, the international community has committed itself under international law to limiting global warming. At the same time, the United Nations Agenda 2030 for Sustainable Development has established an ambitious list of 17 Sustainable Development Goals (SDG). The Agenda assigns an important role to the financial sector; to achieve the Agenda's targets, it will be important to establish a financial system that prioritises sustainability and supports social transformation. Politicians and regulators are vigorously pursuing this objective. L-Bank is involved and committed at multiple levels. For example, as a major player in Stuttgart's financial community, L-Bank took part in the development of a sustainability strategy for the city as financial centre, and then became a signatory. A key part of the European Commission's regulatory efforts to move towards sustainable finance is the EU Taxonomy (Regulation (EU) 2020/852). To meet the upcoming taxonomy requirements, L-Bank launched an implementation project in summer 2021. According to FAQ 1 and FAQ 26 of the FAQs published by the European Commission on 2 February 2022, as a public-law institution, L-Bank is exempt from the disclosure requirements for the separate non-financial report pursuant to Article 8 of Regulation (EU) 2020/852. In view of the ongoing and open discussions on the interpretation of the legal regulations in the banking industry and among professional accountancy and auditing firms, L-Bank has decided not to opt for voluntary disclosure pursuant to Article 8 of Regulation (EU) 2020/852 for reporting year 2021. Instead, L-Bank is publishing a disclosure of alternative sustainability indicators for the Bank's development activities, based on the UN Sustainable Development

Goals (SDGs), as part of its digital annual report for 2021, which can be downloaded from the Bank's website.

Sustainability and efficiency criteria have instrumental roles to play in L-Bank's strategic realignment. The strategy process launched by the Bank, StrategyDIALOGUE, is based on wide-ranging dialogue processes and formats involving the entire workforce, management team, and Bank boards and committees. The working structures adopted by the StrategyBOARDs are an important part of this. The four StrategyBOARDs – 'Bank as a Whole', 'Development Business', 'Digitisation & Process Optimisation' and 'Corporate Culture' – are tackling strategic assignments and ideas with a view to implementation. Their efforts are supported by another strategy-focused body, the Sustainable Finance working group. Along with the core Sustainability team, the working group acts as a central platform for developing solutions that aim to further integrate sustainability into the Bank's activities.

The Covid pandemic had a marked impact on fiscal year 2021 as well, in many different ways. To protect and safeguard employees' health and safety, the Bank has implemented infection prevention measures adapted to the pandemic situation. They are also designed to ensure that L-Bank's business operations can be maintained at all times. As a development bank, L-Bank has a systemic role to play, handling numerous Covid-related aid programmes for companies and self-employed persons on behalf of the state and federal governments. As part of the Bank's crisis management efforts, emergency aid and development loans are used to safeguard the economic viability of companies, bridge liquidity bottlenecks caused by the knock-on effects of the Covid pandemic, and build up equity capital.

The Bank's systemic relevance is also evident in other areas; the family benefits paid out by L-Bank, such as parental allowances, often form the basis for families' economic survival, helping fathers and mothers to find better ways of reconciling family life with their careers.

As long as the medical community is unable to overcome the pandemic, L-Bank will continue to work hard to implement the necessary stopgap and support programmes, with a corresponding impact on the daily working routines and workloads of L-Bank employees. Development finance figures illustrate the challenge. In 2021, L-Bank provided around EUR 9.5 billion in financial support to Baden-Württemberg's businesses. The various aid programmes for coping with the economic consequences of the Covid pandemic made a significant contribution to this overall increase in development funding; they accounted, in total, for EUR 6.4 billion.

Sections 289b to 289e HGB extend the statutory requirements for documenting the impacts of L-Bank's business activities. These requirements are discussed in a separate non-financial report, which appears as a chapter in the annual report. The disclosures in the non-financial report were subjected to a limited-assurance audit ('engagement') of business operations by auditing firm PwC in accordance with ISAE 3000 (Revised), and the limited-assurance engagement was awarded an unqualified auditor's opinion. The way in which the content of the non-financial report is structured reflects the relevant legal requirements. The management approaches mentioned in the report are based on the Sustainability Reporting Standards of the Global Reporting Initiative (GRI). These act as the framework for the non-financial report's descriptions of management approaches and the underlying concepts.

In an interdisciplinary, multistage process, various non-financial criteria or 'aspects' (environmental matters, employee-related matters and social matters; respect for human rights; prevention of bribery and corruption) were assessed for their relevance to L-Bank, and the individual components were then reassessed in terms of materiality within the meaning of Section 289c (3) HGB. As part of the materiality analysis, the impact of the coronavirus pandemic on the various non-financial aspects and their individual components was taken into account, and is reflected in the report's assessment of the 2021 fiscal year. An additional aspect specific to L-Bank was also identified. The results are shown in the table below.

NON-FINANCIAL ASPECT	COMPONENTS DEFINED AS MATERIAL PURSUANT TO SECTION 289C (3) HGB
Environmental matters	Ecological value added/impact of products
Employee-related matters	Working conditions, personnel development, personnel planning and recruitment, balancing of work and family life
Social matters	Support for entrepreneurship, social value added and development products
Respect for human rights	Protection of personal data – informational self-determination, freedom of assembly and freedom to bargain collectively
Prevention of bribery and corruption	Prevention of money laundering, prevention of terrorist financing and fraud
Client matters (additional aspect)	Corporate security, digitisation, product portfolio/services offered, management of complaints

In fiscal year 2021 and as at the reporting date, no material net risks have been identified that are having, or are very likely to have, severely negative impacts on the above-mentioned aspects. No references to issues associated with the amounts reported in the annual financial statements were required, nor were any additional explanations. L-Bank's business model and the way it has been implemented in each of the Bank's areas of development activity, as well as the relevant figures, are described in the 'Background' and 'Economic report' sections of the management report. In accordance with the Minimum Requirements for Risk Management (MaRisk) in banking institutions, L-Bank has installed a risk management system that is Bank-specific and optimised to meet the requirements of L-Bank's statutory public-service mandate. L-Bank reports on this in the 'Opportunities and risk report' section of the management report. References outside the management report do not form part of this separate non-financial report.

Environmental matters

According to the state constitution, all public institutions in Baden-Württemberg are responsible for protecting the natural environment and its resources for future generations. Climate protection has been firmly embedded in Baden-Württemberg's legislation since 2013. In 2020, the Baden-Württemberg Climate Protection Act (KSG BW) was comprehensively revised and upgraded. In autumn 2021, the State Parliament (Landtag) adopted another amendment. In it, the federal state set itself the goal of organising the state's administrative bodies so they are net greenhouse-gas-neutral (i.e. 'climate-neutral') by 2030. As part of a climate protection agreement concluded with the State of Baden-Württemberg in October 2020, L-Bank adjusted its own objectives to match. By signing the Climate Protection Agreement, L-Bank also became a member of the BW Climate Alliance.

By offsetting unavoidable emissions from its business operations through the Baden-Württemberg Climate Protection Foundation, L-Bank has taken an important step towards making its business activities climate-neutral. In 2021, L-Bank used this system to offset emissions produced in fiscal year 2020. L-Bank regards itself as having a dual duty to protect the environment and the climate; first, as a development bank providing relevant incentives to private individuals, municipalities and businesses, and second, by acting as a role model for other companies and society as a whole. To fulfil this remit, L-Bank has implemented an integrated environmental management system validated under EMAS and certified to ISO 14001:2015 standard. L-Bank's key environmental indicators are recorded and evaluated annually, validated by an independent environmental auditor and published in the Bank's environmental statement. EMAS follows a three-year cycle, and in 2021 the Bank successfully passed its second EMAS control audit under pandemic conditions. Thanks to the structures that have been put in place, L-Bank has laid the foundations for systematic environmental and climate protection. The Climate Protection Agreement sets out the objectives and represents the cornerstone of the Bank's climate protection strategy.

L-Bank's carbon footprint amounted to 1,029 tonnes of CO_2 equivalents (CO_2e) in 2021, breaking down as follows:

Direct greenhouse-gas emissions (GHG emissions) (Scope 1)*	137 t CO_2e
Indirect GHG emissions from energy supply (Scope 2)**	679 t CO_2e
Other indirect GHG emissions (Scope 3)	213 t CO_2e
Total	**1,029 t CO_2e**

* Business trips in plug-in hybrid vehicles were accounted for using the costs-by-cause principle, based on the amount of fuel consumed.
** District heating was offset against the energy providers' specific emissions factors.

The Bank's carbon footprint was calculated using the methodology provided by the Association for Environmental Management and Sustainability in Financial Institutions (Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. – VfU), as updated in 2018 (version 1.4). Scope 3 includes, for example, GHG emissions from business travel, outsourced activities, water treatment and waste treatment. It also includes GHG emissions associated with consumables. As a result of the Covid pandemic, the Bank has increasingly used various working-from-home (WFH) options over the past two years. Consequently, since 2020 the energy consumption associated with the rise in mobile and remote working has been included in the analysis, based on extrapolated figures. Due to Covid-related changes to business operations, these key indicators are only comparable with the previous year's figures to a limited extent.

L-Bank uses development programmes to provide investment incentives for greater energy efficiency, environmentally compatible refurbishment, and the use of renewable energies. In this sense, the Bank is indirectly contributing to reducing carbon emissions. Many of L-Bank's housing development products provide direct incentives for environmental and climate protection. On the enterprise development side, the Resource Efficiency Finance development programme was replaced by the Combined SME Loan on 1 July 2021. Through the new programme, companies investing in energy-efficient business premises and building technology can fund these projects with low-interest loans. Small and medium-sized enterprises also benefit from the Climate Premium (see also the 'Economic report' section of the management report).

Employee-related matters

L-Bank's long-term success is based on the hard work of its employees. The Bank's working conditions and personnel strategy are based on appreciation of this fact.

L-Bank is committed to providing an inclusive, prejudice-free working environment. The Bank has emphasised its commitment to this principle by signing the Diversity Charter. As part of its overarching approach to corporate governance, L-Bank's personnel strategy is based on the Bank's business strategy. Among other things, it includes areas of responsibility and action, instruments for strategic and operational personnel development, the Bank's remuneration and recruitment processes, personnel planning, work-life balance, and social welfare.

At the start of 2021, the Bank carried out an employee survey as the basis for a workforce-focused personnel and corporate development initiative. Cross-departmental areas for consideration were identified from the survey results. 'Idea championing' was introduced across the workforce, with the aim of collecting ideas from as many employees as possible through multiple dialogues. By involving idea champions, the Strategy-DIALOGUE was expanded to include a bottom-up approach.

Personnel planning involves analysing how many employees L-Bank needs and which skill sets and abilities these employees should have. The next step involves deciding whether the identified needs should be covered by continuous professional development (CPD) in-house or by recruitment. Personnel planning is refined in the light of the specialist departments' objectives, which include planning criteria for staffing. External recruitment needs are established after assessing them against the CPD options for current L-Bank employees, whose future prospects are always given priority. Working conditions and employee benefits are designed to optimise L-Bank's attractiveness as an employer, serving to both attract and retain highly qualified employees. Important aspects of this approach include a family-friendly environment and a good work-life balance. Since 2020, L-Bank has regularly been rated one of the 400 most family-friendly companies in Germany. Through the Bank's partnership with pme Familienservice GmbH, L-Bank makes it easier for employees to balance their professional and personal lives by taking advantage of a modular support programme. L-Bank offers, among other things, a variety of part-time working models, which are used by around one-quarter of the workforce. The Bank also pays a childcare allowance and, in the event of childcare shortfalls, provides the option of a parent-and-child office, as well as flexible working hours and remote-working options. A work agreement on remote working gives employees the opportunity to respond flexibly to various family matters. Under the remote-working arrangement, employees are paid an allowance for buying additional IT accessories over and above the basic IT equipment (laptop and mouse) to which they are already entitled. The various support services offered by pme Familienservice cover childcare (including, for example, holiday programmes, childcare counselling, virtual support, after-school tuition, childminders), homecare and care for the elderly (eldercare, including relief for family carers, housekeeping assistance) as well as various events featuring presentations by specialists (on topics such as health-based powers of attorney, living wills, parenting before birth, inheritance law, etc.). L-Bank covers the costs of counselling and mediation.

As an important part of business planning, personnel planning and recruitment are approved by the Board of Management. The recruitment strategy calls for even more vigorous recruitment of junior staff by expanding training opportunities for and retaining trainees, students at the Baden-Württemberg Co-operative State University (DHBW), and working students. In addition, L-Bank uses a phased retirement programme to structure the transition from one generation of employees to the next; this makes the planning process more dependable. In 2021, as part of the Bank's recruitment strategy, recruitment films were produced for online marketing purposes; featuring current employees, they give potential applicants insights into what it feels like to work for L-Bank. The additional

Covid-related aid programmes implemented over the last two years have required a high degree of flexibility from the workforce. On top of this, additional staff capacity had to be put in place at very short notice. In the process, the Bank took care to ensure that operational necessities were counterbalanced by measures for balancing work and family life by, for example, making working hours much more flexible and expanding remote-working options.

L-Bank's employee competencies are managed and further developed by systematic staff development courses based on the 360-degree personnel development plan adopted by the Board of Management. All training and continuing education initiatives take account of the ever-shortening half-life of knowledge. In 2021, the Bank produced a new continuing education catalogue, listing the many training courses available internally. The continuing education catalogue covers interdisciplinary topics involving communication, digitisation, agility, change and the L-Bank development mandate, as well as self-management and work organisation. The Bank is continuously expanding and updating the range of courses on offer. The design of the staff development programme is discussed and approved by the interdepartmental Personnel Development committee. The committee is a decision-making body that meets several times a year.

Attractive training schemes are central to L-Bank's development of junior staff. The range of training courses on offer is constantly reviewed and, where necessary, adapted to the Bank's operational circumstances and needs. To deliver this training, L-Bank works closely with DHBW and the Chamber of Industry and Commerce (IHK) in Karlsruhe. L-Bank offers high-school graduates work-study places as students specialising in Business Administration for Banks, Computer Science and Business IT. In addition, L-Bank offers a wide range of training opportunities, including a trainee programme, apprenticeships for aspiring chefs, winemakers and IT specialists, as well as voluntary work and internships. In 2021, 14 apprentices and students on work-study courses started training at L-Bank. This means there are currently a total of 32 students on work-study courses and seven apprentices in training at L-Bank. In-house talent management is a key element in employees' continuing professional development (CPD). Based on L-Bank's skills profile, the programme opens up a wide variety of CPD options for employees by focusing on their strengths. Employees are given every opportunity to participate in the staff development programme and thus develop new career prospects.

Employees spend a large part of their lives in the workplace, so working conditions have a major impact on their overall physical and mental well-being. The Bank's Code of Ethics and Conduct forms the basis for teamwork and collaboration. The Code formulates binding principles, values and standards of conduct for all Bank employees. L-Bank fulfils its duty of care by protecting its employees from health hazards arising at work or through work. In 2021, for example, L-Bank employees were offered Covid vaccinations through specially set-up vaccination lines. Occupational health and safety are continuously developed with the active involvement of employees and the Staff Council.

The central body is the Occupational Safety Committee, which meets quarterly. The committee discusses any issues arising, agrees corrective actions and monitors their implementation. Occupational safety measures were supplemented by operational procedures for preventing infection aimed at ensuring employees' health and safety. These procedures were continuously adapted to the progress of the epidemic. In particular, the Bank focused on measures to increase social distancing, protect vulnerable groups, and maintain high standards of hygiene. The special Operations Unit established for the period of the pandemic was dissolved in autumn 2021 and its responsibilities were transferred back to the various departments. When the new Infection Protection Act came into force in

November 2021, a new working group was set up to coordinate and advise on measures for protecting against infection.

As part of the EMAS audit, an external environmental auditor checks whether the Bank is complying with the relevant environmental protection and occupational safety regulations and standards. The Bank uses risk assessment to ensure that hazards to which employees are exposed in the course of their professional activities are identified, assessed and eliminated by taking the necessary steps. Of particular importance to L-Bank is occupational health management that focuses on prevention. The Bank had to close its own in-house health centres for most of 2021 due to the coronavirus pandemic. Further information on employee-related matters can be found in the 'Personnel' section of the management report.

Social matters

L-Bank offers a broad range of social development services, ranging from family benefits to support for entrepreneurship through to support for affordable housing. While the economic platform represents one side of the social equation, social cohesion is the other. To build a strongly cohesive society, it is vital to promote equal opportunities. L-Bank's development objectives and operational targets are all guided by the State of Baden-Württemberg's development policy.

The starting point for all development projects is the provision of development funding. To safeguard its development business in the long term – not least from a regulatory perspective – L-Bank set up the development contribution system described in the 'Financial performance' section of the management report. Persistently low interest-rate levels require new, forward-looking strategies and instruments if the Bank is to fulfil its statutory development finance mandate. To provide enough leeway for L-Bank to add value through development funding despite persistently low interest rates, the Bank has made the necessary technical preparations to deal with negative interest rates on bank deposits. Since 2021, in the event that market interest rates fall to certain levels, the Bank has been able to offer borrowers' banks and financing partners funding options featuring negative interest on bank deposits. This increased flexibility enables them to continue to offer companies and private individuals suitably adjusted and tailored development financing terms.

To make certain that development funding does not distort competition in the commercial sector, L-Bank ensures that all development programmes are implemented in accordance with European Union rules on state aid. Depending on the development programme, L-Bank carries out contract award and state-aid audits as one of the steps in the development finance process. Irrespective of the individual development programme, L-Bank uses documentary evidence to ensure that public funding is used appropriately. Where loans are issued for business development purposes using the 'borrower's bank' procedure, the commercial bank involved in a given project ensures that funding requirements are met and, once the project has been completed, provides L-Bank with proof that the public funding has been used as intended. L-Bank ensures that the process of extending loans is carried out lawfully by auditing commercial banks on a spot-check basis.

L-Bank's housing development activities are guided by two fundamental needs: affordability and climate protection. By funding new builds and modernisation projects, L-Bank is making vigorous attempts to improve the housing supply and the quality of accommodation on offer. At the same time, the Bank is seeking to optimise energy efficiency and support the implementation of environmental and climate action goals for residential properties. Our development funding criteria and facilitated access to finance ensure that the independent housing market develops in sensible, practical ways.

Providing access to adequate housing is a cornerstone of our welfare state. And one of the key components is finance for social rental accommodation, which ensures that households who cannot afford suitable housing through their own efforts nevertheless have some prospect of obtaining accommodation.

The funding benefits them indirectly – it is paid out to investors prepared to provide low-income households with rental accommodation. In return for subsidised development funding, the recipients assume certain obligations involving regulated tenancy and rent undertakings in particular. Social property lets are thus bound to predefined income and rent ceilings.

L-Bank's home ownership assistance programmes are intended to make it easier for families with children in particular to build or buy their own homes, in the form of owner-occupied accommodation. After all, home ownership does not just raise a family's quality of life. It also makes it easier to plan, provides independence, and represents an important element in old-age provision.

In the economic system favoured by social market economies, companies are the initiators and facilitators of change and progress. Their entrepreneurial spirit safeguards society's economic prosperity. By using their initiative, they create jobs and at the same time take responsibility for their employees, and more broadly, for social development. By providing financial and other support for entrepreneurship, L-Bank encourages a willingness to take responsibility and creates the conditions required for improving equal opportunities in society. L-Bank supports entrepreneurship by providing advice and training, by raising awareness, and through its development funding programmes. The Bank aims to work with the State of Baden-Württemberg to create attractive conditions for entrepreneurship and thus create and safeguard jobs in Baden-Württemberg.

L-Bank supports fledgling companies and SMEs at various stages of development and in every business situation by providing suitable instruments. These extend from debt financing to quasi-equity financing; from equity and sureties through to grants awarded on behalf of the federal state. Furthermore, by building technology parks, the Bank is creating an innovation-friendly environment. Another L-Bank priority is the provision of funding for projects of particular significance for the future viability and competitiveness of Baden-Württemberg's businesses; this includes the Digitisation Premium which forms part of the state-wide digitisation strategy.

To identify changing needs as early as possible, L-Bank commissions studies from specialist third parties. These enable the Bank to further refine its existing development finance products to meet real-world needs, thereby ensuring that the public funding provided adds the desired social value. L-Bank also runs promotional campaigns to raise public awareness of the importance of entrepreneurship. Competitions such as the state-wide Start-up BW Elevator Pitch and the State Prize for Young Companies play an important role here. The fact that the Bank has been obliged to hold these events as online or hybrid fixtures has enabled the Bank to build up valuable experience.

Respect for human rights

Human rights are fundamental rights protecting the freedom and autonomy of every individual. Respect for human rights is a central standard in all L-Bank's business activities and part of its self-image as a state-owned company. Thanks to L-Bank's compliance with statutory and legal regulations, and in view of the fact that the Bank's development business is limited to Baden-Württemberg, there is no material risk that the Bank could violate the rights of indigenous peoples or come into conflict with forced or child labour. The foundations of the German government's Supply Chain Due Diligence Act (Lieferkettensorgfaltspflichtengesetz) adopted in 2021 were laid much earlier in the form of the National Action Plan on Human Rights (NAP). The new legal framework will play an instrumental role in the further development of L-Bank's human rights due diligence processes, and has now been embedded as a work package in the Sustainable Finance working group's agenda.

As a public-sector contracting authority, L-Bank complies with the Public Procurement Directives and all relevant laws when awarding contracts. This ensures that all companies involved comply with their legal obligations when executing commissions.

The legal basis for the protection of personal data is the General Data Protection Regulation (EU GDPR). This embodies the basic right to informational self-determination: every individual has the right to decide for him- or herself who collects, processes or uses which parts of his or her personal information. It is vital to protect the personal data of clients and partners, as well as employees. L-Bank safeguards the right to informational self-determination, hence also to data protection, by means of IT systems, clearly defined processes, and the conduct of its employees. Upon joining L-Bank, every employee is given a mandatory training course in data protection. The Board of Management has appointed a Data Protection Officer. The latter is the main point of contact and source of information for data protection issues, and submits regular reports to the Board of Management. In 2021, there were no data protection incidents that needed to be reported to Baden-Württemberg's State Commissioner for Data Protection, as required by law.

As both employer and contracting authority, L-Bank has an impact on human and labour rights. Freedom of assembly and the right to collective bargaining are fundamental to the protection of workers' rights. Because L-Bank's employees work in Germany, we believe that we comply with and guarantee our employees' rights by complying with Germany's statutory regulations. The State Staff Representation Act (Landespersonalvertretungsgesetz) governs the representation of employee interests at L-Bank, hence also employees' operational participation. Staff interests are represented by a Central Staff Council, responsible for handling issues at all Bank locations, and by two local Staff Councils in Karlsruhe and Stuttgart respectively. Employer and staff representatives work together in a spirit of partnership and trust, in compliance with German legislation and collective bargaining agreements, for the benefit of all employees and to fulfil the duties incumbent upon the Council. The Staff Council exercises its rights of participation through co-determination, collaboration and consultation. In addition, the Chair of the Central Staff Council and the two Chairs of the Karlsruhe and Stuttgart Staff Councils sit on L-Bank's Supervisory Board in an advisory capacity, as consulting members. The Covid pandemic meant that no staff assembly could be held in 2021. Instead, the flow of information to the workforce was maintained by digital means.

Prevention of bribery and corruption

L-Bank's credibility and success are directly related to the personal integrity and honesty of all individuals acting on behalf of L-Bank. In view of this, a sound and responsible approach to corporate governance is a self-evident component of the Bank's corporate culture. L-Bank has enshrined the Public Corporate Governance Code of the State of Baden-Württemberg in the Bank's in-house rule book by resolutions of both the Board of Management and Supervisory Board, and observes all provisions of the Code. L-Bank does not tolerate any form of corruption or bribery. This attitude is also reflected in the Bank's Code of Ethics and Conduct. Whenever further regulations and process descriptions are required over and above this set of values, they are supplemented and defined by internal guidelines (policies).

The fight against bribery and corruption has many facets. As a financial institution, the prevention of money laundering, fraud and the financing of terrorism are material issues for L-Bank. Because of the extensive government support available during the Covid pandemic, the risk of abuse actually increased. While Covid-related emergency aid was being disbursed, it proved impossible to totally prevent acts of fraud by third parties. In certain cases, criminal charges were filed; in others, the Bank submitted reports of suspected money laundering. New coronavirus aid programmes are monitored by the Compliance unit under the structure provided by the Fraud Prevention working group.

Our management approach is based on compliance with legal and regulatory requirements. The central unit set up within the Bank to prevent money laundering, terrorist financing and other crimes, which forms part of the Compliance function, enjoys the full support of the Board of Management. The Compliance function ensures conformance with internal, statutory and regulatory provisions and policies by monitoring compliance with due diligence requirements and other precautionary policies. The Compliance function reports directly to the Board of Management at departmental level, and all heads of compliance-related functions – such as the Compliance Officer, Money Laundering Officer and Compliance Officer for the purposes of the German Securities Trading Act (WpHG), as well as their corresponding deputies – work out of this department. All internal security measures required under Section 25h KWG in conjunction with Section 6 of the Anti-Money Laundering Act (GwG) have been implemented. Employees who wish to report their suspicions of possible violations of the legal provisions that apply to L-Bank can use an internal whistleblowing system for this purpose, which also allows reports to be made anonymously. The confidential treatment of this information is a top priority for L-Bank. Risk analyses are used as the basis for devising security measures for preventing money laundering and terrorist financing, tailored specifically to L-Bank. Every two years, the Internal Audit unit checks whether and to what extent laws are being correctly implemented and applied, and also checks compliance with the relevant internal guidelines (policies).

When new recruits join L-Bank, they are given mandatory in-house training on the prevention of money laundering and fraud, securities compliance, data protection and information security. In departments to which money laundering is relevant, staff are required to take supplementary training courses every two years. The Bank monitors participation in these courses. To prevent fraud and other criminal acts, staff are given extended training courses every two years. Identifying contractual partners pursuant to Section 10 (1) article 1 of the Anti-Money Laundering Act (GwG) is one of the most important aspects of the Bank's general duty of care towards clients. L-Bank has set up the processes and procedures necessary to fulfil this duty of care. Here, L-Bank's business model as a development bank which does not accept deposits from the general public, and which has neither branches nor cash operations, is considered to mitigate the risks associated with the prevention of money laundering and terrorist financing.

The multiple-control principle applied by L-Bank ensures that important decisions which must be made when, for example, onboarding new clients or engaging in critical activities, are neither made nor implemented by a single individual. In addition to the multiple-control principle, powers of authorisation are clearly defined and regulated in an internal policy. A comprehensive reporting system ensures that the Board of Management is continuously updated on these issues. The Board of Management is informed, on a monthly basis, of any regulatory risks arising from supervisory regulations or regulatory projects that have been identified as relevant. The Board of Management is informed of the results of ongoing controls in quarterly reports on operational compliance. This quarterly report covers all areas of the Compliance function's responsibilities, including money laundering and fraud prevention, corporate compliance and securities compliance. The corresponding annual reports on compliance are submitted to the Board of Management once per calendar year. In addition, ad hoc reports are submitted to the Board of Management if there is any suspicion of serious compliance violations. In short, L-Bank has the resources and internal procedures at its disposal to detect and prevent money laundering operations involving profits from terrorist activities, organised crime, or other serious criminal offences.

Client matters

As the State of Baden-Württemberg's development bank, L-Bank uses a wide variety of development instruments to fulfil the tasks assigned to it by the federal state. These instruments include financial instruments such as development loans issued directly, development loans issued using the 'pass-through' principle – that is, provided through the borrower's bank or other development banks such as KfW – as well as financial aid and assistance, family benefits, sureties and guarantees, and equity assistance. L-Bank is also actively involved in business zone development through the construction and management of technology parks. These development instruments vary in terms of content, processes and scope. This means that in view of the various options for digitising the development sector, the Bank must determine the precisely feasible, necessary and (economically) sensible degree of digitisation required in each case and take a suitably differentiated approach to digitisation in each area of development activity.

The steady progress of L-Bank's digitisation, in line with the needs of both development clients and partners, enables the Bank to process their requests rapidly, cost-effectively, and with a suitably high degree of security. With this in mind, L-Bank's business strategy gives high priority to strategic digitisation targets such as 'consistent focus on client needs', 'ability to react to changes', cost-effective service provision' and 'state-of-the-art working environment'. As a practical addition to the business strategy, the Bank's new digitisation strategy provides a framework for managing the impact, goals and implementation of digitisation. L-Bank's digitisation efforts also depend on developments at client level, as well as digital developments by business and joint-venture partners.

In 2021, the Bank linked up to the federal portal for stopgap assistance with the coronavirus, while at the same time further progressing the rollout of a 'Digital Filing' system across departments. Together, these two parameters should enable the Bank to process development funding applications faster and more efficiently. In addition, L-Bank finished preparing for the launch of a client portal featuring digital application channels and digital client communication options for facilitating access to development programmes.

As part of its development mandate, L-Bank also provides information relating to various aspects of development assistance and finance. To do so, the Bank steadily and continuously develops its online presence, while at the same time not neglecting more traditional access and communication channels.

To systematically pursue these digitisation objectives and ultimately implement fit-for-purpose digital systems, the Bank has set up various management tools:

→ A new portfolio management system has been established, which relies on close collaboration between the key roles in the relevant departments, and the IT and organisational development units.
→ The Digitisation Steering Committee manages the Bank-wide coordination of digitisation efforts and advises the Board of Management on how best to prioritise and coordinate individual digitisation projects.
→ The Digitisation & Process Optimisation Strategy-BOARD ensures that all departments are complying with the Bank's digitisation strategy and identifies relevant management initiatives.

IT application development follows an agile approach based on the Scrum method, supported by the Bank's information security framework. This enables the Bank to protect clients, partners and information in general from third-party interventions or attack. The level of protection in each case is determined by a Security Office that works independently of the operational IT units involved. The Security Office is responsible in particular for assisting the Board of Management in all matters relating to corporate security. To do so, it uses a 360-degree management system that, in addition to managing information security, also handles emergency prevention and physical security, as well as the continuous improvement of the processes involved. The Security Office takes a practical, cross-departmental approach to its activities, reporting to the full Board of Management on an ad hoc or quarterly basis.

A well-organised business prioritises the reliable and systematic recording, processing and evaluation of complaints, just as L-Bank's philosophy and actions prioritise the provision of excellent service. A systematic complaints management system that fulfils the relevant supervisory requirements meets both objectives. By handling complaints in a structured, transparent way, businesses can often identify both short-term needs for change as well as longer-term opportunities for improvement. The effective management of complaints can also help to moderate the concerns of those in receipt of financial assistance and further improve the business relationship. The Bank's internal processes are governed by L-Bank's written policies and procedures. Maintaining and updating a central register of complaints is a key component of an effective complaints management system. L-Bank manages a separate register of complaints related to coronavirus aid programmes. The data, processes and results of the complaints processing procedure are analysed in a six-monthly report, with the aim of obtaining, wherever possible, useful insights into aspects of the Bank's business operations that may require optimisation. This report is presented to the Board of Management.

Karlsruhe, 1 March 2022

Edith Weymayr Dr. Iris Reinelt

Johannes Heinloth

Independent Auditor's Report on a Limited-Assurance Engagement relating to the Bank's Non-financial Reporting

For Landeskreditbank Baden-Württemberg – Förderbank –, independent public-law institution, Karlsruhe.

We have performed a limited-assurance engagement on the separate non-financial report for the period from 1 January to 31 December 2021 (hereinafter the 'separate non-financial report') published by Landeskreditbank Baden-Württemberg – Förderbank –, independent public-law institution, Karlsruhe (hereinafter the 'institution').

It is not within the scope of our engagement to assess external sources of documentation or expert opinions referred to in the non-financial report.

Responsibilities of the legal representatives

The institution's legal representatives are responsible for preparing the non-financial report in accordance with Sections 289c to 289e HGB.

This responsibility on the part of the institution's legal representatives includes selecting and applying appropriate methods of non-financial reporting, as well as making assumptions and formulating estimates related to individual non-financial disclosures that are appropriate in the given circumstances. The legal representatives are also responsible for such internal controls as they deem necessary to enable the preparation of a separate non-financial report that is free from material misstatement due to fraud (manipulation of the non-financial report) or error.

Audit firm independence and quality control

We have complied with German statutory provisions regarding independence and other requirements for professional conduct.

Our audit firm applies national statutory requirements and the German profession's pronouncements, in particular the professional statutes for German public auditors and sworn auditors (Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer (BS WP/vBP)) as well as the IDW Quality Assurance Standard 1: Requirements for Quality Assurance in Auditing Practice (Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)), and accordingly maintains a comprehensive quality assurance system which includes documented policies and procedures regarding compliance with professional conduct requirements, professional standards and applicable legal and regulatory requirements.

Independent auditor's responsibilities

Our responsibility is to express a limited-assurance conclusion on the disclosures in the separate non-financial report based on the limited-assurance engagement we have performed.

We conducted our limited-assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical

Financial Information' issued by the IAASB. This Standard requires that we plan and perform the assurance engagement in order to obtain limited assurance about whether any matters have come to our attention that cause us to believe that the institution's separate non-financial report – with the exception of any external sources of documentation or expert opinions mentioned in the separate non-financial report – has not been prepared, in all material respects, in accordance with Sections 289c to 289e HGB.

In a limited-assurance engagement, the assurance procedures performed are less extensive than in a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The selection of assurance procedures depends on the public auditor's professional judgement.

In the course of our audit, we performed the following assurance procedures and other activities, including:

→ Obtaining an understanding of the structure of the institution's sustainability framework and stakeholder engagement.
→ Making inquiries of the legal representatives and relevant personnel involved in the preparation of the separate non-financial report concerning the preparation process, the internal control system relating to this process, and disclosures in the separate non-financial report.
→ Identifying likely risks of material misstatement in the separate non-financial report.
→ Performing an analytical evaluation of selected disclosures in the separate non-financial report.
→ Comparing selected disclosures with corresponding data in the annual financial statements and management report.
→ Evaluating the presentation of the separate non-financial report.

Assurance conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the institution's non-financial report for the period from 1 January to 31 December 2021 has not been prepared, in all material respects, in accordance with Sections 289c to 289e HGB. We do not express an opinion on the external sources of documentation or expert opinions mentioned in the separate non-financial report.

Note on the emphasis of a particular matter: inherent risk due to uncertainties regarding the legal conformity of the interpretation of the EU Taxonomy Regulation

We refer to the statements of the legal representatives in the section of the institution's separate non-financial report entitled 'Background, classification and methodology'. There it is explained that due to the FAQs published by the European Commission on 2 February 2022, public-law institutions are exempt from the Regulation's disclosure requirements.

The EU Taxonomy Regulation and the Delegated Acts adopted thereunder contain wording and terms that are still subject to considerable uncertainties of interpretation, and for which clarifications have not yet been published in every case. The legal representatives state that the institution consequently decided not to make a disclosure conforming to the EU Taxonomy Regulation. There is an inherent risk that the legislator may issue further statements or clarifying interpretations.

Restriction of use of this report

We would like to point out that this engagement was carried out solely for the purposes of the institution and that the report is only intended to inform the institution of the results of our limited-assurance engagement. Consequently, it is not necessarily suitable for any purpose or purposes other than the aforementioned. In this sense, the report is not intended for use by third parties as a basis for making (asset-related) decisions. Our responsibility is solely towards the institution. We do not assume any responsibility towards third parties. We have not modified our assurance conclusion in this respect.

Frankfurt am Main, 1 March 2022
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke	ppa. Christopher Hintze
Certified	Certified
Public Accountant	Public Accountant

Report of the Supervisory Board

During fiscal year 2021, the Supervisory Board and the committees set up by the Board discharged the duties assigned to them by law and by the Bank's articles of association and standard operating procedures. During the coronavirus pandemic, all meetings of the Supervisory Board and its committees were conducted digitally.

The Supervisory Board held four meetings during calendar year 2021, during which the members monitored the orderly conduct of the Bank's business. For this purpose, pursuant to the relevant statutory provisions, as well as the Bank's articles of association and rules of procedure, the Board of Management regularly briefed the Supervisory Board and its committees on the development of the Bank's business and risk exposure, as well as major and material business transactions throughout 2021. Throughout the 2021 calendar year, the Board of Management's reports on business development were regularly supplemented with details of the coronavirus pandemic's impact. Between meetings, urgent decisions were taken by written circular.

The Supervisory Board's spring meeting focused primarily on the adoption of the 2020 financial statements.

In calendar year 2021, the strategy process initiated in the previous year was further developed and intensified. The process covers major areas such as cost and revenue management, the digitisation of L-Bank, and human resources management. As part of this process, the Supervisory Board resolved to reduce the membership of the Board of Management from four to three. The associated bundling of business responsibilities represents a forward-looking opportunity to further advance L-Bank's development as an equally lean and hard-hitting state bank for Baden-Württemberg.

In its autumn meeting, the Supervisory Board approved L-Bank's business, risk and IT strategies and, for the first time, adopted a digitisation strategy intended to complement and uphold the existing strategies. The Supervisory Board also took note of the Bank's development contribution plan, approved the business plan for 2022, and discussed the results of the questionnaire used for the annual evaluation of the Board of Management pursuant to Section 25d (11) of the German Banking Act (KWG).

In addition, the Supervisory Board took note of the annual details of the structure of the Bank's remuneration systems, as provided by the Board of Management, and decided on the composition of its committees.

The Risk Committee met three times during the 2021 calendar year to discuss risk reports, the annual reports submitted by the Data Protection Officer and Security Office, and the Bank's strategies. The committee was also closely involved in the strategy process. The Board of Management reported to the committee on how sustainability risks are handled and how costs are reimbursed for subsidy-related services. Between meetings, urgent decisions were taken by written circular.

The Audit Committee met twice in the 2021 calendar year. The Audit Committee consulted with the auditor on the starting date of the audit. The auditor provided the Audit Committee with progress reports on the audit, and also took part in discussions of the 2021 financial statements by the Supervisory Board and Audit Committee. In these discussions, the auditors reported on the main findings of their audit activities, answered questions and provided additional information. The Supervisory Board and Audit Committee discussed the auditor's report, and also approved the additional services provided by the auditor in 2021.

In addition, the Audit Committee discussed the reports submitted by the Internal Audit and Corporate and Securities Compliance functions, the Money Laundering and Fraud Prevention Officer, and the auditor's follow-up review of audit findings. The Audit Committee also discussed IT-related matters, as well as issues associated with the Act to Strengthen Financial Market Integrity (Finanzmarktintegritätsstärkungsgesetz).

In 2021, the members of the Risk and Audit Committees were once again provided with ongoing, regular briefings on the various ways the Covid pandemic was impacting the Bank's business development.

The Personnel Committee met twice in the 2021 calendar year and held preliminary discussions on the results of the questionnaire for the annual assessment of the Board of Management pursuant to Section 25d (11) KWG, as well as the review of the strategy for selecting Board of Management members. In addition, the Board of Management reported to the committee on personnel strategy developments.

The Remuneration Control Committee met once in the 2021 calendar year and took note of the remuneration control report by L-Bank's Remuneration Officer, as well as the annual details of the configuration of the Bank's remuneration systems.

Annual financial statements

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft carried out the statutory annual audit for fiscal year 2021 and issued an unqualified auditor's opinion. In accordance with the outcome of the audit, the Supervisory Board has concluded that the annual financial statements for 2021 prepared by the Board of Management do not give rise to any objections. Accordingly, in its meeting on 25 April 2022, the Supervisory Board took note of and approved the Bank's annual financial statements for 2021.

The Supervisory Board has also reviewed the separate non-financial report for fiscal year 2021. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft was commissioned to carry out an external limited-assurance engagement of the report's content. The auditor's notes on the report were discussed by the Supervisory Board and Audit Committee with the auditor's involvement. On completion of this review, the Supervisory Board concluded that no objection needed to be raised to the separate non-financial report for 2021.

Taking account of the profit carried forward from the preceding year, the distributable net profit totalled EUR 38.7 million. The Supervisory Board approved the Board of Management's proposal to allocate EUR 38.0 million of this amount to other retained earnings and to carry forward the remaining amount of EUR 0.7 million.

Personnel matters

Dr. Ulrich Theileis retired from L-Bank's Board of Management on 27 December 2021. The Supervisory Board thanks him for his commitment and hard work, and wishes him every success in his future professional and personal life.

The Supervisory Board consists of 15 voting members and three consulting members.

After the new state government convened on 12 May 2021, I took over as Chair of the Supervisory Board pursuant to Section 9 (1) clause 2 of the L-Bank Act in my role as Minister responsible for managing investments. Joining Minister Dr. Nicole Hoffmeister-Kraut (MSP)*, Minister Nicole Razavi (MSP)* was appointed as the second Vice-Chair. Ms Susanne Bay (MSP)* and Ms Claudia Diem are also newly appointed members of the Supervisory Board.

Dr. Maximilian Dietzsch-Doertenbach, former Minister Edith Sitzmann, former Minister Franz Untersteller and Professor Dr. Wolfgang Reinhart (MSP)* resigned from the Supervisory Board in 2021. In addition, Minister of State Dr. Florian Stegmann laid down his mandate at the end of 2021.

After the reporting period, Ms Susanne Bay (MSP)* resigned her mandate as of 24 January 2022. New members joining the Supervisory Board included Assistant Secretary Annegret Breitenbücher on 18 January 2022 and Mr Felix Herkens (MSP)* on 5 April 2022.

The Supervisory Board warmly thanks all former members for their valuable collaboration and contributions.

Stuttgart, 25 April 2022

Chair of the Supervisory Board
Dr. Danyal Bayaz
Minister of Finance for the State
of Baden-Württemberg

* MSP = Member of the State Parliament of Baden-Württemberg.

Annual Financial Statements 2021

L-Bank Balance Sheet as at 31 December 2021

ASSETS	31.12.2021 EUR	31.12.2021 EUR	31.12.2021 EUR	31.12.2020 EUR
1. CASH RESERVE				
a) cash in hand		16,908.16		13,028.77
b) current balances with central banks thereof: with Deutsche Bundesbank EUR 18,343,857,640.41 (EUR 9,011,517,972.17)		18,343,857,640.41		9,011,517,972.17
			18,343,874,548.57	**9,011,531,000.94**
2. RECEIVABLES FROM BANKS				
a) due on demand		14,481,822.19		5,424,719.52
b) other claims		24,703,733,347.54		28,198,770,875.89
			24,718,215,169.73	**28,204,195,595.41**
3. RECEIVABLES FROM CLIENTS thereof: secured through real-estate liens EUR 4,207,749,604.65 (EUR 4,332,326,301.61) municipal loans EUR 9,327,293,590.00 (EUR 9,597,168,248.47)			**21,570,741,317.26**	**22,941,323,978.79**
4. BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES				
a) money-market instruments				
aa) from other issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 0.00 (EUR 926,870,354.02)		0.00		2,148,686,438.45
b) bonds and debentures				
ba) from public issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 5,871,015,794.89 (EUR 5,630,744,588.76)	5,911,863,509.26			5,672,448,785.55
bb) from other issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 12,971,891,012.65 (EUR 13,716,410,565.78)	17,043,063,128.02			17,669,592,429.15
		22,954,926,637.28		23,342,041,214.70
			22,954,926,637.28	**25,490,727,653.15**

ASSETS	31.12.2021 EUR	31.12.2021 EUR	31.12.2021 EUR	31.12.2020 EUR
5. SHAREHOLDINGS thereof: in financial institutions EUR 4,166,214.92 (EUR 1,986,360.52)			244,420,249.56	249,533,456.15
6. HOLDINGS IN AFFILIATED COMPANIES			11,909,201.00	10,409,201.00
7. FIDUCIARY ASSETS thereof: fiduciary loans EUR 15,660,820.87 (EUR 19,207,959.88)			15,661,396.41	19,208,535.42
8. INTANGIBLE ASSETS a) licences acquired for consideration, industrial property rights and similar rights and assets, and licences to such rights and assets			2,559,346.30	3,705,790.30
9. TANGIBLE ASSETS			72,934,460.29	74,580,121.77
10. OTHER ASSETS			1,020,976,107.99	57,835,542.73
11. ACCRUALS			640,799,964.53	696,574,859.54
TOTAL ASSETS			89,597,018,398.92	86,759,625,735.20

LIABILITIES	31.12.2021 EUR	31.12.2021 EUR	31.12.2021 EUR	31.12.2020 EUR
1. LIABILITIES TO BANKS				
a) due on demand		12,658,736.64		15,246,430.63
b) with agreed term or notice period		30,203,725,189.72		28,797,178,256.92
			30,216,383,926.36	**28,812,424,687.55**
2. LIABILITIES TO CLIENTS				
a) other liabilities				
aa) due on demand		108,987,191.97		211,923,203.84
ab) with agreed term or notice period		10,483,895,693.44		9,921,238,322.61
			10,592,882,885.41	**10,133,161,526.45**
3. SECURITISED LIABILITIES				
a) notes issued			**42,375,990,320.24**	**39,821,763,135.21**
4. FIDUCIARY LIABILITIES				
thereof: fiduciary loans				
EUR 15,660,820.87 (EUR 19,207,959.88)			**15,661,396.41**	**19,208,535.42**
5. OTHER LIABILITIES			**23,317,104.87**	**1,693,335,808.10**
6. DEFERRALS			**1,502,471,890.69**	**1,540,497,820.37**
7. PROVISIONS				
a) provisions for pensions and similar obligations		427,836,203.00		383,231,133.00
b) tax provisions		100,000.00		100,000.00
c) other provisions		371,579,614.52		362,440,039.53
			799,515,817.52	**745,771,172.53**
8. SUBORDINATED LIABILITIES			**118,435,918.91**	**118,435,918.91**

LIABILITIES	31.12.2021 EUR	31.12.2021 EUR	31.12.2021 EUR	31.12.2020 EUR
9. PARTICIPATION CAPITAL			110,643,750.00	110,643,750.00
10. FUND FOR GENERAL BANKING RISKS			740,000,000.00	700,000,000.00
11. EQUITY				
a) subscribed capital		250,000,000.00		250,000,000.00
b) capital reserve		1,048,002,789.69		1,048,002,789.69
c) retained earnings				
ca) other retained earnings		1,765,000,000.00		1,715,000,000.00
d) net profit		38,712,598.82		51,380,590.97
			3,101,715,388.51	3,064,383,380.66
TOTAL LIABILITIES			89,597,018,398.92	86,759,625,735.20

1. CONTINGENT LIABILITIES				
a) liabilities from sureties and guarantee contracts			263,819,570.28	208,661,726.26
2. OTHER COMMITMENTS				
a) irrevocable lending commitments			4,533,479,888.44	3,701,477,760.22

L-Bank Statement of Income for the Fiscal Year 1 January to 31 December 2021

		2021 EUR	2021 EUR	2021 EUR	2020 EUR
1.	INTEREST INCOME FROM				
	a) lending and money market transactions	609,293,567.92			772,443,671.62
	b) fixed-income securities and debt register claims	412,683,521.32			470,615,554.42
			1,021,977,089.24		1,243,059,226.04
2.	INTEREST EXPENSES		833,550,069.43		1,045,630,411.62
				188,427,019.81	**197,428,814.42**
3.	CURRENT INCOME FROM				
	a) shareholdings			**1,905,965.19**	**2,301,441.06**
4.	COMMISSION INCOME			**112,896,847.84**	**62,217,965.13**
5.	COMMISSION EXPENSES			**5,978,511.88**	**4,559,995.62**
6.	OTHER OPERATING INCOME			**7,274,875.04**	**7,740,094.48**
7.	GENERAL ADMINISTRATIVE EXPENSES				
	a) personnel expenses				
	aa) wages and salaries	88,740,216.29			87,897,726.85
	ab) social security contributions and expenses for pensions and other benefits thereof: for pensions EUR 12,745,627.09 (EUR 20,711,320.77)	27,584,054.56			34,811,444.27
			116,324,270.85		122,709,171.12
	b) other administrative expenses		106,543,086.13		58,353,129.65
				222,867,356.98	**181,062,300.77**
8.	WRITE-DOWNS AND VALUATION ADJUSTMENTS ON INTANGIBLE ASSETS AND TANGIBLE ASSETS			**6,705,472.92**	**6,064,827.52**

	2021 EUR	2020 EUR
9. OTHER OPERATING EXPENSES	21,094,400.15	18,039,607.43
10. WRITE-DOWNS AND VALUATION ADJUSTMENTS ON RECEIVABLES AND CERTAIN SECURITIES AS WELL AS ADDITIONS TO PROVISIONS FOR LOAN LOSSES	18,473,607.20	59,157,365.75
11. INCOME FROM REVALUATION OF RECEIVABLES AND SELECTED SECURITIES AS WELL AS FROM REVERSALS OF LOAN-LOSS PROVISIONS	42,647,704.43	50,380,162.11
12. ADDITIONS TO FUND FOR GENERAL BANKING RISKS	40,000,000.00	0.00
13. INCOME FROM ORDINARY BUSINESS ACTIVITIES	38,033,063.18	51,184,380.11
14. TAXES ON INCOME AND EARNINGS	519,434.20	581,578.47
15. OTHER TAXES NOT STATED UNDER ITEM 9	181,621.13	181,663.91
16. NET INCOME	37,332,007.85	50,421,137.73
17. PROFIT CARRIED FORWARD FROM PREVIOUS YEAR	1,380,590.97	959,453.24
18. NET PROFIT	38,712,598.82	51,380,590.97

L-Bank Cash Flow Statement for the Fiscal Year 1 January to 31 December 2021

	01.01–31.12.2021 EURk	01.01–31.12.2020 EURk
Net profit/loss for the period	37,332	50,421
Amortisation, valuation adjustments and write-ups on receivables, including contingent liabilities and securities	60,247	58,893
Depreciation/amortisation, valuation adjustments and write-ups on tangible assets and intangible assets	6,706	6,065
Amortisation, valuation adjustments and write-ups on financial assets (excluding securities)	–1,696	–16,391
Change in provisions (excluding loan-loss provisioning)	178,213	160,351
Profit/loss on the disposal of tangible and intangible assets	0	–52
Profit/loss on the disposal of financial assets	–40,352	–29,739
Other adjustments (net)	–169,084	–252,367
Change in receivables from banks	3,486,836	–2,993,724
Change in receivables from clients	1,300,593	–130,335
Change in securities	2,536,436	–1,089,386
Change in other assets from operating activities	–903,819	306,912
Change in liabilities to banks	1,403,959	2,824,478
Change in liabilities to clients	459,721	–623,604
Change in securitised liabilities	2,554,227	5,371,450
Change in other liabilities from operating activities	–1,787,808	1,342,134
Net interest income	–188,427	–197,429
Income tax charges	519	582
Interest and dividend payments received	1,223,163	1,493,046
Interest paid	–865,651	–1,043,249
Income tax payments	–519	–582
Cash flow from operating activities	**9,290,596**	**5,237,474**
Proceeds from the disposal of financial assets	72,999	41,164
Disbursements for investments in financial assets	–27,338	–16,496
Proceeds from the disposal of tangible assets	0	220
Disbursements for investments in tangible assets	–3,141	–3,522
Disbursements for investments in intangible assets	–772	–2,137
Cash flow from investment activities	**41,748**	**19,229**
Cash flow from financing activities	**0**	**0**
Cash and cash equivalents at start of period	9,011,531	3,754,828
Cash flow from operating activities	9,290,596	5,237,474
Cash flow from investment activities	41,748	19,229
Cash flow from financing activities	0	0
Cash and cash equivalents at end of period	**18,343,875**	**9,011,531**

L-Bank Statement of Changes in Equity as at 31 December 2021

		Reserves				
	Subscribed capital EURk	Capital reserve pursuant to Section 272 (2) art. 4 HGB EURk	Other retained earnings EURk	Total EURk	Net profit EURk	Equity EURk
Balance as at 31.12.2019	**250,000**	**1,048,003**	**1,665,000**	**2,713,003**	**50,959**	**3,013,962**
Transfer to reserves			50,000	50,000	–50,000	0
Net income for the year					**50,421**	**50,421**
Balance as at 31.12.2020	**250,000**	**1,048,003**	**1,715,000**	**2,763,003**	**51,381**	**3,064,383**
Transfer to reserves			50,000	50,000	–50,000	0
Net income for the year					**37,332**	**37,332**
Balance as at 31.12.2021	**250,000**	**1,048,003**	**1,765,000**	**2,813,003**	**38,713**	**3,101,715**

Notes to the Annual Financial Statements of L-Bank as at 31 December 2021

GENERAL PRINCIPLES

L-Bank (Landeskreditbank Baden-Württemberg – Förderbank –) was established by a law passed on 11 November 1998, effective as from 1 December 1998. It is the development bank of the German federal state of Baden-Württemberg. The Bank's business activities are governed by its statutory remit, namely to support the state government of Baden-Württemberg in the fulfilment of its duties, especially in terms of structural, economic and social policy, by implementing development programmes that comply with European Union regulations governing state aid.

L-Bank has its head office in Karlsruhe, with a branch office in Stuttgart. It is entered in the commercial register of the City of Mannheim under number HRA 104441. Section 2 (1), clause 1 of the above-mentioned law sets the share capital of L-Bank at EUR 250 million.

The annual financial statements of L-Bank were prepared in accordance with the provisions of the German Commercial Code (HGB) and the applicable accounting directive for banks and financial services institutions (RechKredV). The balance sheet and statement of income comply with the standard forms in RechKredV. Additions to the fund for general banking risks are shown in a separate item.

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

ACCOUNTING AND VALUATION METHODS

Assets, liabilities and pending transactions are valued according to the general provisions of Section 252 et seq. HGB, taking account of the specific provisions applying to financial institutions (Section 340a et seq. HGB).

Financial assets and liabilities

Cash reserves and receivables from banks and clients are always stated at their nominal value, whereas liabilities are stated at repayment value. Differences (premiums and discounts) with respect to receivables and liabilities are stated under accruals or deferrals and written back pro rata temporis. Administrative charges are booked immediately. Low-interest and zero-interest receivables are discounted. Zero bonds issued and similar liabilities are stated at the offer price plus any prorated interest accrued at the balance sheet date.

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

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

When assessing risks in the lending business, a distinction is made between the recognition of risk provisions for non-performing loans and non-impaired loans. Individual valuation adjustments, specific provisions and generalised valuation adjustments are made for non-performing loans. Uncollectable receivables are written off. Portfolio or general loan-loss provisions and a provision for general banking risks in accordance with Section 340f HGB are set up for non-impaired risk positions. The generalised valuation adjustments are measured on the basis of historical losses for homogeneous portfolios. Portfolio and general loan-loss provisions are based on expected losses.

During the reporting year, the method for calculating general loan-loss provisions was refined, moving from a method based on historical losses over to a method based on anticipated losses; as a result, general loan-loss provisions rose by EUR 8 million. Current risk factors are also taken into account; risks resulting from the coronavirus crisis are accounted for by a post-model addition to the general loan-loss provision. All valuation adjustments are offset against assets or stated under provisions.

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

Securities treated as fixed assets are stated at amortised cost, whereby differences between the book value and the repayment amount are treated as income in proportion to their term. Securities in the financial investment portfolio are written down in the event of a loss of value that is likely to be permanent. If the reasons for a permanent loss of value no longer exist, the write-down is reversed accordingly. A generalised provision has been set up for latent risks, calculated on the basis of anticipated losses.

Holdings and shares in affiliated companies are stated at acquisition cost or, in the event of a likely permanent loss of value, at the lower fair value as at the balance sheet date, analogous to the rules governing fixed assets. If the reasons for a permanent loss of value no longer exist, the write-down is reversed accordingly.

Tangible and intangible assets

Intangible assets and tangible assets are valued at acquisition or production cost, less scheduled depreciation and amortisation. Where necessary, i.e. where it is anticipated that a loss in value may be permanent, extraordinary write-downs are made. Minor-value assets are combined in an annual summary item and depreciated over five years. Individually capitalised assets are depreciated on a straight-line basis over their assumed useful lives. The useful lives are generally derived from the tax depreciation tables.

Provisions

Provisions for pensions and similar obligations are determined according to actuarial principles using Professor Dr. Heubeck's RT 2018 G mortality tables. The projected unit credit (PUC) method is used for valuation purposes. Future wage and salary adjustments are included in the calculation, based on a projected average increase of 2% p.a.; future pension adjustments are also included, based on increases of 1.6% or 2%. Pursuant to the specifications of Section 253 (2) clauses 1 and 2 HGB, provisions are discounted at the average market interest rate over the last ten fiscal years, assuming a residual term of 15 years. The rate of interest applied is 1.87% (2020: 2.30%). The difference between the recognition of provisions based on the average market interest rate over the last ten fiscal years and their recognition based on the equivalent average market interest rate over the last seven fiscal years came to EUR 43 million as at 31 December 2021 (2020: EUR 51 million). This amount is barred from distribution.

The remaining provisions are stated at the repayment amount deemed necessary by sound business judgement, taking account of all risks from doubtful liabilities that can be identified, as well as anticipated losses from pending transactions. Provisions with a residual term of more than one year are discounted at the average market interest rate over the last seven fiscal years that corresponds to their remaining term.

Expense provisions within the meaning of Section 249 (1) clause 3 (2) HGB (old version) are maintained either until they are used for the purpose for which they were set up (i.e. the relevant event occurs), or until they are written back because the original reason for their existence ceases to apply.

Interest accruing on provisions (including provisions for pensions and similar obligations) totalling EUR 40 million (2020: EUR 35 million) is stated under net interest income.

Development funds

To fulfil L-Bank's statutory public-service mandate, the Bank provides funds from earned income in the form of a development fund provision.

Out of the development fund for 2021, totalling EUR 94 million, EUR 68 million were utilised. The remaining balance was carried forward to the following year, increasing the development fund available for the 2022 fiscal year to EUR 106 million in total. On 31 December 2021, L-Bank made a provision of EUR 80 million to cover its obligation to pay out development contributions in fiscal year 2023.

Allocations to this provision in the current year are recognised in the statement of income as follows, taking account of the type of development activity envisaged (interest-rate reductions, subsidised sureties or grants):

	EURk
Interest expenses	64,419
Commission expenses	3,500
Other operating expenses	12,081
Total	**80,000**

Currency translation

Currency translation is carried out according to the provisions of Section 256a in conjunction with Section 340h HGB, as well as IDW RS BFA Opinion 4. The initial valuation of assets and liabilities denominated in foreign currencies is carried out at acquisition cost, translated into EUR without affecting profit or loss. As at the balance sheet date, assets and liabilities denominated in foreign currencies as well as pending foreign-exchange cash transactions are translated at the mean spot rate on 30 December 2021. In the case of forward currency contracts, the forward rate is separated out into cash and interest portions.

For currency translation purposes, the Bank calculates currency exposure by offsetting the claims and obligations from on-balance-sheet and off-balance-sheet transactions in the respective currency against each other. These transactions are classified and valued as separately hedged in each currency. Accordingly, all expenses and income from currency translation within the meaning of Section 340h HGB are included in the statement of income. A surplus on valuation is reported in a balancing item under 'Other assets' (2020: 'Other liabilities').

Loss-free valuation of the non-trading portfolio (bank book)

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

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

Treatment of hedging transactions

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

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

Hedged transactions in micro hedges within the meaning of Section 254 HGB are presented in the table below. Where applicable, the stated book values have been translated into EUR at the mean spot rate on 30 December 2021.

Underlying transaction in micro hedge	Book value in EURk	of which interest-rate risk	of which currency risk	of which price risk
Assets	59,573	–	–	59,573
Liabilities	1,903,411	1,769,250	134,161	–
Total	**1,962,984**	**1,769,250**	**134,161**	**59,573**

The underlying transactions are offset by micro swaps with a market value of EUR 10.7 million.

BREAKDOWN OF SELECTED BALANCE SHEET ITEMS BY TIME TO MATURITY OR CALL	31.12.2021 EURk	31.12.2020 EURk
RECEIVABLES FROM BANKS		
due on demand	14,482	5,425
up to three months	2,919,030	1,792,565
more than three months and up to one year	3,349,800	7,746,433
more than one year and up to five years	7,936,053	7,551,974
more than five years	10,498,850	11,107,799
RECEIVABLES FROM CLIENTS		
up to three months		1,569,719
more than three months and up to one year	642,935	1,074,162
more than one year and up to five years	3,804,405	3,623,825
more than five years	16,375,552	16,673,618
BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES		
maturing in the following year	2,065,873	3,514,363
LIABILITIES TO BANKS		
due on demand	12,659	15,246
up to three months	2,372,530	1,485,565
more than three months and up to one year	1,899,035	1,745,296
more than one year and up to five years	12,796,444	12,388,602
more than five years	13,135,716	13,177,716
LIABILITIES TO CLIENTS		
due on demand	108,987	211,923
up to three months	5,039,169	4,333,513
more than three months and up to one year	41,517	61,706
more than one year and up to five years	586,580	525,608
more than five years	4,816,630	5,000,412
SECURITISED LIABILITIES		
maturing in the following year	24,922,815	24,595,093

EXPLANATIONS OF INDIVIDUAL BALANCE SHEET ITEMS	31.12.2021 EURk	31.12.2020 EURk
RECEIVABLES FROM BANKS		
This item comprises: – receivables from companies in which an equity interest is held	107,985	104,991
RECEIVABLES FROM CLIENTS		
This item comprises: – receivables from affiliated companies	47,565	47,170
– receivables from companies in which an equity interest is held	70,268	63,450
BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES		
This item comprises: – receivables from companies in which an equity interest is held	1,715,267	1,715,267
The marketable securities in this item break down as follows: – listed	22,826,877	23,215,889
– unlisted	128,050	2,274,839
Securities with a book value (excluding prorated interest accrued) of EUR 22,642,578,000 are assigned to investment assets. Of these, securities with a book value of EUR 1,941,416,000 have a market value of EUR 1,885,540,000. No depreciation or amortisation has been applied to these items, as short-term market fluctuations are not taken into account due to the intention to hold these assets on a long-term basis.		
SHAREHOLDINGS		
Of the marketable securities included in shareholdings, the following are: – listed	0	3,565
FIDUCIARY ASSETS		
This item breaks down as follows: – receivables from banks	15,524	18,883
– receivables from clients	137	325
– other assets	1	1
TANGIBLE ASSETS		
This item comprises: – plots and buildings used for the Bank’s own activities	65,058	67,284
– plant and office equipment	7,802	7,199

EXPLANATIONS OF INDIVIDUAL BALANCE SHEET ITEMS	31.12.2021 EURk	31.12.2020 EURk
ACCRUALS – ASSETS		
– Difference between disbursement amount or acquisition cost and lower nominal value of receivables	453,152	520,245
– Difference between issue price and higher repayable amount of liabilities	30,267	37,605
FIDUCIARY LIABILITIES		
Fiduciary liabilities break down into: – liabilities to banks	58	158
– liabilities to clients	15,603	19,050
– other liabilities	1	1
DEFERRALS – LIABILITIES		
– Difference between disbursement amount or acquisition cost and higher nominal value of receivables	407	477
– Difference between issue price and lower repayable amount of liabilities	93,417	77,425
SUBORDINATED LIABILITIES AND PARTICIPATION CAPITAL		
– Interest expenses on subordinated liabilities	2,849	2,851
– Interest expenses on participation capital	5,661	9,308

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

Currency	Amount in EURk	Interest rate in %	Maturity date
EUR	40,000	2.265	14.11.2023
EUR	20,000	2.265	14.11.2023

Participation capital consists of participation certificates and breaks down as follows:

Number	Amount in EURk	Interest rate in %	Maturity date
1	50,000	5.375	01.07.2025
4	10,000	5.375	01.07.2025
3	5,000	5.375	01.07.2025

Under the terms and conditions of the participation certificates, the servicing of distribution and repayment claims is linked to the result of the Bank’s ordinary business activities.

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

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

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

INDIVIDUAL AMOUNTS THAT ARE MATERIAL IN ASSESSING THE ANNUAL FINANCIAL STATEMENTS	31.12.2021 EURk	31.12.2020 EURk
OTHER ASSETS		
– Balancing item from currency translation	966,260	–
– Receivables from swaps	33,435	36,670
– Works of art	11,644	11,651
PREPAYMENTS AND ACCRUALS		
– Single payments made in advance for swaps	148,518	130,355
OTHER LIABILITIES		
– Liabilities from occupational pension scheme	10,432	7,937
– Single (bullet) repayments on swaps	7,210	6,828
– Balancing item from currency translation	–	1,672,294
DEFERRALS		
– Single payments received in advance for swaps	1,350,863	1,455,487
– Contributions to administrative expenses received in advance	57,416	6,675
PROVISIONS		
under other provisions: – Provisions for development funds	186,288	173,853
– Provisions for development contributions already made	39,988	44,655
INTEREST INCOME		
– Negative interest from financial investments	98,365	68,197
INTEREST EXPENSES		
– Negative interest from borrowing	66,792	51,180
COMMISSION INCOME		
– Income from other services	108,543	58,757
Other services mainly relate to services on behalf of the State of Baden-Württemberg.		

INDIVIDUAL AMOUNTS THAT ARE MATERIAL IN ASSESSING THE ANNUAL FINANCIAL STATEMENTS	31.12.2021 EURk	31.12.2020 EURk
GENERAL ADMINISTRATIVE EXPENSES		
Other administrative expenses include auditor's fees (excluding sales tax): – for year-end auditing services	428	389
– for other auditing services	85	127
Other auditing services include the limited-assurance engagement related to the non-financial report; an audit of business operations associated with Covid-related emergency aid; investigations associated with a longer-term refinancing instrument taken out with Deutsche Bundesbank (TLTRO-III); the audit of deductions pursuant to Section 16j (2) of the Act Establishing the Federal Financial Supervisory Authority (FinDAG), and the audit pursuant to Section 84 in conjunction with Section 89 (1) clause 1 of the German Securities Trading Act (WpHG).		
OTHER OPERATING EXPENSES		
– Addition to the provision for development funds	12,081	13,032
TOTAL VALUE OF ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES		
– Assets	4,410,496	5,213,598
– Liabilities	35,411,498	34,393,219
The exchange-rate risk from foreign-exchange balance sheet items is essentially covered by off-balance-sheet hedging transactions. Currency translation produced: other operating expenses in the amount of	21	37

CONTINGENT LIABILITIES AND OTHER COMMITMENTS

The assessment of utilisation risk is based on the Bank's risk management approach. The overwhelming proportion of contingent liabilities and other commitments comprise credit risks from borrowers with good to very good credit ratings. Acute and latent credit risks are accounted for in the balance sheet by making suitable provisions.

PROVISION OF COLLATERAL

For refinancing purposes, securities in the amount of EUR 6,874 million (2020: EUR 9,057 million) were deposited with Deutsche Bundesbank. As at 31 December 2021, securities totalling EUR 3,733 million had been credited in the course of open-market transactions (2020: EUR 3,420 million). Securities in the amount of EUR 1,056 million (2020: EUR 1,043 million) were deposited in respect of membership of EUREX (the electronic derivatives exchange). Of this amount, EUR 578 million had been utilised as at 31 December 2021 (2020: EUR 564 million). In addition, securities totalling EUR 629 million (2020: none) were transferred for repo transactions.

As collateral for OTC transactions, the Bank posted cash surety bonds totalling EUR 3,638 million (2020: EUR 8,083 million), reported under receivables from banks or clients.

OTHER FINANCIAL COMMITMENTS

By acquiring a shareholding in Landesbank Baden-Württemberg (LBBW) with effect from 1 January 2005, L-Bank became a guarantor of LBBW. Even after withdrawing from its role as LBBW guarantor with effect from midnight on 28 December 2015, L-Bank remains liable to third parties for all LBBW liabilities incurred prior to 18 July 2001. However, in the event of claims against L-Bank, the Bank is entitled to hold any guarantors with inter partes liability jointly and severally liable in full.

As at the balance sheet date, there are no transactions within the meaning of Section 285 (3) and (3a) HGB that are significant for the assessment of the Bank's financial position.

DERIVATIVE TRANSACTIONS

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

Fully hedged derivative structures embedded in underlying transactions (hedged items) are not included in the tables.

The derivative transactions break down as follows:

DERIVATIVE TRANSACTIONS – SUMMARY OF AMOUNTS

in EUR millions	Nominal values 31.12.2021	Nominal values 31.12.2020	Market values positive 31.12.2021	Market values negative 31.12.2021	Market values positive 31.12.2020	Market values negative 31.12.2020
INTEREST-RATE RISKS						
Interest-rate swaps	69,618	68,852	1,774	–5,298	2,472	–8,076
Interest-rate risks – total	**69,618**	**68,852**	**1,774**	**–5,298**	**2,472**	**–8,076**
CURRENCY RISKS						
Forward currency contracts/ swaps	18,993	18,126	710	–5	19	–804
Currency swaps/cross-currency interest-rate swaps	19,574	20,402	507	–1,037	136	–1,829
Currency risks – total	**38,567**	**38,528**	**1,217**	**–1,042**	**155**	**–2,633**

On balance, no significant profit or loss on foreign-exchange transactions or interest-rate valuations is due from interest-rate/currency swaps and the corresponding hedged items, especially on bonds or debentures issued in foreign currencies. Market values of interest-rate/currency swaps totalling EUR 966 million are due to changes in spot exchange rates. A balancing item from currency translation was set up in this amount on the assets side and stated under 'Other assets'. If individual swap contracts include bullet payments, these are reported under 'Other assets' or 'Other liabilities'. Any advance payments are included in 'Accruals'.

Interest-rate swaps in the non-trading portfolio (bank book) are used primarily to control total interest-rate exposure and show a net negative market value of EUR 3,524 million as at year-end 2021. These interest-rate swaps are not valued in the balance sheet, because both assets and liabilities contain interest-related hidden reserves that are significantly higher than the negative market values of the interest-rate swaps.

DERIVATIVE TRANSACTIONS – BY COUNTERPARTY

in EUR millions	Nominal values 31.12.2021	Nominal values 31.12.2020	Market values positive 31.12.2021	Market values negative 31.12.2021	Market values positive 31.12.2020	Market values negative 31.12.2020
Banks in the OECD	107,263	96,360	2,906	–6,256	2,378	–9,197
Other counterparties (including stock-exchange transactions)	922	11,020	85	–84	249	–1,512
Total	**108,185**	**107,380**	**2,991**	**–6,340**	**2,627**	**–10,709**

DERIVATIVE TRANSACTIONS – BY TERM

Nominal values in EUR millions	Interest-rate risks 31.12.2021	Interest-rate risks 31.12.2020	Currency risks 31.12.2021	Currency risks 31.12.2020
RESIDUAL MATURITIES				
– up to three months	1,245	1,395	16,159	13,250
– more than three months and up to one year	4,200	3,445	7,677	11,277
– more than one year and up to five years	27,023	25,738	11,392	10,964
– more than five years	37,150	38,274	3,339	3,037
Total	**69,618**	**68,852**	**38,567**	**38,528**

There are no trading transactions.

VALUING DERIVATIVE FINANCIAL INSTRUMENTS

The market valuation of derivatives is based on market data as at 31 December 2021, including yield curves, exchange rates and CFC, swaption and FX volatilities obtained by the Bank from external providers. The parameters required for our interest-rate-structure models are, in part, obtained through calibration using historical time series (correlation parameters in Hull-White models or BGM models).

PRODUCT GROUP	MAIN VALUATION MODEL
Interest-rate and currency derivatives	DCF method
Interest-rate structures	Interest-rate-structure models (BGM model, Bachelier model, Hull-White model, modified Hull-White model for multiple currencies)

INFORMATION ON TAX LIABILITIES

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

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

No.	Name	Registered office	Holdings in %	Equity* in EURk	Result* in EURk
1	Austria Beteiligungsgesellschaft mbH	Stuttgart	33.33	35,597	–561
2	Baden-Württemberg International – Gesellschaft für internationale wirtschaftliche und wissenschaftliche Zusammenarbeit mbH	Stuttgart	24.00	4,566	–5,248
3	BWK GmbH Unternehmensbeteiligungsgesellschaft	Stuttgart	10.00	222,419	–8,107
4	DBAG Expansion Capital Fund GmbH & Co. KG	Frankfurt	21.77	29,276	40,460
5	European Investment Fund	Luxembourg	0.18	1,978,727	128,597
6	Landesbeteiligungen Baden-Württemberg GmbH	Stuttgart	12.14	778,333	–23,296
7	LEA Mittelstandspartner GmbH & Co. KG	Karlsruhe	25.00	148,203	73,721
8	LEA Mittelstandspartner II GmbH & Co. KG	Karlsruhe	15.02	**	**
9	LEA Venturepartner GmbH & Co. KG	Karlsruhe	49.00	13,238	–2,821
10	MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH	Stuttgart	26.80	83,352	2,056
11	OnSee Holding GmbH	Bruchsal	47.71	274	268
12	Selbca Holding GmbH	Berlin	36.55	5,873	–428
13	StEP Stuttgarter EngineeringPark GmbH	Stuttgart	100.00	15,389	–510
14	Strohheker Holding GmbH	Pforzheim	49.50	–888	–868
15	Technologiepark Karlsruhe GmbH	Karlsruhe	96.00	27,277	2,023
16	Technologiepark Mannheim GmbH	Mannheim	100.00	2,852	91
17	Technologieparks Tübingen-Reutlingen GmbH	Tübingen	100.00	15,666	1,013

* As at the last fiscal year for which annual financial statements are available in each case.
** New business start-up: no financial statements yet available.

The Bank opted to apply Section 286 (3) clause 1 art. 1 HGB.

STATEMENT OF CHANGES IN FIXED ASSETS

<table>
<tr><th>Fixed assets Balance sheet items</th><th>Acquisition costs 01.01.2021 EURk</th><th>Add-itions EURk</th><th>Retire-ments EURk</th><th>Transfers EURk</th><th>Write-ups, cumulative EURk</th><th>Depreciation/ amortisation, cumulative EURk</th><th>Book value 31.12.2021 EURk</th><th>Annual depreciation/ amortisation for 2021 EURk</th><th>Annual write-ups for 2021 EURk</th></tr>
<tr><td>Bonds, debentures and other fixed-interest securities</td><td>24,444,543</td><td colspan="5" rowspan="3">Net change pursuant to Section 34 (3) sentence 2 RechKredV: −1,908,187</td><td>22,642,578</td><td>–</td><td>–</td></tr>
<tr><td>Shareholdings</td><td>346,619</td><td>244,420</td><td>−4</td><td>1,700</td></tr>
<tr><td>Holdings in affiliated companies</td><td>15,932</td><td>11,909</td><td>–</td><td>–</td></tr>
<tr><td>Intangible assets</td><td>34,499</td><td>772</td><td>−50</td><td>–</td><td>–</td><td>−32,662</td><td>2,559</td><td>−1,919</td><td>–</td></tr>
<tr><td>Tangible assets</td><td>195,191</td><td>3,141</td><td>−847</td><td>–</td><td>–</td><td>−124,551</td><td>72,934</td><td>−4,787</td><td>–</td></tr>
<tr><td>Other assets</td><td>13,148</td><td>–</td><td>–</td><td>–</td><td>–</td><td>−1,504</td><td>11,644</td><td>−7</td><td>–</td></tr>
</table>

Depreciation/amortisation	01.01.2021	Addition	Write-up	Transfer	Retirement	31.12.2021
Intangible assets	30,793	1,919	–	–	50	32,662
Tangible assets	120,611	4,787	–	–	847	124,551
Other assets	1,497	7	–	–	–	1,504

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

Remuneration paid to members of the Board of Management for 2021 in EURk[1]

Name	Membership period	Fixed remuneration	Other non-cash benefits	Payments from third parties in relation to Board of Management activities	Total
Edith Weymayr Chair	01.01.–31.12.	600	10	0	610
Dr. Ulrich Theileis[2]	01.01.–27.12.	525	14	27	566
Dr. Iris Reinelt	01.01.–31.12.	445	15	9	469
Johannes Heinloth	01.01.–31.12.	445	14	5	464
Total		**2,015**	**52**	**41**	**2,108**

[1] All amounts were rounded; no adjustments were made to totals.
[2] Vice-Chair until 27.12.2021.

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

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

Remuneration paid to members of the Supervisory Board for 2021 in EURk[1)]

Name	Membership period	Membership of Supervisory Board	Membership of committees	Attendance fees	Total
Dr. Danyal Bayaz[2)] Chair	06.07.–31.12.	4.4	5.6	0.8	10.7
Dr. Nicole Hoffmeister-Kraut[2)] 1st Vice-Chair	01.01.–31.12.	7.5	9.1	1.1	17.7
Nicole Razavi[2)] 2nd Vice-Chair	12.10.–31.12.	1.7	0.2	0.3	2.2
Susanne Bay	06.07.–31.12.	2.9	–	0.5	3.4
Dr. Jürgen Bufka	01.01.–31.12.	6.0	–	0.6	6.6
Claudia Diem	09.03.–31.12.	4.9	5.7	1.1	11.7
Dr. Maximilian Dietzsch-Doertenbach	01.01.–02.01.	0.0	0.1	–	0.1
Martin Gross	01.01.–31.12.	6.0	3.4	0.9	10.3
Manuel Hagel	01.01.–31.12.	6.0	0.3	0.6	6.9
Roger Kehle	01.01.–31.12.	6.0	–	0.5	6.5
Gabriele Kellermann	01.01.–31.12.	6.0	9.1	1.2	16.3
Andrea Lindlohr[3)]	01.01.–31.12.	6.0	1.0	0.6	7.6
Rainer Reichhold	01.01.–31.12.	6.0	–	0.6	6.6
Prof. Dr. Wolfgang Reinhart	01.01.–15.09.	4.3	–	0.2	4.4
Edith Sitzmann[2)]	01.01.–12.05.	3.3	5.1	0.5	8.8
Dr. Florian Stegmann[2)]	01.01.–31.12.	6.0	7.0	0.8	13.8
Harald Unkelbach	01.01.–31.12.	6.0	2.4	0.8	9.2
Franz Untersteller[2)]	01.01.–17.06.	3.5	1.1	0.2	4.7
Joachim Walter	01.01.–31.12.	6.0	–	0.6	6.6
Barbara Bender-Wieland	01.01.–31.12.	6.0	–	0.5	6.5
Thomas Dörflinger	01.01.–31.12.	6.0	–	0.6	6.6
Clemens Meister	01.01.–31.12.	6.0	–	0.6	6.6
Total		**110.4**	**49.9**	**13.1**	**173.4**

1) All amounts were rounded; no adjustments were made to totals.
2) Subject to a duty of surrender to the State of Baden-Württemberg.
3) Subject to a duty of surrender to the State of Baden-Württemberg as from 12 May 2021.

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

	31.12.2021 EURk	31.12.2020 EURk
– Payments to former members of the Board of Management or their surviving dependants	1,678	1,630
– Pension provisions for former members of the Board of Management and their surviving dependants	26,569	25,740

LOANS TO ADMINISTRATIVE BODIES (INCLUDING CONTINGENT LIABILITIES)

	31.12.2021 EURk	31.12.2020 EURk
Supervisory Board	5	6

All loans bear interest at market rates.

NUMBER OF EMPLOYEES (ANNUAL AVERAGE)

	Male	Female	Total
Employees*	564	727	1,291
of whom: full-time employees	517	410	927
of whom: part-time employees	47	317	364

* Headcount; excluding apprentices, trainees and interns.

DIRECTORSHIPS HELD BY BOARD OF MANAGEMENT MEMBERS AND EMPLOYEES OF L-BANK SITTING ON STATUTORY SUPERVISORY BODIES OF LARGE CORPORATIONS PURSUANT TO SECTION 340A (4), ART. 1 HGB

DR. ULRICH THEILEIS, VICE-CHAIR OF THE BOARD OF MANAGEMENT[1)]	
Hypo Vorarlberg Bank AG, Bregenz, Austria	Member of the Supervisory Board
Sächsische Aufbaubank – Förderbank –, Leipzig	Member of the Administrative Council

DR. IRIS REINELT, MEMBER OF THE BOARD OF MANAGEMENT	
Investitionsbank Berlin, Berlin	Member of the Supervisory Board

[1)] As a member of the Board of Management until 27 December 2021; as an L-Bank employee from 28 December to 31 December 2021.

BOARDS OF L-BANK

BOARD OF MANAGEMENT

Edith Weymayr
Chair

Dr. Ulrich Theileis
to 27.12.2021

Dr. Iris Reinelt

Johannes Heinloth

SUPERVISORY BOARD MEMBERS

Regular members

Dr. Danyal Bayaz
Minister of Finance, State of Baden-Württemberg
Chair since 06.07.2021

Dr. Nicole Hoffmeister-Kraut MSP*
Minister of Economic Affairs, Labour and Tourism, State of Baden-Württemberg
1st Vice-Chair

Nicole Razavi MSP*
Minister of Regional Development & Housing, State of Baden-Württemberg
2nd Vice-Chair since 12.10.2021

Susanne Bay MSP*
Vice-Chair of Alliance 90/ The Greens parliamentary group, Baden-Württemberg State Parliament
since 06.07.2021

Dr. Jürgen Bufka
Managing Director, Amber Infrastructure GmbH

Claudia Diem
Member of Executive Board, Baden-Württembergische Bank
since 09.03.2021

Dr. Maximilian Dietzsch-Doertenbach
Managing Director, Doertenbach & Co. GmbH
until 02.01.2021

Martin Gross
Regional Manager, ver.di Baden-Württemberg

Manuel Hagel MSP*
Member of CDU parliamentary group, Baden-Württemberg State Parliament

Roger Kehle
Former President and Honorary President, Baden-Württemberg Association of Municipalities

Gabriele Kellermann
Vice-Chair, Board of Managing Directors, BBBank eG

Andrea Lindlohr MSP*
Secretary of State, Ministry of Regional Development and Housing, State of Baden-Württemberg

Rainer Reichhold
President, Baden-Württembergischer Handwerkstag e.V.

Prof. Dr. Wolfgang Reinhart MdL
Vice-President, Baden-Württemberg State Parliament
until 15.09.2021

Edith Sitzmann MSP*
Former Minister of Finance, State of Baden-Württemberg
until 12.05.2021

Dr. Florian Stegmann
Minister of State and Head of State Chancellery, State of Baden-Württemberg

Harald Unkelbach
Chair of the Executive Board, Würth Foundation

Franz Untersteller
Former Minister of the Environment, Climate and Energy, State of Baden-Württemberg
until 17.06.2021

Joachim Walter
President, Baden-Württemberg Association of District Councils

Consulting members

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

Barbara Bender-Wieland
Chair, Staff Council of L-Bank, Karlsruhe

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

* MSP = Member of the State Parliament of Baden-Württemberg.

EVENTS AFTER THE BALANCE SHEET DATE

No incidents or events of particular significance occurred after the fiscal year-end on 31 December 2021.

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

The Board of Management hereby proposes to the Supervisory Board that out of the net profit for fiscal year 2021, totalling EUR 38,712,598.82, an amount of EUR 38,000,000.00 should be allocated to other retained earnings and the remaining amount of EUR 712,598.82 carried forward to the current fiscal year.

Karlsruhe, 1 March 2022

L-Bank

Edith Weymayr Dr. Iris Reinelt Johannes Heinloth

Declaration of the Board of Management Regarding the Financial Statements of L-Bank as at 31 December 2021

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

Karlsruhe, 1 March 2022

Edith Weymayr Dr. Iris Reinelt Johannes Heinloth

Independent Auditor's Report

For Landeskreditbank Baden-Württemberg – Förderbank –, Karlsruhe

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

Audit opinions

We have audited the annual financial statements of Landeskreditbank Baden-Württemberg – Förderbank –, Karlsruhe comprising the balance sheet as at 31 December 2021, income statement, cash flow statement and statement of changes in equity for the fiscal year from 1 January to 31 December 2021, as well as the notes to the accounts, including the descriptions of the accounting and valuation methods applied. We have also audited the management report of Landeskreditbank Baden-Württemberg – Förderbank – for the fiscal year from 1 January to 31 December 2021.

In our opinion, based on the findings of the audit:

→ the accompanying annual financial statements comply, in all material respects, with German commercial law and, in accordance with German accepted accounting principles, give a true and fair view of the net assets and financial position of the institution as at 31 December 2021, and of the results of its operations for the fiscal year from 1 January to 31 December 2021, and

→ in all material respects, the accompanying management report conveys a true and fair view of the institution's position, is consistent with the annual financial statements, complies with German statutory provisions and suitably presents the opportunities and risks of future development.

In accordance with Section 322 (3) clause 1 HGB, we declare that our audit has not led to any reservations regarding the legal compliance of the annual financial statements and the management report.

Basis for the audit opinions

We conducted our audit of the annual financial statements and management report in accordance with Section 317 HGB and EU Audit Regulation 537/2014 (hereinafter 'EU Audit Regulation') and in compliance with German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer (IDW)). Our responsibilities under those provisions and standards are further described in the 'Auditor's responsibilities for the audit of the annual financial statements and management report' section of our auditor's report. In accordance with European law as well as German commercial law and professional requirements, we are independent of the institution and have fulfilled our other German ethical and professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) (f) of the EU Audit Regulation, we declare that we have not provided any non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January to 31 December 2021. These matters were addressed in the context of our audit of the annual financial statements as a whole and in the preparation of our opinion thereon; we do not express a separate audit opinion on these matters.

In our view, the following was the matter of most significance in our audit:

1. Loan-loss provisions in client lending business

Our presentation of this key audit matter has been structured as follows:

1. Matter and issue

2. Auditing procedure and findings

3. Reference to further information

We present the key audit matter below:

1. Loan-loss provisions in client lending business

1. Landeskreditbank Baden-Württemberg – Förderbank – is the development bank of the German federal state of Baden-Württemberg. Its business activities are governed by its statutory remit, namely to support the state government of Baden-Württemberg in the fulfilment of its public duties, especially in terms of structural, economic and social policy, by implementing development initiatives in accordance with European Union (EU) rules on state aid. It provides this support mainly by issuing low-interest loans and grants. As at 31 December 2021, loan receivables in the amount of EUR 21,571 million (24.1% of total assets) were reported under the balance sheet item 'Receivables from clients' in the institution's annual financial statements. As at 31 December 2021, the balance sheet showed a loan-loss provision for the loan portfolio consisting of specific and general valuation adjustments and portfolio valuation adjustments.

The measurement of loan-loss provisions in client lending business is determined in particular by the structure and quality of the loan portfolio, macroeconomic factors, and the legal representatives' assessment of future credit defaults, not least in view of the anticipated impact of the ongoing coronavirus pandemic on client lending business. Specific valuation adjustments for receivables from clients are equal in amount to the difference between the outstanding loan amount and its lower fair value at the reporting date. Existing collateral is taken into account. In setting up loan-loss provisions, the institution has set up a post-model provision in the general valuation adjustment to cover risks resulting from the coronavirus pandemic. This takes account of the increased latent credit risk associated with the coronavirus pandemic in line with the principle of prudence. In terms of the amounts involved, the valuation adjustments in client lending business are highly significant for the institution's net assets and financial performance, and also associated with considerable scope for discretion on the part of the legal representatives. Furthermore, the valuation parameters applied, subject as they are to material uncertainties, exert a significant influence on the recognition and amounts of any valuation adjustments that may be required. In light of these facts, this matter was especially important in the context of our audit.

2. In the course of our audit, we first assessed the appropriateness of the design of the controls in the institution's relevant internal control system and tested the effective functioning of the controls, taking into account the way the business is organised, IT systems and relevant valuation models. We also assessed the valuation of receivables from clients, including the appropriateness of estimates, by examining loan exposures on a random basis. In doing so, we assessed the institution's available documentation regarding financial circumstances and the recoverability of associated collateral, among other things. In the case of real-estate collateral for which the institution presented us with valuation reports, we obtained an understanding of the raw data underlying the reports, the valuation parameters applied and assumptions made, critically appraised them, and assessed whether they lie within a reasonable range. In addition, in order to evaluate the specific, portfolio and general valuation adjustments, we assessed the calculation methods as well as the underlying assumptions and parameters.

When doing so, we paid particular attention to scrutinising the legal representatives' assessment of the impact of the coronavirus pandemic on borrowers' economic circumstances. We examined the need to set up the post-model provision and verified the reasoning behind the amount of the charge. Based on the audit procedures we performed, we were able to satisfy ourselves overall of the appropriateness of the assumptions made by the legal representatives when testing the loan portfolio for impairment and of the appropriateness and effectiveness of the controls implemented by the institution.

3. The institution's disclosures on loan-loss provisions in client lending business are contained in the notes to the annual financial statements, in the section entitled 'Financial assets and liabilities' under 'Accounting and valuation methods'.

Other information

The legal representatives are responsible for the other information provided.

The other information includes:

→ the separate non-financial report pursuant to Section 289b (3) HGB obtained by us prior to the date of this auditor's report, and

→ all other parts of the annual report which we expected to be made available to us after the date of the auditor's report – without more detailed cross-references to external information – excluding the audited annual financial statements, the audited management report and our auditor's report.

Our audit opinions on the annual financial statements and management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information specified above and, in so doing, to consider whether the other information:

→ is materially inconsistent with the annual financial statements, the contents of the audited management report, or the findings we obtained in the course of the audit, or

→ otherwise appears to be materially misstated.

Responsibilities of the legal representatives and Supervisory Board for the annual financial statements and management report

The legal representatives are responsible for preparing annual financial statements that comply, in all material respects, with German commercial law, and for ensuring that the annual financial statements give a true and fair view of the institution's net assets, financial position and financial performance in accordance with German accepted accounting principles. The legal representatives are also responsible for such internal controls as they, in accordance with German accepted accounting principles, are necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the legal representatives are responsible for assessing the institution's ability to continue as a going concern and disclosing, as applicable, matters related to the institution's viability as a going concern. In addition, they are responsible for financial reporting on the basis of the going-concern accounting principle unless there is constructive or legal evidence to contradict this principle.

Furthermore, the legal representatives are responsible for preparing a management report that, as a whole, appropriately reflects the position of the institution and is in all material respects consistent with the annual financial statements, complies with German statutory provisions, and suitably presents the opportunities and risks of future development. The legal representatives are also responsible for such arrangements and measures (systems) as they consider necessary to enable the preparation of a management report that complies with the applicable German statutory provisions and provides sufficient suitable evidence to support the assertions in the management report.

The Supervisory Board is responsible for overseeing the institution's financial reporting process for preparing the annual financial statements and the management report.

Auditor's responsibilities for the audit of the annual financial statements and management report

Our objectives are, first, to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement – intentional or unintentional – and whether the management report as a whole appropriately reflects the position of the institution; is consistent, in all material respects, with the annual financial statements and the findings of the audit; complies with German statutory provisions, and suitably presents the opportunities and risks of future development, and second, to issue an auditor's report that includes our opinions on the annual financial statements and the management report.

While reasonable assurance is a high level of assurance, it is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) will always reveal a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic or commercial decisions of recipients made on the basis of these annual financial statements and this management report.

We exercise our professional judgement and maintain professional scepticism throughout the audit. We also:

→ Identify and assess the risks of material misstatement in the annual financial statements and the management report, whether due to fraud or error; plan and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, falsification, intentional omission, misrepresentation or the overriding of internal controls.

→ Obtain an understanding of the internal control system relevant to the audit of the annual financial statements, and of the arrangements and measures relevant to the audit of the management report, in order to design audit procedures that are appropriate in the circumstances, albeit not for the purpose of expressing an audit opinion on the effectiveness of these systems at the institution.

→ Evaluate the appropriateness of the accounting and financial reporting methods used by the institution's legal representatives, as well as the reasonableness of estimates and related disclosures made by the legal representatives.

→ Draw conclusions on the appropriateness of the legal representatives' use of the going-concern principle of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists in connection with events or circumstances that could cast significant doubt on the institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the institution to be unable to continue as a going concern.

→ Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying business transactions and events in such a way that the annual financial statements give a true and fair view of the institution's net assets, financial position and financial performance in accordance with German accepted accounting principles.

→ Evaluate the consistency of the management report with the annual financial statements, its conformity with the law, and the extent to which it accurately reflects the institution's position.

→ Perform audit procedures on the forward-looking statements presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions on which the forward-looking statements by the legal representatives are based and assess whether the forward-looking statements were properly derived from those assumptions. We do not express a separate audit opinion on the forward-looking statements or the assumptions underlying them. There is a significant unavoidable risk that future events will differ materially from the forward-looking statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, as well as significant audit findings, including any deficiencies in the internal control system which we identify during our audit.

We provide those charged with governance with a declaration stating that we have complied with the relevant requirements for professional independence, and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence, as well as the relevant safeguards that have been put in place.

From the matters discussed with those charged with governance, we identify those matters that were of greatest significance in the audit of the annual financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure of such matters.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the assurance of the electronic renderings of the annual financial statements and management report prepared for disclosure purposes in accordance with Section 317 (3a) of the German Commercial Code (HGB).

Assurance conclusion

In accordance with Section 317 (3a) of the German Commercial Code (Handelsgesetzbuch (HGB)), we have performed a reasonable assurance engagement to determine whether the renderings of the annual financial statements and management report (hereinafter also referred to as 'ESEF documents') contained in the data file L-Bank_JA+LB_ESEF-2021-12-31.zip and prepared for disclosure purposes comply in all material respects with the requirements of Section 328 (1) HGB regarding the electronic reporting format ('ESEF format'). In accordance with German statutory provisions, this assurance engagement only covers the conversion of the information contained in the annual financial statements and management report into the ESEF format, and consequently does not cover either the information contained in these renderings, or any other information contained in the above-mentioned data file.

In our opinion, the renderings of the annual financial statements and management report contained in the above-mentioned data file and prepared for disclosure purposes comply, in all material respects, with the electronic reporting format requirements of Section 328 (1) HGB. We do not express any opinion whatsoever on the information contained in these renderings or any other information contained in the above-mentioned data file other than this opinion and our opinions on the accompanying financial statements and management report for the fiscal year from 1 January to 31 December 2021 contained in the preceding 'Report on the Audit of the Financial Statements and the Management Report'.

Basis for the assurance conclusion

We conducted our assurance engagement pertaining to the renderings of the annual financial statements and management report contained in the above-mentioned data file in accordance with Section 317 (3a) HGB and in compliance with the draft of the IDW Auditing Standard: Audit of Electronic Renderings of Financial Statements and Management Reports Prepared for Disclosure Purposes in Accordance with Section 317 (3a) of the German Commercial Code (HGB) (Prüfung der für Zwecke der Offenlegung erstellten elektronischen Wiedergaben von Abschlüssen und Lageberichten nach § 317 Abs. 3a HGB (IDW PS 410 [10.2021])) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility under the standard is further described in the section 'Auditor's responsibilities for the assurance of the ESEF documents'. Our auditing practice applied the requirements of IDW Quality Assurance Standard 1: Requirements for Quality Assurance in Auditing Practice (Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)).

Responsibilities of the legal representatives and Supervisory Board for the ESEF documents

The institution's legal representatives are responsible for preparing the ESEF documents containing the electronic renderings of the annual financial statements and management report in conformance with Section 328 (1) clause 4 art. 1 HGB.

Furthermore, the institution's legal representatives are responsible for any internal controls which they may deem necessary for enabling the preparation of ESEF documents that are free from material non-compliance – whether intentional or unintentional – with the provisions of Section 328 (1) HGB regarding the electronic reporting format.

The Supervisory Board is responsible for overseeing the process of preparing the ESEF documents as part of the accounting and financial reporting process.

Auditor's responsibilities for the assurance of the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance – intentional or unintentional – with the requirements of Section 328 (1) HGB. We exercise our professional judgement and maintain professional scepticism throughout the assurance engagement. We also:

→ Identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error; plan and perform assurance procedures in response to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.

→ Obtain an understanding of the internal controls relevant to the assurance of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, albeit not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.

→ Assess the technical validity of the ESEF documents, i.e. whether the data file containing the ESEF documents complies with the requirements of Commission Delegated Regulation (EU) 2019/815, as amended at the reporting date, regarding the technical specification for that data file.

→ Assess whether the ESEF documents provide an XHTML rendering of the audited financial statements and the audited management report that is identical in terms of content.

Further information pursuant to Article 10 of the EU Audit Regulation

We were appointed statutory auditor by the Supervisory Board on 16 April 2021. We were engaged by the Supervisory Board on 7 December 2021. We have been the statutory auditor of Landeskreditbank Baden-Württemberg – Förderbank –, Karlsruhe, for an uninterrupted period of engagement since fiscal year 2015.

We declare that the audit opinion and assurance conclusions contained in this auditor's report are consistent with the additional report to the audit committee referred to in Article 11 of the EU Audit Regulation (long-form audit report).

NOTE ON ANOTHER MATTER – USE OF THE AUDIT OPINION

Our audit opinion should always be read in conjunction with the audited annual financial statements and the audited management report, as well as the assured ESEF documents. The annual financial statements and management report converted to the ESEF format – including the versions for publication in the German Federal Gazette (Bundesanzeiger) – are merely electronic renderings of the audited annual financial statements and audited management report and do not replace them. In particular, the 'Report on the assurance of the electronic renderings of the annual financial statements and management report prepared for disclosure purposes in accordance with Section 317 (3a) HGB' and our assurance conclusion expressed therein should be used solely in conjunction with the assured ESEF documents provided in electronic form.

INDEPENDENT AUDITOR RESPONSIBLE

The German public auditor responsible for the engagement is Peter Schüz.

Stuttgart, 1 March 2022
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Peter Schüz	ppa. Alexander Gießler
Public Auditor	Public Auditor